

**ANNUAL REPORT**  
**2018**

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## Foreword

by the Governor

John P. Mangudya

The year 2018 was a turning point in the economic history of the country. It started at a high note with strong business and consumer confidence and low inflation levels. Precisely, the economy experienced low digit inflation relative stability during the three quarters of the year, up to September 2018. The country faced a series of economic headwinds, emanating from foreign currency constraints and low business confidence levels in the last quarter of the year.

In response to these challenges, the Bank announced a number of measures in October 2019, which included the separation of accounts between Nostro FCAs and Nostro RTGS, to safeguard depositor funds as well as improve confidence in the banking system. Government also announced the introduction of a 2% tax on electronic transactions, triggering panic and speculative behaviour which intensified adverse inflationary expectations. Resultantly, annual inflation escalated from 5.39 percent in September to 20.8 percent in October and 42.1 percent by year end.

Notwithstanding the build-up in inflationary pressures, particularly during the last quarter of 2018, the banking sector remained safe and sound and continued to show resilience as indicated by general financial sector stability. Throughout the year, stress tests results indicated that the banking sector was resilient to various shock scenarios, including credit, market and liquidity risks.

The Bank also continued to strengthen the regulatory environment in order to align its supervisory framework with international best practice. Following the amendments to the Banking Act [Chapter 24: 20] in 2015, another amendment to the Banking Act came into effect through the Finance Act No.1 of 2018. In addition, work is progressing on amendments to Banking Regulations, to align them with the Banking Act, following the gazetting of the Banking Amendment Act, 2015.

Financial inclusion initiatives continued to be pursued in 2018, including the provision of targeted empowerment facilities to

various priority groups such as women, SMEs, the youth and the disabled. In line with the financial inclusion thrust, the Zimbabwe Women's Microfinance Bank and Empower Bank commenced operations during the year. The two government owned deposit-taking microfinance institutions are earmarked at improving access to formal financial services by women and youth, who fall under the country's marginalised and previously financially excluded population. The various financial inclusion initiatives which are part of the implementation of the National Financial Inclusion Strategy, will go a long way in supporting broad-based and inclusive growth in the country.

The year under review saw the Bank successfully promote a cash-lite society, in view of the cash shortages in the economy as shown by the quantum leap in the usage of plastic money, electronic and mobile money payment systems by the transacting public. Specifically, the use of plastic money in terms of value, volume, devices and access points rose to above 86 percent of total retail transactions in the country.

The Bank also implemented targeted supply-side interventions in order to support the productive sectors of the economy, including gold production. To this end, gold output increased significantly to 35.05 tonnes in 2018, from 28 tonnes in 2017.

The economy exhibited resilience, registering a growth of 4.2 percent in 2018, largely driven by strong performance in the agriculture, mining and energy sectors.

Going forward, the Bank will continue to implement measures aimed at containing inflationary pressures, in order to restore confidence in the economy. Bank remains convinced that the growth of economy is critically dependent on increasing productivity and confidence within the country.

A handwritten signature in black ink, appearing to read 'J. Mangudya', written in a cursive style.

**John P. Mangudya**  
Governor  
Reserve Bank of Zimbabwe



# BANK COMPLIANCE AND GOVERNANCE



1. The Bank, as a regulator of financial institutions, continued to ensure adherence to sound corporate governance and compliance principles which it enforces to its regulated entities. Accordingly, in pursuit of its goals and objectives, the Bank managed to adhere to the legal framework and corporate governance tenets based on trust, integrity, efficiency and creativity. This enhanced financial stability, increased economic value and reduced business risk.
2. The Reserve Bank in fulfilling its roles and responsibilities in economic development ensured adherence to accountability structures by actively participating in and implementing the Integrated Result Based Management System as a requirement for all state entities. In this regard, the Board of Directors, Board Committees and Executive Committee Meetings were successfully held in line with best practice and as provided for by the Reserve Bank of Zimbabwe Act.

#### The Bank's Strategic Plan Review Workshop

3. The Bank continued to implement and review its Strategic Plan, taking into consideration the global, regional and domestic economic and financial developments. The Bank's Strategic Plan was anchored on the following pillars:
  - i. Pillar I: Evidence Based Policy;
  - ii. Pillar II: Financial Stability & Soundness;
  - iii. Pillar III: Deepening Financial Intermediation Integrity & Inclusion;
  - iv. Pillar IV: Facilitation of Capital Inflows & Promotion of Investments and Exports;
  - v. Pillar V: Strategic Human Resource Development & Operational Efficiency;
  - vi. Pillar VI: Financial Transparency; and
  - vii. Pillar VII: Corporate Governance & Corporate Affairs.
4. The Bank held its annual Strategic Plan Review workshop which was attended by the Board of Directors, Senior Management and Chief Executive Officers from subsidiary companies on the 27th of November 2018, at the Reserve Bank Sports Club.
5. During this workshop, the Bank's Strategic Plan was revised to align it to the thrust of the new economic dispensation. Precisely, the Bank's key strategic pillars were enhanced to take into consideration the need for promotion of exports and import substitution, necessary to create a healthy balance of payments situation.

#### Board of the Reserve Bank of Zimbabwe

6. The Board of Directors remained fully constituted in accordance with the Reserve Bank of Zimbabwe Act (Chapter 22:15) with the following members:

Dr. J.P. Mangudya	Governor and Chairman
Mrs. R. Likukuma	Deputy Chairperson
Dr. J.T. Chipika	Deputy Governor
Dr. K. Mlambo	Deputy Governor
Mrs. P. Chapendama	Board Member
Mr. Z.R. Churu	Board Member
Mr. C.R. Maradza	Board Member
Mrs V. Mudimu	Board Member
Mr. O.J.S. Mukumba	Board Member
Mr. L. Murahwa	Board Member
Mr. J.S. Mutizwa	Board Member
Mr. M.Z. Nyabadza	Board Member

7. The Board Committees continued in 2018 to assess and evaluate opportunities and risks based on information supplied by management would report and make recommendations to the Board.
8. The Board Committees were constituted in accordance with the Reserve Bank of Zimbabwe Act (Chapter 22:15) as follows:
  - i. Audit & Oversight Committee.
  - ii. Banking Sector Stability Committee.
  - iii. Human Resources Committee.
9. The Board and its Committees met as scheduled as follows:
  - a) The Main Board – 28 March 2018, 20 June 2018, 19 September 2018 and 28 November 2018.
  - b) Audit and Oversight Committee- 28 February 2018, 30 May 2018, 5 September 2018 and 31 October 2018.
  - c) Special Audit & Oversight Committee – 21 March 2018
  - d) Banking Sector Stability Committee – 28 February 2018, 30 May 2018, 5 September 2018 and 31 October 2018.
  - e) Human Resources Committee – 28 February 2018, 30 May 2018, 5 September 2018 and 31 October 2018.

#### Legislation

10. The following laws were promulgated which were implemented by the Bank:

#### PUBLIC ENTITIES COOPERATE GOVERNANCE ACT (CHAPTER 10:31) AND PUBLIC ENTITIES CORPORATE (GENERAL) REGULATIONS 2018

11. The amendments to the Act were incorporated into the Bank's operating legal framework and processes.

### Retirements

12. The Bank bid farewell to Dr. Charity Kadungure and Mr. Simon Nyarota after a sterling service at a luncheon held in their honour on 17th December, 2018 at Cresta Oasis Hotel. Dr. C. Kadungure served the Bank for a sterling 28 years, under the Exchange Control division where she rose through the ranks from junior assessor to Deputy Director, which position she held till her retirement. Mr. Nyarota joined the Bank in 1991 and left briefly to re-join the Bank in February 2004 where he served as Director until his retirement in 2018.

### Corporate Social Responsibility (CSR)

13. The Bank used the allocated budget for CSR and managed to embark on various ad-hoc activities to assist vulnerable members of society in 2018.



## Audit and Oversight Committee



Mr. Z. R. Churu

Mr. C.R. Maradza

Mrs. R. Likukuma  
Chairperson

Mrs. P. Chapendama

Mr. L. Murahwa

## Banking Sector Stability Committee



Mr J.S Mutizwa  
Chairperson

Mr. O. J. S. Mukumba

Dr. K. Mlambo  
Deputy Governor

Mr. Z. R. Churu

Dr. J.T. Chipika  
Deputy Governor

Mr. M. Z Nyabadza

## Human Resources Committee



Mr J.S Mutizwa

Mrs V. Mudimu  
Chairperson

Dr. K. Mlambo  
Deputy Governor

## Executive Management



Dr. J. P. Mangudya  
Governor



Dr. K. Mlambo  
Deputy Governor



Dr. J.T. Chipika  
Deputy Governor



Mr. A. Saburi  
Director, Financial Markets



Mr. N. Mataruka  
Director, Bank Supervision



Mr. S. Nyarota  
Director, Economic Research



Mr. E. Rwatirera  
Director, Human Resources  
& Support Services



Ms. T. Hungwe  
Director, Finance  
& Procurement



Mr. F. Masendu  
Director, Exchange Control



Mr. A. J. Manase  
Bank Secretary & Director  
Legal Services & Corporate Affairs



## OPERATING ENVIRONMENT INTERNATIONAL CONTEXT

14. Global economic growth which peaked at 3.8% in 2017, decelerated to 3.6% in 2018, amid an increase in trade tensions and tariff hikes between the United States and China. A decline in business confidence, tightening of financial conditions, and higher policy uncertainty across many economies also adversely affected global economic activity.

Table 1 summarizes global economic growth developments and prospects for selected regions and countries.

**Table 1: Global Economic Growth & Outlook (%)**

	2017	2018	2019 Projection
<b>World Output</b>	3.8	3.6	3.3
<b>Advanced Economies</b>	2.3	2.2	1.8
<b>US</b>	2.2	2.9	2.3
<b>Euro Area</b>	2.4	1.8	1.3
<b>Japan</b>	1.9	0.8	1.0
<b>Emerging Market &amp; Developing Economies</b>	4.3	4.5	4.4
<b>China</b>	6.9	6.6	6.3
<b>India</b>	6.7	7.1	7.3
<b>Sub-Saharan Africa</b>	2.6	3.0	3.5
<b>Zimbabwe</b>	4.7	4.0	3.1
<b>Latin America &amp; the Caribbean</b>	0.8	1.0	1.4

**Source:** IMF: World Economic Outlook (April 2019)

*Zimbabwe growth rates are from Treasury, Reserve Bank & Zimstat*

15. In advanced economies, economic growth weakened, save for the US, where expansionary fiscal policy boosted economic activity. The US is, therefore, estimated to have registered a growth of 2.9% in 2018, compared to 2.2% in 2017. Growth in the US was mainly driven by a higher-than-expected increase in aggregate domestic demand, supported by the pro-cyclical fiscal stimulus and relatively low interest rates. The Eurozone's growth eased to 1.8% in 2018, from 2.4% registered in 2017, mainly as a result of the fall in export earnings, emanating from a stronger euro and lower external demand.

16. Japan's growth momentum slowed to an estimated 0.8% in 2018, from 1.9% in 2017, mainly attributed to adverse weather conditions and natural disasters.

17. In China, economic growth declined following a combination of needed regulatory tightening to rein in shadow banking and an increase in trade tensions with the US.

18. Sub Saharan Africa (SSA) registered an estimated 3% growth in 2018, marginally up from the 2.6% recorded in 2017. The slow growth in SSA was driven by a sharp decline in net exports, particularly, among the region's large oil exporters which faced stagnation in oil production despite firm oil prices. The slow growth was also attributed to a deep recession in Sudan, and a broad softening in economic activity among non-resource-intensive countries, amid rising debt vulnerabilities.

## International Commodity Prices Developments

### Precious Metals

19. Precious metal prices were generally subdued in 2018, occasioned by weak safe haven demand and a generally strong US dollar. The US dollar strengthened, on the back of interest rate hikes by the Federal Reserve during the year. These developments significantly raised the opportunity cost of holding precious metals such as gold and platinum. Furthermore, a general waning in global tensions diminished the safe haven demand for precious metals.

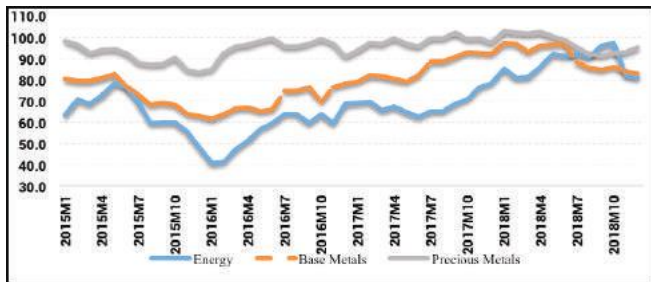
### Base Metals

20. Base metal prices, which firmed in the first half of 2018, fell sharply in the second half of the year, following the imposition of broad-based tariffs by the US on imports from China. Intensified trade tensions involving these economies have raised market concerns about global trade and investment prospects and as a result, clouded the demand outlook for most commodities. Industrial metals have been particularly responsive to these concerns given their utilization in the manufacturing of tradable goods, with prices of metals such as nickel falling sharply

### Crude Oil Prices

21. Oil prices averaged US\$68 per barrel in 2018, amid robust global oil consumption and supply concerns. The decline in production in Venezuela and market concerns about the impact of U.S. sanctions on Iran, contributed to the firming of crude oil prices, which peaked at \$86 per barrel in early October 2018. Prices, however, fell sharply in November 2018 after the US announced temporary waivers on sanctions it had imposed on Iran that affected Iranian oil exports for eight countries, including China and India. The decline in prices also reflected the rapid growth in oil production in the US and the substantial increase in supply by the Organization of the Petroleum Exporting Countries (OPEC) and the Russian Federation.

Figure 1: Commodity Price Indices (2010 = 100): January 2015 to December 2018

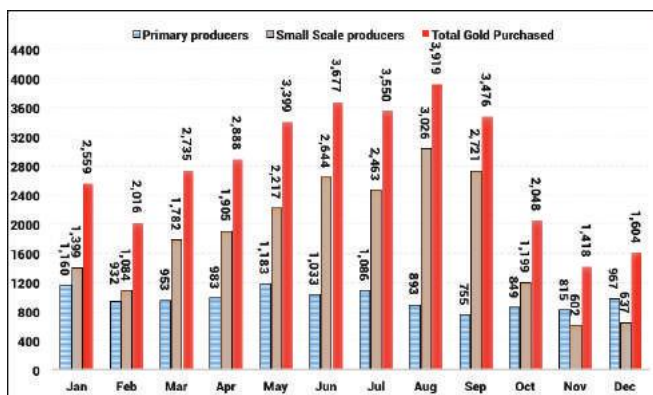


Source: World Bank 2018

### Gold Deliveries to Fidelity Printers and Refineries

22. Gold deliveries to Fidelity Printers and Refiners reached 33.2 tonnes in 2018, a 33.9% increase from 24.8 tonnes delivered in 2017. Deliveries by small scale producers significantly increased by 64.5%, from 13.2 tonnes in 2017 to 21.7 tonnes in 2018. In terms of proportions, large scale producers accounted for 65.3% of the total deliveries, whilst primary producers contributing the remainder.

Figure 2: Gold Deliveries to Fidelity Printers & Refiners (Kgs): Jan to Dec 2018

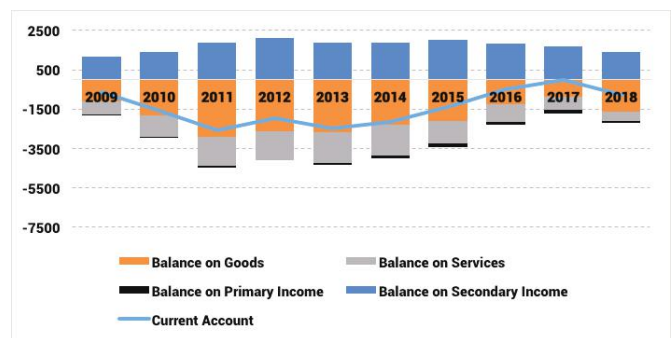


Source: Fidelity Printers and Refineries (FPR), 2018

### EXTERNAL SECTOR DEVELOPMENTS

23. The country's external sector position, remained weak as reflected by the widening of the current account deficit to US\$779 million in 2018, following a near surplus in 2017. This was mainly driven by a relatively higher increase in imports, compared to exports which resulted in the widening of the balance of goods. The surge in imports was stimulated by the relaxation of import compression measures instituted since 2016. Other current account categories, such as services, secondary and primary income also declined during the year.

Figure 3: Commodity Price Indices (2010 = 100): January 2015 to December 2018



Source: Reserve Bank of Zimbabwe, 2018

### Merchandise Exports

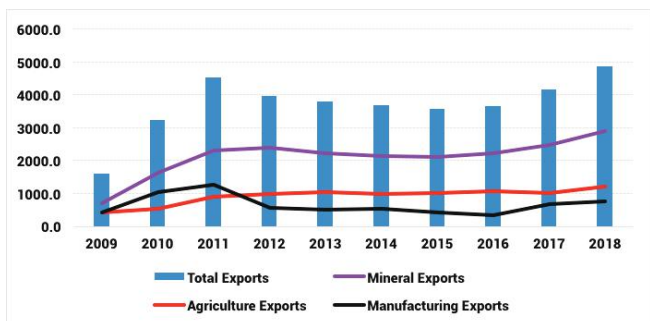
24. Merchandise exports increased by 16.7%, from US\$4,164.9 million in 2017 to US\$4,860.3 million in 2018. Growth in exports was underpinned by increased production for most key export products despite subdued international prices. The country's exports continued to be dominated by mineral exports, which accounted for 59.4% of the total merchandise exports. Agricultural and manufactured exports accounted for 24.8% and 15.8% of total merchandise exports, respectively.

25. Mineral exports increased by 17.8%, from US\$2,451.9 million in 2017 to US\$2,887.2 million in 2018. The surge in mineral exports was largely driven by increases in exports of diamonds, 23.3%; gold, 15.9%; and platinum group of metals (PGMs), 4.4%.

26. Manufactured exports rose from US\$656.2 million in 2017 to US\$744.0 million in 2018, driven by cotton lint and pure manufactures. The Government input support scheme for cotton boosted production from 75 000 tonnes in 2017 to 144 000 tonnes in 2018. Concomitantly, exports more than doubled, from US\$31.6 million in 2017 to US\$70.8 million in 2018. Exports of pure manufactures increased from US\$284.0 million in 2017 to US\$388.6 million in 2018, on account of jewellery and paper and packaging. Jewellery exports sharply increased from US\$4.8 million in 2017 to US\$73.7 million in 2018. This followed a policy by Government to increase gold allocations to local jewellery manufacturers.

27. Agricultural exports increased by 18.3%, to an estimated US\$1,071.3 million in 2018 from US\$ 1019.1 million in 2017, largely driven by tobacco exports. Tobacco output was 252 million kilograms in 2018, up from 190 million kilograms produced in 2017. Sugar exports, however, significantly declined by about 49%, from US\$58.3 million in 2017 to US\$29.8 million in 2018. This was largely attributable to low export prices, following the flooding of international markets by low priced sugar exports from India.

Figure 4: Composition of Exports: 2009 to 2018 (US\$ millions)

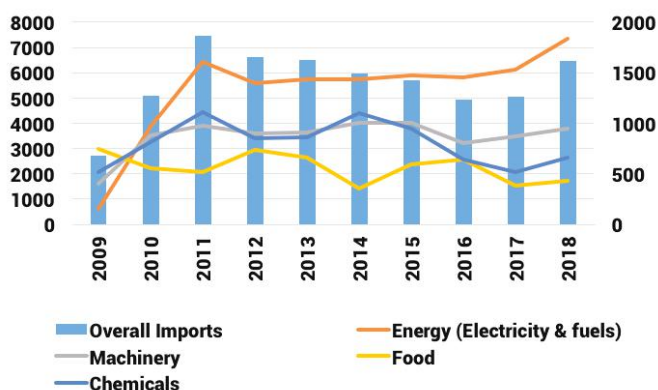


Source: Zimstat and Reserve Bank of Zimbabwe, 2018

Merchandise Imports

- 28. Merchandise imports registered a 27.9% increase, from US\$5,056.0 million in 2017 to US\$6,467.3 million recorded in 2018. The increase in the import bill was largely driven by non-food imports which registered a 29.2% growth.
- 29. Non-food imports increased as follows: manufactured goods, 39.9%; crude materials, 30.2%; fuels, 29.3% and chemicals, 24.1%. Growth in imports for chemicals, crude materials and fuel reflected the expansion in economic activity. On the other hand, increases in manufactured goods reflected supply gaps, following years of subdued performance of the manufacturing sector.
- 30. Electricity imports declined from US\$194.3 million in 2017 to US\$117.7 million in 2018, following the expansion of the Kariba South hydro power station, which added more power to the national grid.
- 31. Food imports grew by 12.4%, from US\$376 million in 2017 to US\$422.6 million in 2018. Wheat, rice and other food imports were the major contributors to the increase in food imports. Maize imports, however, declined following the successive good agricultural seasons for 2016/17 and 2017/18. The country achieved bumper harvests in both seasons.
- 32. Figure 5 shows the distribution of the merchandise imports from the year 2012 to 2018.

Figure 5: Merchandise Imports: 2012-2018 (US\$ Million)



Source: Reserve Bank of Zimbabwe and ZIMSTAT, 2018

Services Account

- 33. Exports of services increased by 8.7%, from US\$476.6 million in 2017 to US\$517.9 million in 2018. This was largely on account of increases in travel and transport service exports. Transport services increased in line with increasing merchandise trade, while activity in the tourism and travel sector went up as most hotels reported huge improvements in occupancy levels.
- 34. Conversely, imports of services declined from US\$1,130.7 million in 2017, to US\$1,005.1 million in 2018, due to foreign currency constraints. The increase in services export receipts, coupled with a decline in services import payments, resulted in the improvement in the services account balance.

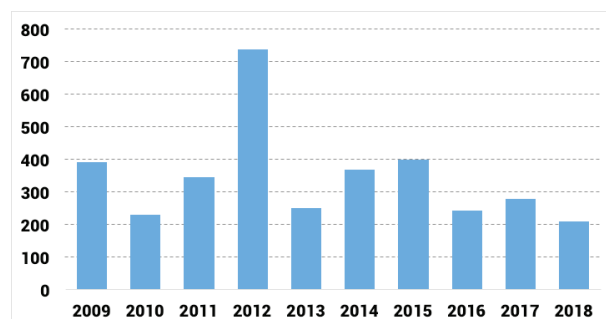
Income Account

- 35. Primary income receipts increased from US\$230.8 million in 2017, to US\$239.0 million in 2018. A decline in primary income payment was, however, recorded, from US\$391.4 million in 2017 to US\$383.7 million in 2018. The country has consistently registered a negative balance on its primary income account, implying that the country is a net importer of factors of production.
- 36. Secondary income account receipts decreased to US\$1,424.2 million in 2018, compared to US\$1,726.5 million in 2017. This was on the back of declines in personal remittances, reflecting the in-formalisation of remittance flows, in light of the foreign currency shortages in the country. Exchange rate depreciation in major source countries such as US and the UK also had a negative effect on remittances inflows. Secondary income payments, however, increased from US\$29.1 million in 2017, to US\$30.2 million in 2018.

Capital and Financial Account

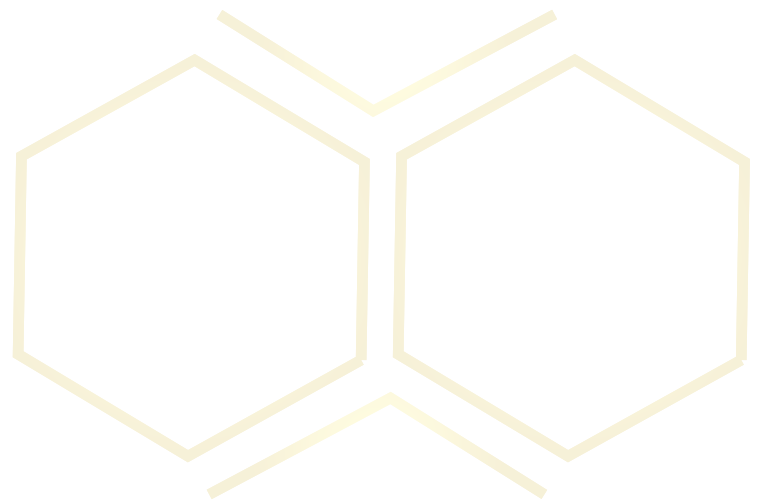
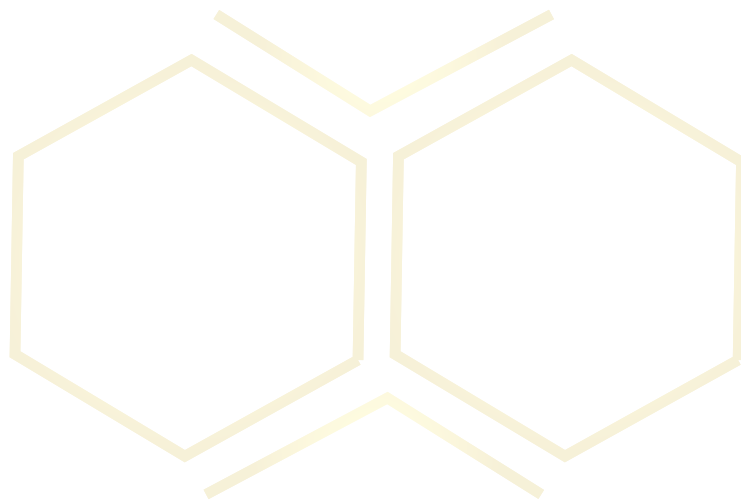
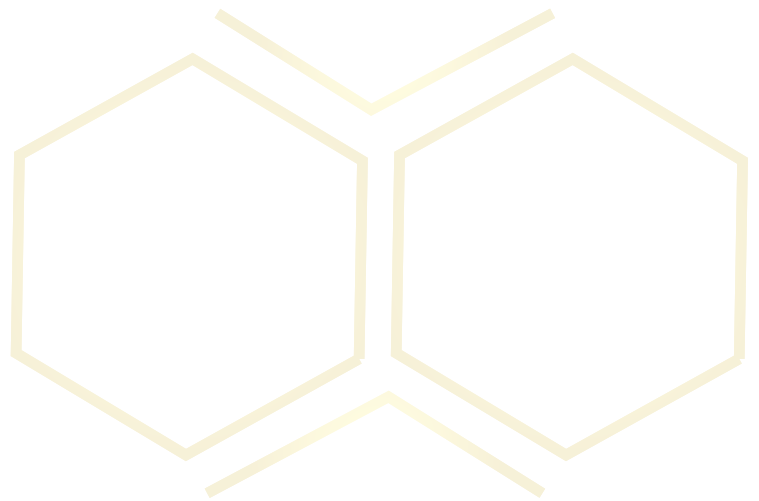
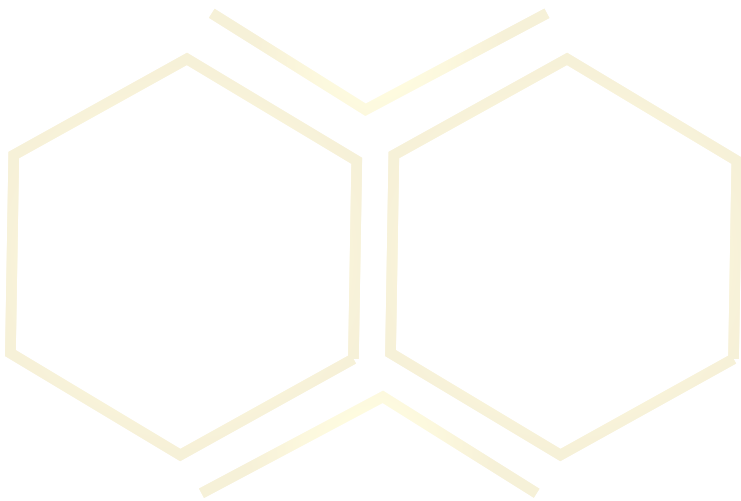
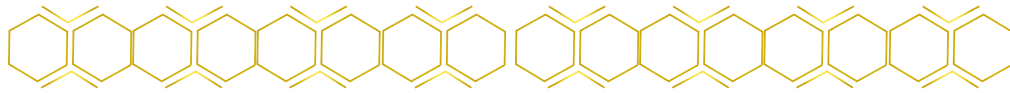
- 37. The country's capital account surplus declined by 25%, from US\$278.3 million in 2017 to US\$208.8 million in 2018, following a notable decline in capital grants received by government in 2018.

Figure 6: Capital Account Inflows 2009-2018 (US\$ millions)



Source: Reserve Bank of Zimbabwe and ZIMSTAT, 2018

- 38. The country's negative net borrowing position narrowed from US\$1,109.9 million in 2017 to US\$861.8 million in 2018. This reflected declines in both government and private sector loan inflows. Foreign direct investment inflows increased, albeit falling short of offsetting the decline in debt creating capital inflows, resulting in a slight decrease in net borrowing. The decline in debt creating capital inflows, accompanied by an increase in FDI levels, was due to reclassification of some loans between related parties to direct investment, in line with the new balance of payments compilation standards.
- 39. Portfolio investment inflows amounting to US\$313.8 million were received, against outflows of US\$259 million in 2018, resulting in a positive net position of US\$54.7 million. This was on account of improved confidence in the economy, following the ushering of a new dispensation





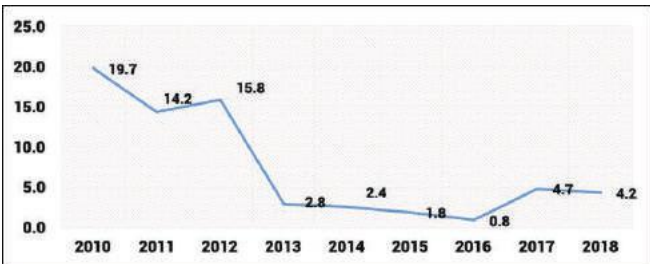
## OPERATING ENVIRONMENT

### DOMESTIC ECONOMIC DEVELOPMENTS



39. The economy is estimated to have grown by 4.2% in 2018, largely driven by strong performance in the agriculture, mining and energy sectors. The service sectors such as distribution, hotels and restaurants and construction also recorded significant growths in 2018. Figure 7 shows the trend in real GDP growth from 2010 to 2018.

**Figure 7: Real GDP Growth (%) Estimates and Projections**



Source: ZIMSTAT, MoFED and RBZ 2018

40. Table 2 shows the sectoral growth actuals and estimates for the period from 2016 to 2018.

**Table 2: GDP Growth Rates by Sector (%)**

	2016	2017	2018Est
<b>GDP by Industry Growth Rates</b>	0.8	4.7	4.2
Agriculture	-3.9	10.0	18.3
Mining and quarrying	4.1	3.5	16.8
Manufacturing	0.6	1.3	1.3
Electricity and water	-1.7	4.0	19.0
Construction	1.5	3.9	7.7
Distribution, Hotels and restaurants	6.8	7.6	9.3
Transportation and communication	1.1	5.1	3.1
Financial, banking and insurance activities	4.7	3.1	0.5
Administrative and support service activities	-1.1	3.9	-0.7
Education and training	-10.9	6.0	-4.2
Human health and social work activities	5.9	8.8	7.6
Private's education and health	-7.5	6.7	-1.4
Real estate activities	12.9	1.1	5.5

Source: ZIMSTAT, Ministry of Finance and Economic Development, R.B.Z, 2018

41. The country experienced significant inflationary pressures, particularly in last quarter of the year, when annual inflation spiked to double digit figures, from an average of 3.6% in the first nine months of the year. Annual inflation ended the year 2018 at 42.1%, up from the 3.5% in December 2017.

42. The increase in inflation was due to intensified speculative pricing tied to parallel market foreign exchange premiums. This emanated from negative perceptions on mid-year fiscal and monetary policy pronouncements and the separation of RTGS FCA and NOSTRO FCA accounts. The introduction of 2% tax on all mobile payment transactions increased adverse inflationary expectations in the economy.





### Agriculture

43. The agriculture sector is estimated to have grown by 18.3% in 2017, largely driven by the record performance in tobacco and cotton, which compensated for output declines in other key crops such as maize, groundnuts and sorghum, among others. Beef, dairy, pork and poultry also recorded positive growths in 2018. Table 3 shows agriculture production trends for the period from 2016 to 2018.

**Table 3: Agriculture Production Trends**

Agriculture Growth (%)	Weight	-5.5 2016	14.6 2017	18.3 2018
Tobacco (flue cured)	25.5	202.3	190	252
Maize	14.0	511.0	2,155	1831
Beef	10.2	86.0	72	74.5
Cotton	12.5	30.0	75	144
Sugar cane	6.8	4,044.0	4,350	5000
Horticulture	6.5	65.0	70	71
Poultry	4.8	130.0	134.5	166
Groundnuts	3.2	73.7	139.0	127
Wheat	3.6	61.7	158	161
Dairy (m lt)	2.9	78.0	83.0	92
Coffee	2.1	0.5	0.5	0.6
Soybeans	1.9	47.7	36	54
Tea	1.9	17.7	19	20
Paprika	1.1	7.0	8	8
Pork	0.8	10.7	10.0	11.4
Wildlife	0.6	30.0	32	33
Sorghum	0.6	36.3	182.0	70.1
Barley	0.4	13.0	15	33.4
Sheep & goats	0.3	10.5	8.7	9.2
Sunflower seeds	0.2	25.0	10.3	3.7
Ostriches	0.1	19.0	19	19.00

Source: Ministry of Agriculture, Ministry of Finance and Economic Development and RBZ, 2018



44. The erratic rainfall received during the 2017/18 cropping season, which was characterised by a dry first half of the season and a wetter second half resulted in lower than anticipated cereal output in 2018, including maize, millet and sorghum. Timely availability of inputs under the Command Agriculture initiative mitigated the adverse impact of the erratic rains on maize. The output of maize whose output was estimated at 1.831 million tonnes in 2018, a 15% decline from the 2.155 million tonnes produced in 2017.
45. Wheat output increased by 1.9%, from 158 000 tonnes in 2017 to 161 000 tonnes in 2018. Improved average crop yield for the crop to 4.6 tonnes per hectare, compared to 3.4 tonnes per hectare in the previous year, compensated for the fall in area planted to sustain a higher level of output. The higher yields were attributed to stable water and power availability, as well as improved financing from the Command Agriculture initiative.
46. Tobacco output increased by 32.6%, from 190 million kilograms in 2017 to 252 million kilograms in 2018. This was mainly attributed to increased interest in the crop, given the rise in registered farmers. In addition, the crop benefited from stable financing and marketing systems.
47. The output of seed cotton output increased from 73 034 tonnes in 2017 to 144 000 tonnes in 2018, largely due to the positive impact of the three-year free input subsidy scheme implemented by Government. The scheme was designed to renew interest in cotton production in order to revamp the cotton-to-clothing value chain. Cotton prices averaged US53.39 cents per kilogramme in 2018, compared to US47.00 cents per kilogramme in 2017.
48. Cattle slaughters increased by 1.95%, from 261 191 heads in 2017 to 266 288 head in 2018. Slaughters increased as farmers sought to reduce the risks of tick borne disease outbreaks as well as containing the high costs of stockfeeds.
49. The Dairy Revitalization Strategy continued to pay dividends, contributing to the 13.6% increase in milk output to around 92 million litres in 2018. Containment of the incidence of diseases is critical for the country to maintain the momentum in dairy output and achieve annual self-sufficiency levels of 120 million litres per year.
50. Poultry output, as measured by chick and egg production, grew by 23% in 2018. The growth in poultry output was supported by recovery in parent stock as well as increase in day old chick production. Improved availability of stockfeed throughout the year also had a positive impact on poultry production. Average producer prices for both broiler meat rose significantly in 2018 compared to 2017, increasing to \$2.30 per kg from \$1.81 per kg. Similarly, prices of table eggs increased to \$4.90 per tray in 2018 from \$3.82 per tray in 2017.
51. Pork slaughters increased by 12% to 173 694 heads in 2018, from 155 181 head in 2017. Despite the increase in output, the sector was weighed down by the high cost of stockfeed and supply bottlenecks, which pushed up production costs resulting in higher wholesale and consumer prices.



**MINING**

45. During the first nine months of 2018, all major minerals registered impressive growth, compared to same period in 2017. In particular, gold output increased by 62%; coal, 29%; diamonds, 25%; chrome, 17%; PGMs, 10%; and nickel 8%; compared to the same period 2017. The strong positive growths across all minerals emanated from the favourable macroeconomic environment that prevailed during the first nine months of the year.

*Table 4: Mineral Production statistics: 2017 vs 2018*

	Variance				
	2017	2018	Jan-Sept: 2017 vs 2018	Oct-Dec: 2017 vs 2018	2017 vs 2018
<b>Gold (kg)</b>	26495	35054	62%	-32%	32%
<b>Platinum (kg)</b>	14257	14703	10%	-10%	3%
<b>Palladium (kg)</b>	11822	12094	10%	-12%	2%
<b>Rhodium (kg)</b>	1283	1334	10%	-7%	4%
<b>Iridium (kg)</b>	619	586	11%	-29%	-5%
<b>Ruthenium (kg)</b>	1102	1155	9%	-3%	5%
<b>Diamonds (carats)</b>	2507862	3252418	25%	58%	30%
<b>Chrome (MT)</b>	1673996	1756126	17%	-12%	5%
<b>Nickel (MT)</b>	16617	17850	8%	9%	7%
<b>Copper (MT)</b>	8839	9077	6%	-5%	3%
<b>Cobalt (MT)</b>	445	402	7%	-39%	-10%
<b>Coal (MT)</b>	2928036	3347764	29%	12%	14%
<b>Lithium (MT)</b>	45220	76517	50%	168%	69%
<b>Phosphate (MT)</b>	60094	51393	0%	-3%	-14%
<b>Black Granite (MT)</b>	161123	212710	35%	37%	32%
<b>Overall Mining Growth Rate (%)</b>	3.5	16.8			

Source: Ministry of Mines, Chamber of Mines, 2018

46. Mineral production, however, took a knock in the last quarter of the year, following the announcement of new monetary and fiscal measures on 1st October 2018. The measures were viewed unfavourably by economic agents, triggering speculative behaviour. As a consequence, output for minerals such as gold, chrome and PGMs, fell to below output levels realised in the same period in 2017. These adverse developments in the last quarter of the year heavily reduced the potential of the mining sector in 2018.
47. This, notwithstanding, the mining sector is estimated to have grown by 16.8% in 2018, up from 3.5% registered in 2017, largely on account of gold, diamonds nickel and coal. Mineral production largely benefited from the entrance of new players, investments in mine development and superior technologies and the acquisition of plant and equipment by some mining houses. The good performance of the sector was also driven by the following factors:
- The favorable review of the indigenization and empowerment regulations in December 2017 for all minerals except diamond and PGMs;
  - The downward review of ground rental fees for diamonds from US\$3000 per hectare per year to US\$225 per hectare per year;
  - Favourable, though subdued international prices for most minerals; and
  - The general stability in power availability following the commissioning of the two units of Kariba South Extension in December 2017 and March 2018.

**Gold**

48. Gold output increased to 35 054 kg in 2018, about 32% above output realized in 2017. An upward trend in gold production was experienced up to the third quarter of 2018. Deliveries, however, drastically declined in the fourth quarter of 2018. Figure 8 shows sectorial gold production trends for 2017 and 2018.

**Figure 8: Gold Output and Prices: 2017 and 2018**



**Source: Ministry of Mines, Fidelity Printers & Refinery 2018**

49. Gold production benefited from the continued surveillance, monitoring and auditing of producers through the Gold Mobilisation Initiative aimed at plugging leakages; financial support from the Reserve Bank as well as the favorable international prices. The small scale and artisanal gold producers were the major contributors in 2018, accounting for about 65% of gold deliveries to FPR.

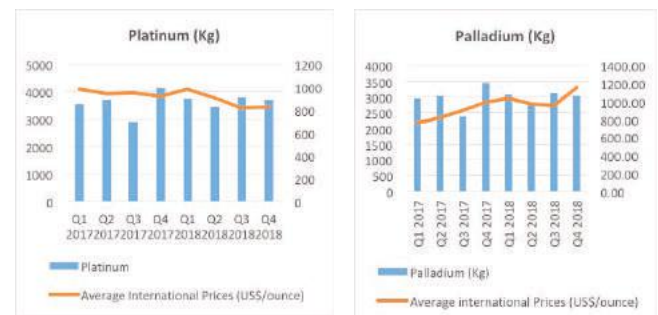
**Diamond**

50. Diamond output grew by 30% to 3.252 million carats in 2018, from 2.508 million carats in 2017. The capitalization of Zimbabwe Consolidated Diamond Company (ZCDC) to the tune of US\$80 million saw the mining house invest in increased crushing capacity, as well as other mining and exploration equipment.
51. The value of diamond, however, remained subdued due to the high composition of low value diamonds to the total basket, particularly from ZCDC.

**PGMs**

52. Platinum output closed the year 2018 at 14 703 kg, about 3% above the 14 257 kg realized in 2017. Similarly, palladium and rhodium registered growths of 2% and 4% to 12 094 kg and 1 334 g in 2018, respectively. PGMs largely benefitted from higher ore grades and increased concentrator recoveries at one of the major producers, as well as gains in operational efficiencies across all the three mines. Figure 9 shows developments in platinum and palladium output and average international prices.

**Figure 9: Platinum and Palladium Production and Price Developments**



**Source: Ministry of Mines and Mining Development; Kitco; World Bank, 2018**

53. The continued campaign to phase out and ban the production of diesel automotive on pollution concerns, particularly in Western Europe, the existence of excess stocks and the increased use of recycled platinum had a dampening effect on platinum prices in 2018. Despite the slight decline in sales of gasoline powered automotive, the demand for palladium remained firm in 2018 against the existing supply, thereby supporting the prices.



**Nickel**

54. Nickel output increased by 7% to 17 850 tonnes in 2018, from 16 617 tonnes produced in 2017. This followed on increase in the output of PGM, which contributed 62.3% of total nickel output in 2018, up from 60.4% in 2017. The contribution of primary producers stood at 37.7% in 2018, down from 39.6% in 2017. Low equipment availability, particularly the haulage component during the second quarter of 2018, and the surge in inflation particularly in the last quarter of 2018, negatively affected nickel production.

**Figure 10: Trends in Nickel Output and Average International Prices**



Source: Ministry of Mines and Mining Development, Chamber of Mines, 2018

**Chrome**

55. Chrome ore output at 1.756 million tonnes in 2018, surpassed the output recorded in 2017 by about 5%. This was partly driven by the support that was extended by smelters, towards capacitation of miners with appropriate equipment, technology and skills.

**Coal**

56. Coal output grew by 14% to end the year 2018 at 3.348 million tonnes, from 2.928 million tonnes produced in 2017, largely driven by increased throughput by most of the producers.



Manufacturing sector is estimated to have grown by

**1.3%**  
in 2018



**MANUFACTURING**

- 57. Manufacturing sector is estimated to have grown by 1.3% in 2018, driven by paper printing and publishing, metals and metal products; chemical and petroleum products; foodstuffs; transport and equipment; and clothing and footwear, which grew by 5.5%; 4.3%; 1.1%; 0.8%; 0.8% and 0.6%, respectively.
- 58. According to the CZI Manufacturing Sector Survey, capacity utilisation in the manufacturing sector increased from 45.1% in 2017 to 48.2% in 2018. Improvement in capacity utilisation was recorded in the foodstuffs, drinks, tobacco and beverages, wood and furniture and the other manufactured goods sub-sectors. Table 5 shows the volume of manufactured index for 2017 and 2018

**Table 5: Volume of Manufactured Index.**

Manufacturing	Weights	2017 Est	2018 Est
Foodstuffs	252	101.0	101.8
Drinks, Tobacco and Beverages	118	98.5	99
Textiles and Ginning	28	80.0	80.1
Clothing and Footwear	79	95.0	95.6
Wood and Furniture	24	98.2	98.3
Paper, printing and Publishing	68	91.0	96
Chemical and Petroleum Products	172	88.0	89
Non-metallic mineral products	46	143.2	143.5
Metals and Metal products	103	70.0	73
Transport, Equipment	20	66.0	66.5
Other manufactured goods	89	66.7	67
<b>Manufacturing Index</b>	999.0	91.6	92.8
<b>Growth Rate</b>		1.0	1.3

Source: Ministry of Finance and Economic Development, RBZ, ZIMSTAT, 2018

**Electricity**

59. Electricity output increased by 26%, from 7400.02 GWh in 2017 to 9339.60 GWh in 2018. This was largely attributed to improved performance at Kariba hydroelectric plant. Output from Independent Power Producers' (IPPs) increased by 67% in 2018, following the commissioning of a new 2.5MW solar plant in April 2018. There was, however, a 12% decrease in Harare Thermal Power Station output. Table 6 compares electricity output from major power stations and independent power producers in 2017 and 2018.

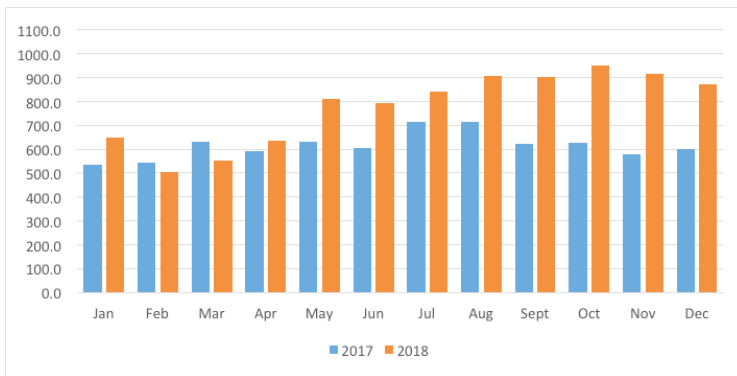
**Table 6: ELECTRICITY OUTPUT (GWH)**

Power Station	Total 2018	Total 2017	variance
Kariba	5377.3	3850.2	40%
Hwange	3425.8	3202.4	7%
Bulawayo	88.0	53.6	64%
Munyati	81.3	38.3	112%
Harare	66.3	75.4	-12%
IPPS	300.8	180.3	67%
<b>TOTAL</b>	<b>9339.6</b>	<b>7400.2</b>	<b>26%</b>

Source: ZPC, ZERA 2018

60. On average, monthly electricity generation for 2018 was higher than that for 2017. This was mainly on account of an increase in generation capacity following the commissioning of the Kariba South Extension in March 2018, as well as the increase in water allocation for power production. Figure 11 compares electricity generation statistics on a monthly basis for 2017 and 2018.

**Figure 11: Monthly Electrical Energy Sent Out**



Source: ZETDC, 2018

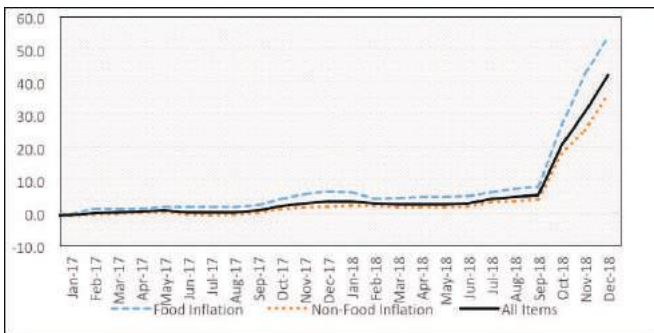


**INFLATION DEVELOPMENTS**

61. The annual headline inflation ended the year at 42.1%, compared to 3.46% in December 2017. As shown in Figure 12, annual headline inflation spiked in the fourth quarter, recording rates of 21% in October, before increasing to 31% in November and 42% in December 2018.

62. The upsurge in annual inflation evident in both food and non-food inflation was largely due to foreign currency constraints, which led to high foreign exchange premiums and widespread speculative pricing. This also gave rise to adverse inflation expectations in the economy. Figure 12 shows the inflation developments from January 2017 to December 2018.

**Figure 12: Annual Food and non-Food Inflation**



Source: ZIMSTAT, 2018

**Food Inflation**

63. Food inflation, which stood at 6.17% in January 2018, accelerated to 42.71% in October 2018 and ended the year at 53.68%. The increase was largely driven by increases in prices of bread and cereals, meat, and vegetables, as well as speculative pricing.

**Non-Food Inflation**

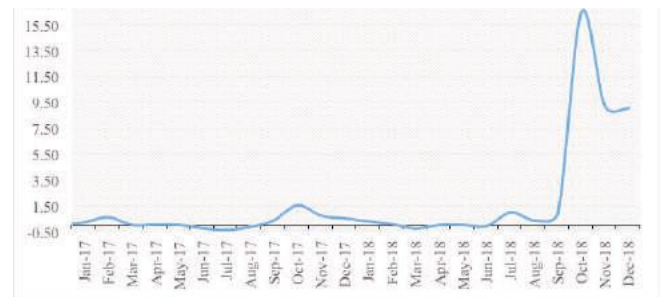
64. Annual non-food inflation rose to 37.08% in December 2018, from 2.2% in December 2017. It trended below 5% up to September 2018, before increasing to 18.1% and 25.4% in October and November 2018, respectively. This was driven by increases in furniture and household equipment; recreation and culture; and clothing and footwear sub-categories. Increases in non-food prices were largely induced by the benchmarking of prices on foreign exchange premiums on the parallel market.

**Month-on-month Inflation**

65. Month-on-month inflation which had maintained levels of below 1% from January to September 2018, surged to 16.4% in October 2018, before subsiding to 9.2% in November 2018 and then down to 9.03% in December 2018. The rise in monthly inflation was also driven by both food and non-food factors.

66. Monthly non-food inflation which stood at 0.21% in December 2017, surged to 9.01% in December 2018, following increases in clothing and footwear; recreation and culture; transport; furniture, household equipment and maintenance. Figure 13 shows the monthly inflation profile for the period from January 2017 to December 2018.

**Figure 13: Month-on-Month Inflation (%)**



Source: ZIMSTAT, 2018



# BANKING SECTOR DEVELOPMENTS

## OVERVIEW

67. The banking sector remained generally safe and stable, on the back of adequate capitalization, sustained earnings performance and satisfactory asset quality. Stress test results indicated the sector's resilience to various shock scenarios including credit, market and liquidity risks.



- 68. As at end 2018, the banking sector was adequately capitalized, with average tier 1 and capital adequacy ratios of 27.68% and 30.23%, against the regulatory minimum of 8% and 12%, respectively. Retained earnings were the major source of capital growth for the banking institutions.
- 69. Asset quality as reflected by the ratio of non-performing loans to total loans, improved marginally, from 7.08% in 2017 to 6.92% in 2018, largely due to improvements in credit risk management practices.
- 70. Total banking sector deposits increased from \$8.48 billion in 2017 to \$10.32 billion in 2018, during the review period. Total banking sector loans and advances increased by 7.63%, from \$3.80 billion in 2017 to \$4.09 billion in 2018. This translated to an average loans to deposit ratio of 39.63%.
- 71. The banking sector remained profitable, as aggregate profit increased by 75.55%, from \$242.25 million in 2017 to

\$425.26 million in 2018. The major sources of earnings were interest income from loans and advances, interest on investments and securities as well as non-interest income associated with electronic payment platforms.

- 72. The average prudential liquidity ratio for the banking sector was 67.82% in 2018, which was way above the minimum regulatory requirement of 30%.
- 73. The credit infrastructure in Zimbabwe continued to improve as reflected by the favourable assessment in the World Bank's 2019 Doing Business Report. There was a notable increase in the depth and coverage of the Credit Registry, including the introduction of credit scoring reports and value added products.

**Architecture of the Banking Sector**

- 74. The architecture of the banking sector as at 31 December 2018, is shown in the Table 8.

**Table 7: Composition of Banking Sector**

Type of Institution	Number	Other Institutions Supervised By The Reserve Bank	Number
Commercial Banks	13	Credit-only-MFIs	200
Building Societies	5	Deposit-taking MFIs	6
Savings Bank (POSB)	1	Development Finance Institutions - SMEDCO and IDBZ	2
Total Banking Institutions	19	Total other	208

Source: Reserve Bank of Zimbabwe, 2018

- 75. The Reserve Bank licensed Empower Bank Limited on 31st May 2018, as a deposit taking microfinance bank. The institution commenced operations on 5th July 2018. Deposit taking microfinance institutions play a critical role in the provision of banking services to the marginalised segments of the economy, including youth, women and small to medium scale enterprises.

**Condition and Performance of the Banking Sector**

- 76. The condition and performance of the banking sector for the year under review was satisfactory, as discussed hereunder.

**Capitalisation**

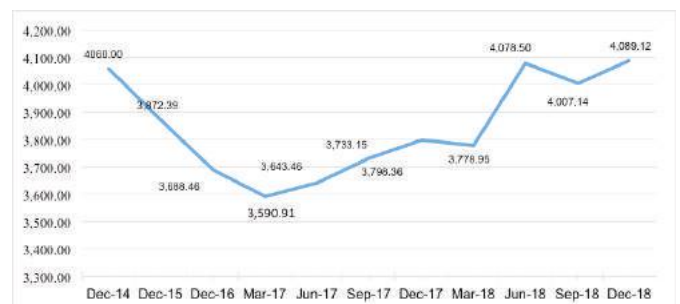
- 77. The sector was adequately capitalized, with average capital adequacy and tier 1 ratios of 30.23% and 27.68% as at 31st December 2018, against the regulatory minimum of 12% and 8%, respectively. The aggregate core capital increased by 15.33%, from \$1.37 billion as at 31st December 2017, to \$1.58 billion as at 31st December 2018, largely due to organic capital growth.

- 78. While all banking institutions were adequately capitalised, institutions need to implement capital preservation strategies, in light of the current challenging macro economic environment.

**Asset Quality**

- 79. Total banking sector loans and advances increased by 7.63%, from \$3.80 billion as at 31st December 2017 to \$4.09 billion as at 31st December 2018.
- 80. Figure 14 shows the trend of banking sector loans and advances for the period from 2014 to 2018.

**Figure 14: Banking Sector Loans & Advances (\$ millions)**

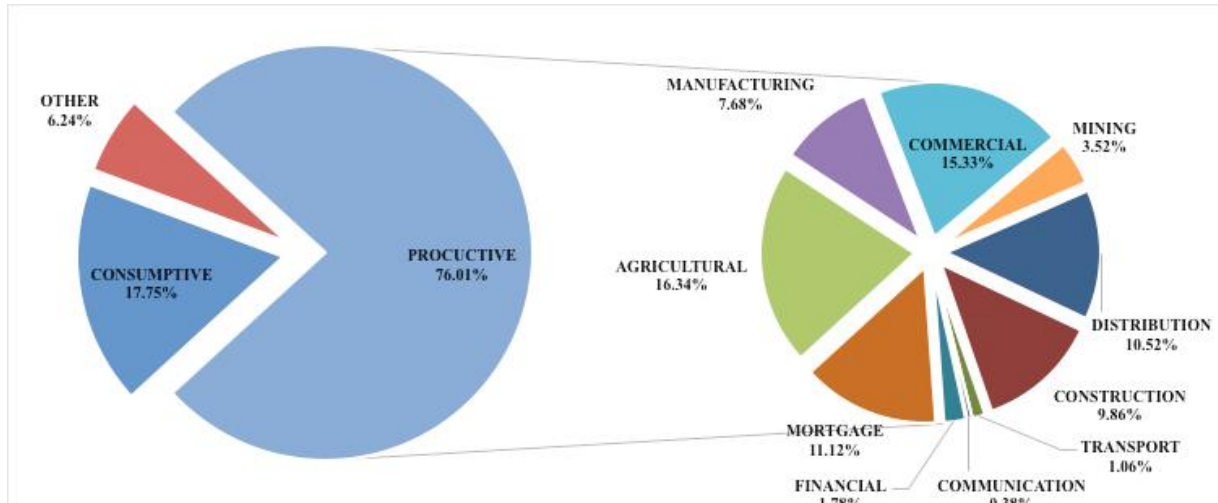


Source: Reserve Bank of Zimbabwe, 2018

Distribution of Loans and Advances

81. As at 31st December 2018, lending to the productive sector accounted for 76.01% of total loans, as shown in Figure 15.

Figure 15: Sectoral Distribution Of Loans As At 31st December 2018



Source: Reserve Bank of Zimbabwe, 2018

Distribution of Loans and Advances

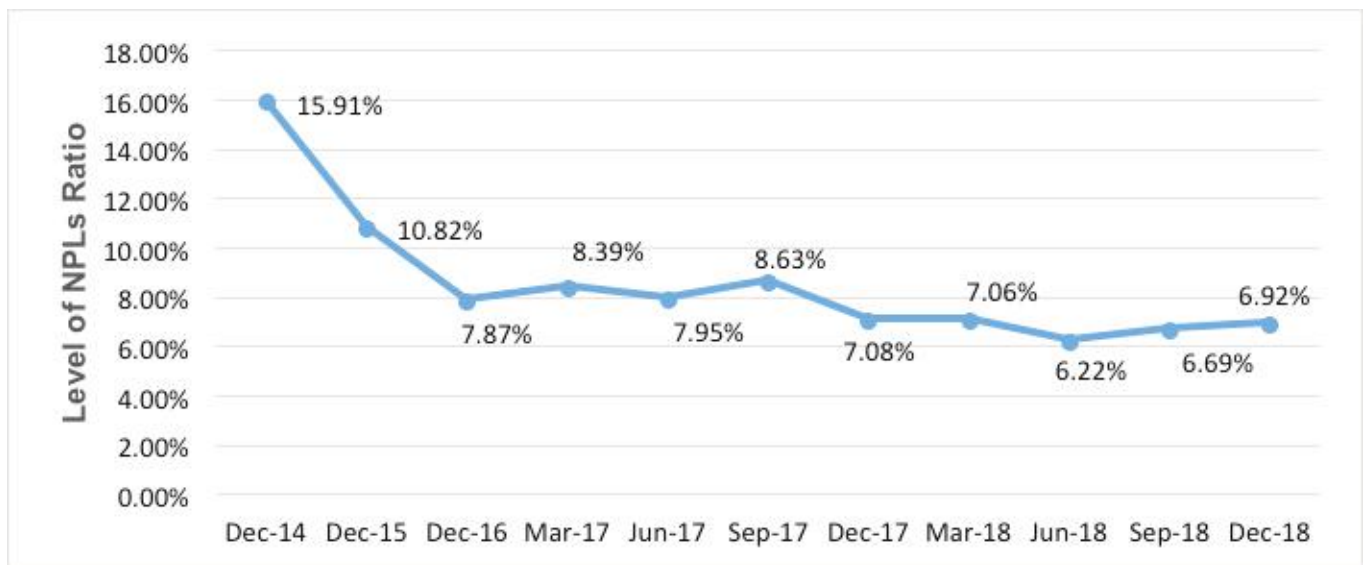
81. As at 31st December 2018, lending to the productive sector accounted for 76.01% of total loans, as shown in Figure 15.

Non-Performing Loans

82. Asset quality as measured by the ratio of non-performing loans to total loans marginally, improved from 7.08% as at 31st December 2017 to 6.92% as at 31st December 2018. The improvement was largely attributable to enhancement of credit risk management practices, notably loan grading methodologies, as well as recoveries and write-offs at some banking institutions.

83. Figure 16 shows the trend in the level of non-performing loans for the period from 2014 to 2018:

Figure 16: Trend in Non-Performing Loans 2014 – December 2018



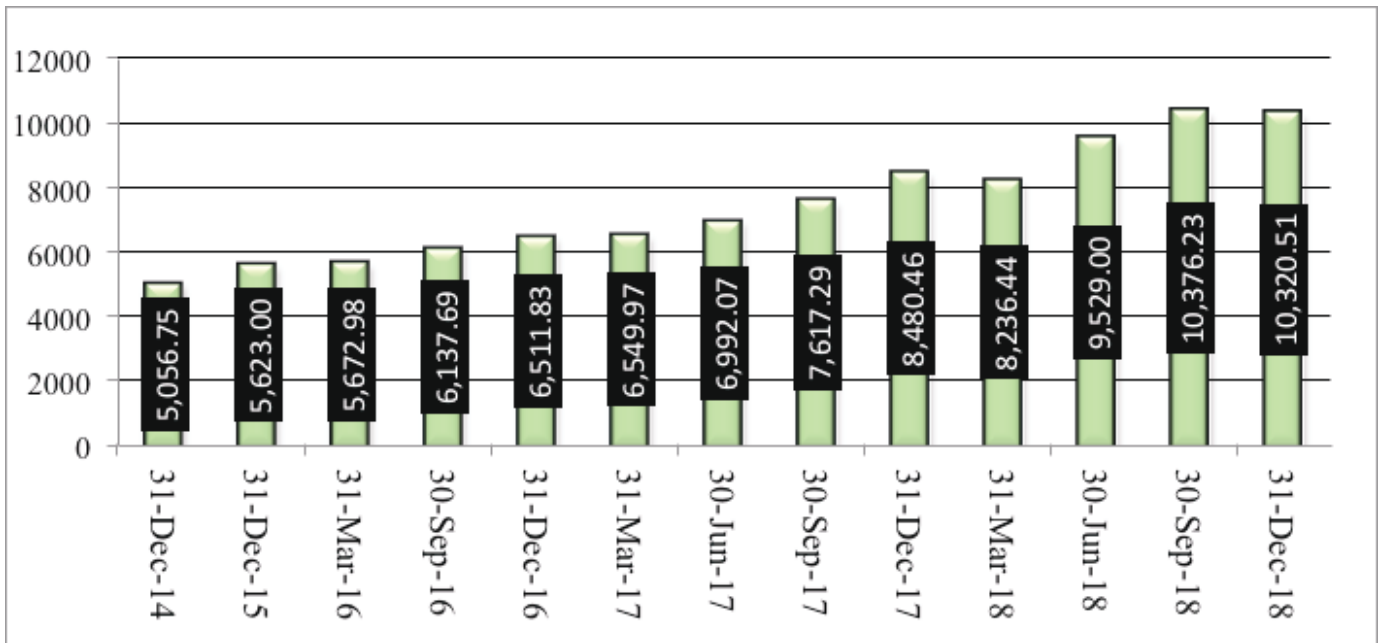
Source: Reserve Bank of Zimbabwe, 2018

**Liquidity and Funds Management**

84. Total banking sector deposits increased by 21.70%, from \$8.48 billion as at 31st December 2017 to \$10.32 billion as at 31st December 2018.

85. Figure 17 shows the trend of banking sector deposits over the period 2009 to 2018.

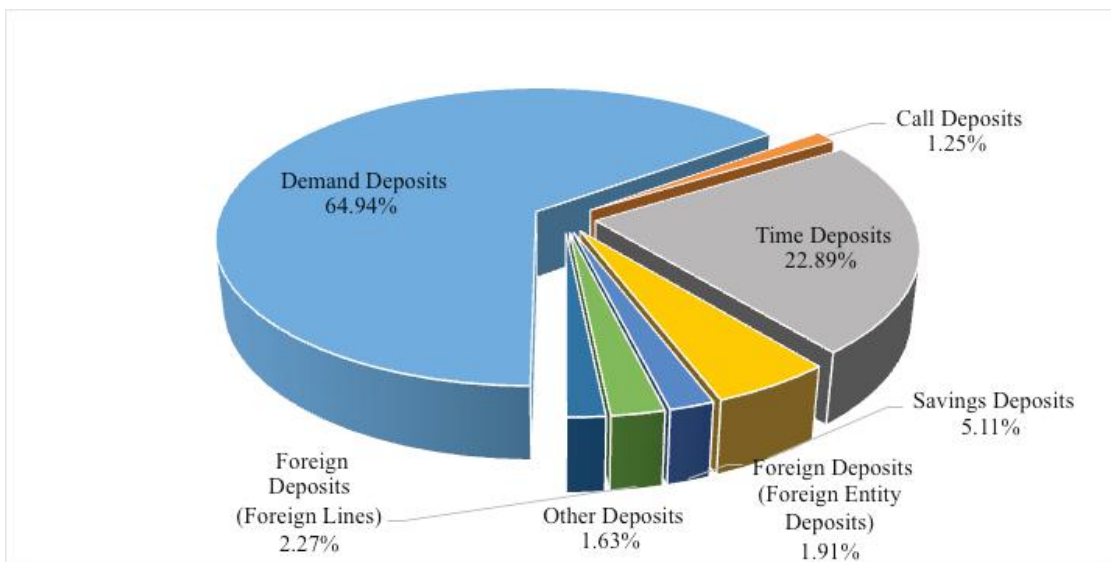
**Figure 17: Trend of Banking Sector Deposits (\$ millions)**



Source: Reserve Bank of Zimbabwe, 2018

86. As at 31st December 2018, the banking sector was predominantly funded by demand deposits, which accounted for 64.94% of total deposits, as shown in the Figure 18.

**Figure 18: Composition of Deposits as at 31 December 2018**



Source: Reserve Bank of Zimbabwe, 2018

Following the Monetary Policy Statement of October 2018, Nostro foreign currency deposits were separated into two categories, namely Nostro FCAs and RTGS FCAs.

87. As at 31st December 2018, seventeen out of nineteen banking institutions were compliant with the minimum prudential liquidity ratio of 30%. The average prudential liquidity ratio for the banking sector was 67.82%. The non-compliant institutions are taking measures to ensure compliance with the minimum prudential liquidity ratio.

88. Figure 19 shows the trend in the banking sector average prudential liquidity ratio since December 2014.

Figure 19: Prudential Liquidity Ratio Trend (%)



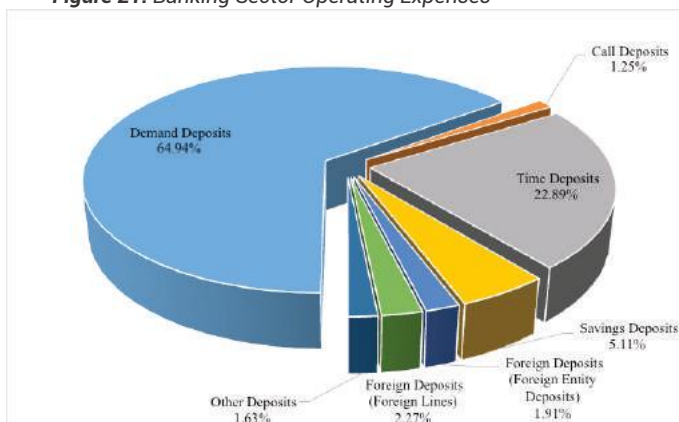
Source: Reserve Bank of Zimbabwe, 2018

89. The high average prudential liquidity ratio was largely attributed to substantial holdings of Government securities and investments by banks, as well as the cautious lending approach adopted by banking institutions.

**Earnings Performance**

90. All banks, except for one institution, remained profitable, with the sector recording a 75.77% increase in aggregate profits, from \$242.25 million in 2017 to \$425.26 million in 2018.

Figure 21: Banking Sector Operating Expenses

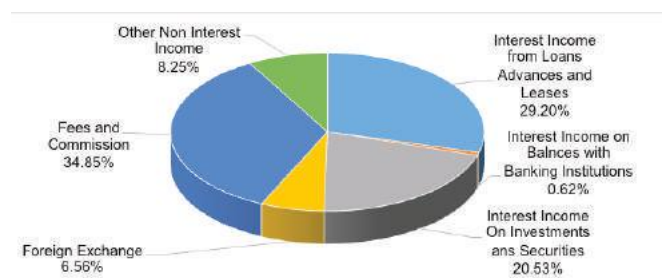


Source: Reserve Bank of Zimbabwe, 2018

91. The improvement in earnings performance was buoyed by non-interest income arising from an increase in digital transactions, as well as interest income from securities and investments.

92. Income from fees and commissions and loans and advances constituted the bulk of total income at 34.85% and 29.20%, respectively, for the period ended 31st December 2018, as shown in the Figure 20.

Figure 20: Banking Sector Income Mix as at 31st December 2018



Source: Reserve Bank of Zimbabwe, 2018



## MAJOR DEVELOPMENTS AND OTHER SUPERVISORY ACTIVITIES IN THE BANKING SECTOR

### Deposit Insurance Payments

94. As at 31st December 2018, a total of 15,313 out of 54,909 depositors had been compensated out of the Deposit Protection Fund, administered through the Deposit Protection Corporation.

95. In monetary terms, \$3.61 million (56%) was paid, against an exposure of \$6.4 million. Table 8 provides a synopsis of deposit insurance payments in respect of the six failed contributory banking institutions under liquidation. All the financial institutions listed in Table 8 are under final liquidation.

**Table 8: Deposit Insurance Payments as at 31st December 2018**

Name of Institution	Total Depositors	No. of Depositors paid	Exposure Deposits payable at \$500(\$)	Value of Depositors paid (\$)	% of Total deposits	Gross Deposits
Royal Bank	5,453	3,111	472,207	358,654	76%	5,538,805
Trust Bank	2,958	1,041	328,516	169,877	52%	11,482,102
Genesis	86	62	11,810	8,821	75%	1,426,913
Allied Bank	9,228	1,539	1,248,307	536,503	43%	14,316,614
Interfin Bank	13,021	2,738	918,814	325,373	35%	137,336,570
Afrasia	24,163	6,822	3,439,276	2,212,152	64%	18,559,591
<b>Total</b>	<b>54,909</b>	<b>15,313</b>	<b>6,418,930.43</b>	<b>3,611,380</b>	<b>56%</b>	<b>188,660,595</b>

Source: Reserve Bank of Zimbabwe, 2018

### Enhancement of Credit Infrastructure

96. The credit infrastructure in Zimbabwe continued to improve, against the background of increased coverage for the credit registry and credit bureaux as well as depth of credit information. The improvement was corroborated by the favourable assessment in the World Bank's 2019 Doing Business Report, covering the year 2018.

#### Credit Registry

97. As at 31st December 2018, the Credit Registry held 845,672 records of which 563,420 were active loan accounts. Individual records represented 99% of the active loan records. The total number of subscribers closed the year higher at 165, from 104 in 2017.

98. Credit Registry usage levels by subscribing institutions increased steadily, to a cumulative total of 440,407 reports as at 31st December 2018.

#### Collateral Registry

99. The process of establishing a collateral registry is under way. During the year under review, awareness workshops were conducted in the country's main towns, to conscientise the public and stakeholders of the establishment of the Collateral Registry at the Reserve Bank, including the provisions of the Movable Property Security Interest Act.

### Adoption of International Financial Reporting Standard (IFRS 9)

101. Banking institutions published the first set of IFRS 9 compliant financial statements for the period ended 30th June 2018. The implementation of IFRS 9 represented a significant milestone in financial stability enhancement as the Standard requires more timely recognition of expected credit losses compared to the International Accounting Standard 39, which was based on an incurred loss model. Coupled with expanded disclosure requirements, IFRS 9 reinforces bank risk management and market discipline.

### Financial Inclusion

102. The Reserve Bank continued to collaborate with other stakeholders in implementing various initiatives to enhance access to formal financial services by the majority of the people.

103. The trends in financial inclusion indicators is shown in Table 9.

104. The utilisation of various financial inclusion empowerment facilities remained low at 55%, as at 31st December 2018. A total of \$277.16 million was disbursed, against \$501.51 million which was provided by the Reserve Bank.

**Table 9: Financial Inclusion Indicators - Dec 2016-18**

Indicator	Dec-16	Dec-17	Jun-18	Sep-18	Dec-18
<b>Value of loans to MSMEs</b>	\$131.69 m	\$146.22 m	\$168.25m	\$131.83m	\$169.96m
<b>% of loans to MSMEs over total loans</b>	0.0357	0.0375	0.0357	0.0384	0.0394
<b>Number of MSMEs with bank accounts</b>	71730	76524	81369	97527	100644
<b>Number of Women with Bank Accounts</b>	769883	935994	1612820	1528704	1736285
<b>Value of Loans to Women</b>	\$277.30m	\$310.78m	\$360.68m	\$384.55m	\$432.36m
<b>Number of Loans to Youth</b>	38400	61529	68756	74165	69421
<b>Value of Loans to Youth</b>	\$58.41m	\$138.93 m	\$126.64m	\$146.79m	\$104.43m
<b>Total number of Bank Accounts</b>	1.49m	3.07m	5.58m	5.81m	5.869m
<b>Number of Low Cost Accounts</b>	1.20m	3.02m	3.56m	3.31m	4.67m

Source: Reserve Bank of Zimbabwe, 2018

100. The Registry is expected to be operationalised in the year 2019, and is envisaged to facilitate the use of movable assets as collateral for borrowings, for borrowers such as SMEs and individuals.

105. Improved capitalisation of Export Credit Guarantee Company of Zimbabwe, as well as the operationalization of the Collateral Registry are expected to facilitate increased access to finance for productive purposes by MSMEs lacking acceptable collateral.

### Performance & Condition of the Microfinance Sector

106. The microfinance sector continued to play a critical role in financial inclusion and financial intermediation, as reflected by growth in the loan portfolio size, equity funding, deposit mobilization and outreach, during the year ended 31st December 2018.

## Lending and Portfolio Quality

### Portfolio Size

107. The industry registered a 52.68% increase in total loans over the year, from \$254.04 million in 2017 to \$387.87 million in 2018. This was largely due to increased demand for loans by micro, small and medium enterprises and low income households, in an effort to supplement their low disposable incomes, against the background of inflationary pressures.
108. As at 31st December 2018, the microfinance industry's aggregate loans of \$387.87 million, constituted 9.49% of the total banking sector loans of \$4.09 billion for the same period.

### Portfolio Quality

109. The asset quality for the microfinance industry deteriorated over the year, as reflected by the portfolio-at-risk (PaR >30 days) ratio of 10.51% as at 31st December 2018, up from 7.34% as at 31st December 2017. This was against the international benchmark of 5%. The deterioration was mainly a reflection of heightened credit risk, against the backdrop of a challenging macroeconomic environment.

### Profitability

110. The microfinance industry remained profitable during the year ended 31st December 2018, with a net profit of \$16.62 million, albeit declining by 23.34% over the year, from \$21.64 million reported for the year ended 31st December 2017.

111. Aggregate losses amounting to \$5.15 million, realised by three deposit-taking microfinance institutions (DTMFIs), weighed down profits for the microfinance industry.

112. Thirty-five microfinanciers, including three DTMFIs reported losses for period ended 31st December 2018, largely driven by high operational costs. Two of the DTMFIs posted losses due to start-up costs.

113. The institutions that made losses are instituting cost-containment measures and putting in place strategies to enhance their earnings performance.

### Capital & Funding in the Credit-only Microfinance Sub-sector

114. As at 31st December 2018, the credit-only microfinance subsector's total equity of \$134.17 million, represented a 42.31% increase from \$94.28 million as at 31st December 2017. This was largely attributable to the contribution from newly licensed microfinance institutions, as well as increased profitability by some credit-only microfinance institutions over the year.

115. As at 31st December 2018, a total of nine credit-only microfinance institutions were non-compliant with the minimum capital requirement of \$20,000. The non-compliant institutions are currently working on regularization of their capital positions.

116. A summary of the key performance indicators is shown in Table 10.

Table 10: Key Performance Indicators, December 2017 to December 2018

Indicator	Dec -17	Mar-18	June-18	Sep -18	Dec-18
Number of Licensed Institutions	183	190	196	200	205
Total Loans (US\$m)	254.04	272.95	297.52	351.39	387.87
Total Assets (US\$m)	333.27	360.46	412.29	463.56	490.27
Total Equity (US\$m)	135.66	142.94	138.15	187.87	197.85
Net Profit (US\$m)	21.64	9.08	13.67	9.98	16.62
Average Operational Self-Sufficiency (OSS)	135.80%	142.92%	154.76%	114.45%	153.11%
Total Deposits (DTMFIs) (US\$m)	6.41	11.84	15.35	21.00	23.85
Number of Savings Accounts (DTMFIs)	7,226	8,668	10,196	24,386	68,258
Portfolio at Risk (PaR>30 days)	7.34	9.55%	10.15%	15.51%	10.51%
Number of Active Loan Clients	323,826	282,024	276,660	288,858	349,341
Number of Female Borrowers	115,690	107,226	107,566	153,980	161,023
Number of Outstanding Loans	415,979	296,544	297,843	323,129	393,219
Number of Branches	682	676	660	781	750

Source: Reserve Bank of Zimbabwe, 2018

## Legal and Regulatory Developments

### Banking Act [Chapter 24:20]

117. Following the amendments to the Banking Act [Chapter 24:20] in 2015, another amendment to the Banking Act came into effect through the Finance Act No.1 of 2018.

118. The amendment was necessitated by the need for the Minister to take into account stakeholder responses to the Banking Act Amendment No. 12 of 2015. The Act was amended as follows:

- i. to restore voting rights of executive directors of a banking institution;
- ii. to disqualify only non-executive directors who have served 10 or more years on the board of a bank from being reappointed to the same board;
- iii. to remove the disqualification from appointment as an independent non-executive director of a person nominated by a shareholder; and
- iv. to provide for prohibition against purchase of own shares by a banking institution or controlling company, except with the prior written approval of the Registrar.

### Proposed Amendments to the Banking Regulations

119. In order to align the Banking Regulations with the Banking Act, the Reserve Bank has submitted proposals for amendments to the Banking Regulations to the Ministry of Finance and Economic Development, in respect of the following aspects

- i. reducing significant interest threshold from 10% to 5% in line with the new section 15B (1) of the Banking Act;
- ii. increasing the maximum shareholding that an ordinary company can have in a banking institution from 10% to 25% in line with the new threshold limits in section 15A (1) of the Banking Act. The Banking Act was amended in 2015 to increase the threshold from 10% to 25%;
- iii. providing for the disclosure of interests form as required under the new section 20B of the Banking Act;
- iv. providing for the revised capital ratios which have been enforced by the Reserve Bank following previous IMF recommendations; and
- v. providing for the maximum amount which can be lent to an insider without board approval. A proposal has been made for a maximum of \$50,000.00. Additional limits on aggregate loans to insiders are also proposed.

### The Microfinance Bill, 2018

120. The Microfinance Bill, 2018 awaits its first hearing before Parliament. The Bill will amend the Microfinance Act [Chapter 24:30] to achieve two main objectives:

- i. to extend the period of licensing for a credit-only micro finance institution from a one-year term to a five-year term and to provide for perpetual licences to deposit-taking microfinance institutions, subject to cancellation in the same manner as traditional banking institutions;
- ii. to reduce confusion and overlapping, the Bill will amend the Act to recognise only two institutions: credit-only microfinance institutions (namely companies that provide loans and credit to small-scale borrowers); and deposit-taking microfinance institutions, namely companies that accept deposits from small-scale businesses and members of lower-income groups; and
- iii. enhance corporate governance and risk management practices within the microfinance sector.





## OPERATING ENVIRONMENT INTERNATIONAL CONTEXT



**Broad Money Developments**

122. Broad money recorded an annual growth of 28.05% in 2018 compared to 38.65% in 2017. The growth translates to an increase in money supply to \$10 009.91 million from US\$7 817.28 million in 2017. The growth in money supply reflected yearly increases in transferable deposits and time deposits by 32.01% and 7.65%, respectively. Partially offset these increases was a decrease in negotiable certificates of deposits (NCDs) by 14.65%.

123. In addition, bond notes and coins in circulation increased from \$331.94 million in 2017, to US\$502.04 million in 2018.

NCDs are also referred to as securities included in broad money.

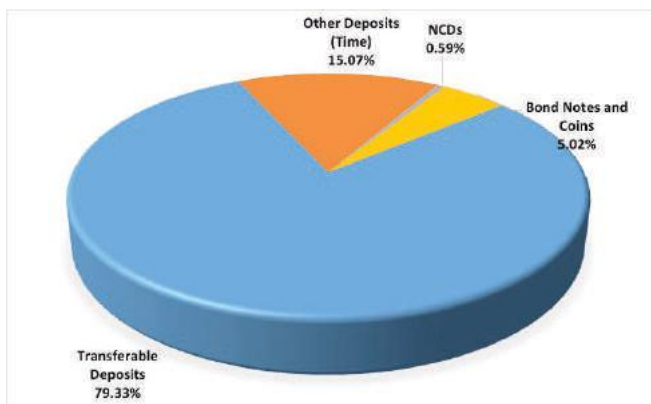
**Figure 22: Level of Broad Money and Annual Growth**



Source: Reserve Bank of Zimbabwe, 2018

124. During the period under review, broad money was made up of transferable or transitory deposits, 79.33%; time deposits, 15.07%; currency in circulation, 5.02%; and negotiable certificates of deposits, 0.59%.

**Figure 23: Composition of Broad Money, 2018**



Source: Reserve Bank of Zimbabwe, 2019

**Domestic Credit**

125. Domestic credit registered an annual growth of 40.06% from \$10 697.16 million in December 2017 to \$14 982.34 million in December 2018, reflecting increases of 59.18% and 12.90% in Net Credit to Government to \$9 992.34 million and \$4 058.65 million in other sectors, respectively.

126. Net credit to Government increased from \$6 277.47 million in 2017 to \$9 992.34 million in 2018. The growth in credit to government reflected the fiscus' dependence on the banking sector for deficit financing. Central Bank claims on Government grew by 76.24%, from \$3 985.87 million in 2017 to \$7 024.65 million in 2018.

127. Other depository corporations' credit to Government increased by 25.70%, from \$2 426.57 million in 2017 to \$3 050.27 million in 2018.

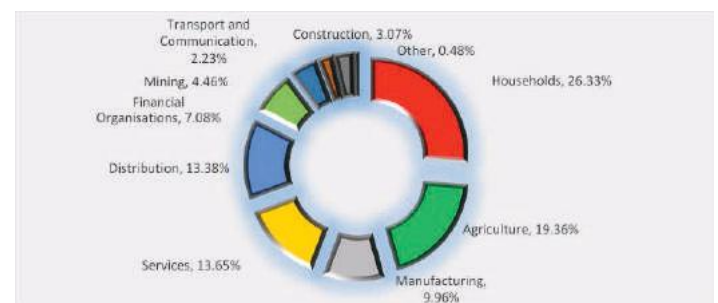
128. Credit extended to the other sectors of the economy grew by 12.90%, from \$4 419.69 million in 2017 to \$4 990.01 million during the period under review. The growth was largely driven by expansions in other financial corporations, 149.44%; claims public enterprises, 24.74%; % and private sector, 9.12%. Partially offsetting these increases was a decline of 19.53% in credit to local government.

129. The truncated growth in credit to the other sectors, in part, reflects banks increased appetite for holding Government securities at the expense of lending to other economic agents. A sustained improvement in consumer demand and business confidence, however, is needed to boost corporate demand for credit.

130. During the period under analysis, outstanding credit to the private sector was distributed as follows: households, 26.33%; agriculture, 19.36%; services, 13.65%; distribution, 13.38%; manufacturing, 9.96%; financial organisations and investments, 7.08%; mining, 4.46%; construction, 3.07%; transport and communications, 2.23%; and other, 0.48%.

131. Private sector credit was utilised for inventory build-up, 24.75%; consumer durables, 20.0%; fixed capital investment, 12.26%; and pre and post shipment financing, 1.71%. Amounts channeled towards other recurrent expenditures constituted 40.74% of the total outstanding loans and advances.

**Figure 24: Sectoral Distribution of Credit as at December 2018**

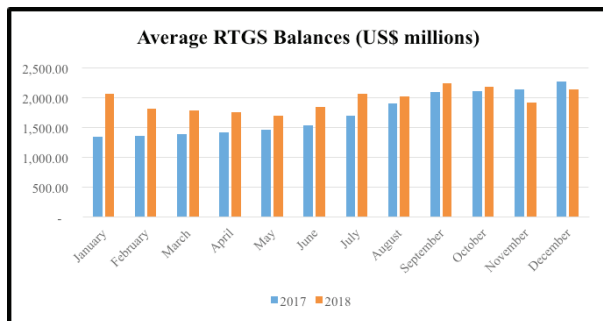


Source: Reserve Bank of Zimbabwe, 2018

**Money Market Liquidity**

132. Monthly RTGS account balances were US\$1,731.9 million on average, between January 2017 and December 2017 and US\$1,831.1 million over the corresponding period in 2018, as shown in Figure 25.

**Figure 25: Average Monthly RTGS Account Balances**



Source: Reserve Bank of Zimbabwe, 2019

**Open Market Operations**

**RBZ Savings Bonds**

133. The Bank has been issuing 7% Savings Bonds since September 2017, to mop up excess liquidity from the market. A total of \$2,836.32 million was raised in 2018, compared to \$165.2 million in 2017.

134. Commercial banks were the major participants in the primary market for the 7% Savings Bonds, accounting for 70.0% of the total issuances as at 31st December, 2018.

**Discount Window**

135. The 7% Savings Bonds are redeemed at par through the Discount window facility at the Bank. The tenor for which Savings Bonds become eligible for the Discount window

was reduced from 60 days to 30 days, with effect from March 2018, as a way of providing liquidity in the market.

136. Cumulatively, a total of \$933.9 million of 7% Saving Bonds had been rediscounted through the Discount window as at 31st December 2018, although the money market has been in surplus position throughout the year.

**Statutory Reserves**

137. The Bank introduced statutory reserve requirements, effective 1st November 2018, at a level of 5% on RTGS FCAs, to counter the increased creation of money in the economy.

138. A total of US\$403.1 million was held in the statutory reserve account at the Reserve Bank as at 31st December 2018.

**Afreximbank Backed Interbank Market Facility (Afrades)**

139. The Bank has been using Afrades as its Lender of Last Resort window and for promoting interbank trading. The 2-year Afrades facility, which was established in 2015, at a limit of US\$200 million, was increased to US\$400 million in 2017. The facility went a long way in alleviating liquidity shortages over the years.

140. The US\$400.0 million facility will mature in February 2019 and will not be rolled over, as market liquidity has improved significantly over the years.

**Loan Facilities**

141. The Bank established various finance facilities to promote financial inclusion, productivity and production for exports and import substitution. Utilisation was 50.7% as at 31st December 2018 with Business Linkages, Export Finance and Command livestock attaining at least 100% utilization levels as shown in Table 11.

**Table 11: Loan Facilities Utilisation**

Loan Facility	Amounts disbursed			Total Outstanding	Utilization level %
	Capex	Working Capital	Other		
<b>Business Linkages</b>	1,991,987.40	9,646,561.10	-	11,638,548.50	116.39
<b>Export Finance</b>	6,212,307.00	54,213,901.00	-	60,426,208.00	109.21
<b>Command Livestock</b>	-	6,000,000.00	-	6,000,000.00	100.00
<b>Soya Beans Facility</b>	-	15,642,750.00	-	15,642,750.00	72.74
<b>Horticulture Promotion</b>	1,793,490.00	1,597,993.78	-	3,391,483.78	46.57
<b>Tobacco (TIMB)</b>	22,609,494.15	1,709,932.02	-	24,319,426.17	34.74
<b>Women Empowerment</b>	456,129.00	2,557,649.76	-	3,013,778.76	20.09
<b>Zimbabwe Micro Finance</b>	1,500,000.00	-	-	1,500,000.00	15.00
<b>Educational Loan</b>	-	-	1,949,246.34	1,949,246.34	4.36
<b>Youth Empowerment</b>	24,000.00	310,935.89	-	334,935.89	3.35
<b>Tourism Facility</b>	-	30,000.00	-	30,000.00	0.20
<b>Total</b>	34,587,407.55	91,709,723.55	1,949,246.34	128,246,377.44	50.7

Source: Reserve Bank of Zimbabwe, 2018

**Developments on the Zimbabwe Stock Exchange**

- 142. The first half of the year 2018, saw the Zimbabwe Stock Exchange (ZSE) experience steady growth, with the industrial and mining indices growing from 333.02 points and 142.40 points at the end of December 2017 to 342.79 points and 161.28 points on 30th June 2018, respectively. The second half of 2018, however, recorded exponential growth in both industrial and mining indices, leading to new respective highs of 699.89 points and 242.81 points, respectively, on 11th October 2018.
- 143. The growth was largely attributed to heightened speculative behaviour by investors who sought to preserve their wealth, given the uncertainties that were associated with the announcement of monetary and fiscal measures, in light of limited investment options in the country.
- 144. The mainstream and resources indices, however, declined to 487.13 points and 227.71 points as at 31st December 2018, respectively. On a year-on-year basis, however, both the industrial and mining indices grew by 46.28% and 59.91%, respectively.
- 145. The Top 10 Index, which tracks share price developments of wealth preserving counters gained 45.02% to 145.02 points at the end of 2018. By breaking the 100 points benchmark, it implied that blue-chip stock prices at 31st December 2018 surpassed prices at the beginning of the year, when the index was introduced.
- 146. Figure 26 shows developments in the industrial and mining indices for the period 31st December 2017 to 31st December 2018.

**Figure 26: Zimbabwe Stock Exchange Indices**

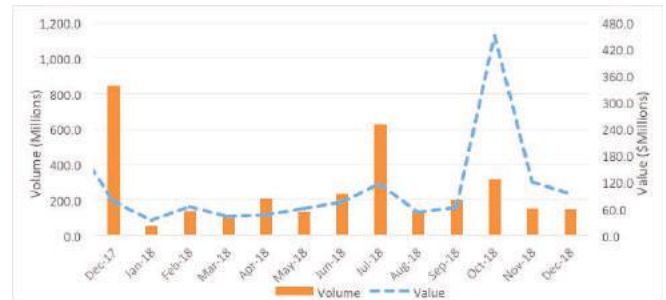


**Source: Reserve Bank of Zimbabwe, 2018**

**Market Turnover**

- 147. Following improved investor appetite in blue-chip counters, the cumulative value of shares traded increased by 72.77% to \$1.20 billion, up from \$0.69 billion realized in 2017. The volume of shares traded, however, declined by 27.30% to 2.45 billion shares, from 3.37 billion shares registered the previous year.
- 148. Notwithstanding the increase in perceived political and country risk, foreign investor participation improved, as reflected by cumulative net capital inflows of \$51.61 million in 2018, compared to cumulative net outflows of \$99.99 million in 2017.

**Figure 27: ZSE Market Turnover**

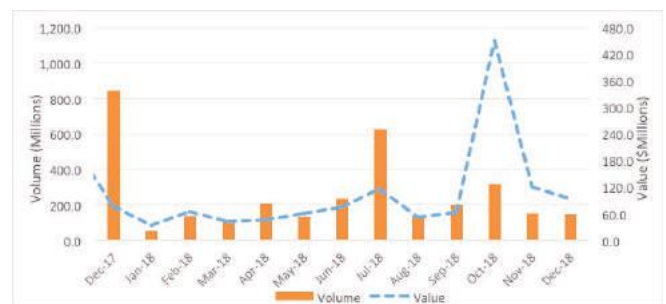


**Source: Reserve Bank of Zimbabwe, 2018**

**Market Capitalisation**

- 149. In line with significant increases in share prices, mainly during the second half of 2018, the ZSE gained \$9.84 billion, or 102.75% of the previous year's value to close the year at \$19.42 billion.

**Figure 28: Market Capitalization**



**Source: Reserve Bank of Zimbabwe, 2018**

**Other Developments and Outlook**

- 150. In the second half of 2018, an online and mobile platform, Capital Trade (C-Trade) was launched and operationalised. This modernised and improved trading activity on the ZSE. In line with the country's financial inclusion strategy, this development deepened financial inclusion in the capital markets through the use of the C-Trade platform and its attendant online and mobile application which is utilised by mobile networks subscribers, regardless of geographical location of investors.



## NATIONAL PAYMENT SYSTEMS

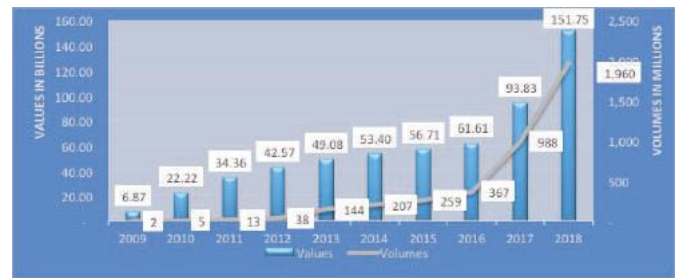


151. The country's payment services sector remained safe and sound. It recorded significant improvements in key performance indicators, on the back of a number of measures which include oversight and operational activities instituted by the Bank. As such, the payment systems continued to play a crucial role by being the nerve centre upon which financial resources flow from one economic agent to the other in the country.

**Payment Systems Transactions**

152. The aggregate value of transactions increased by 62% to \$152 billion in 2018, from \$93 billion recorded in 2017. Correspondingly, the volume of transactions exponentially increased by 98% to 1.96 billion in 2018, from 988 million reported in 2017, as shown in Figure 29.

**Figure 29: Total Annual Payment Systems Transactions from 2009 - 2018**



**Source: Reserve Bank of Zimbabwe, 2018**

153. The growth in the electronic means of payment was largely driven by the expansion of financial access points, efficiency in the payment systems and an enabling regulatory environment. Progressive integration between mobile money operators and the financial institutions spurred growth in mobile money.

154. Table 12 shows the overall digital financial services, targets and achievements for 2018.

**Table 12: Overall Digital Financial Services Targets and Achievements 2018**

Electronic Transaction	Base year 2016	Expected Annual Increases	Actual Annual Increases 2018	Target in 2018	Actual in 2018	(+ve/-ve) % Target variance	Indicators	Comments
Electronic Transaction Values (US) in billions)	57	5%	7%	67	152	126%	Sustained Increase total values	Leap frogged & Exceeded target
Electronic Transaction Volumes (millions)	259	10%	12%	335	1960	485%	Sustained Increased in volumes	Exceeded target
ATMs Per 100,000 Adults	8	1%	2%	12	7	(-42%)	Number of ATMs in the market	POS and Merchants provided alternative to cash withdrawals
POS Per 100,000 Adults	261	20%	33%	400	1186	197%	Density of POS in the Market	Number of POS in the Market increased to 99,935 from 32,629
Mobile Payment Agents Per 100,000 Adults	39,389	8%	30%	65000	50740	(-22%)	Number of agents & reduction of cash out	Limited growth in agents affected by sub optimal cash supply
Mobile Active Users (in Millions) Per 100,000 Adults	4.5	5%	20%	6	6.1	3%	Number of transacting individuals against adult pop of 8m	On Target

**Source: Reserve Bank of Zimbabwe, 2018**

**Legal Issues**

155. A draft National Payment Systems (NPS) Act is now in place and undergoing the requisite due processes which include independent assessment by other key stakeholders such as the International Monetary Fund.

156. With the coming on board of the Money Laundering and Proceeds of Crime Act (2016), the Bank, through the National Payment Systems, set up the relevant operational modalities to ensure that the payment systems sector is compliant. The focus was on analysis; identification of suspicious transactions; reporting mechanisms and training among other key areas.

## Regulated Payment Services Providers

157. Table 13 shows the Payment Services Providers/Principles (PSPs) for Financial Market Infrastructure (FMI) which are regulated in terms of the National Payment Systems Act.

**Table 13: Regulated FMIs**

Name of FMI	NUMBER OF PROVIDERS	Number of Participants
Real Time Gross Settlement System (RTGS)	Settlement hub for the country – interbank funds transfer	23
Central Securities Depository (CSD) for Government Securities	Holding and transferring of securities through book entry	19
Central Securities Depository (CSD) for Equities	Holding and transferring of equities through book entry	6
Zimswitch Holdings (Pvt) Ltd	Local Switch and ZIPIT	
Payserv Zimbabwe (Pvt) Ltd (Paynet)	Electronic processing of payment instructions – Electronic Funds Transfer (EFT)	23
MasterCard	International Card Switching Facilities	7
Visa	International Card Switching Facilities	13
Union Pay International (UPI)	International Card Switching Facilities	1
MyCash	Mobile Financial Services/ Mobile Money	1
Ecocash	Mobile Financial Services/ Mobile Money	13
Getcash	Mobile Financial Services/ Mobile Money	1
One Money	Mobile Financial Services/ Mobile Money	5
Telecash	Mobile Financial Services/ Mobile Money	2
Cheque	Cheque Clearing	16
IceCash	Electronic Payment Solutions	1

Source: Reserve Bank of Zimbabwe, 2018

**Systems Performance**

- 158. The system availability recorded for the year 2018 for the Large Value Payment, Clearing and Settlement Systems (RTGS and CSD) was 99%.
- 159. Correspondingly, the mobile money platforms achieved an average up time of 96% in 2018, with ATMs at 88.7%. The 4% system down time for retail payment systems was largely attributed to system interruptions related to scheduled upgrades and capacity constraints in some instances.

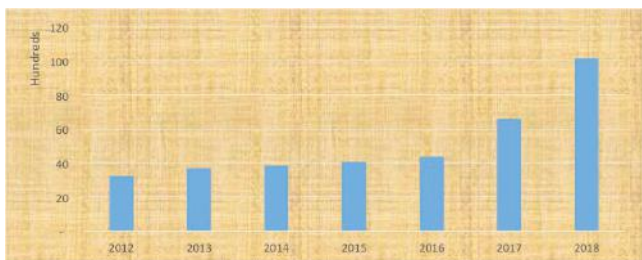
**Payment Systems Capacity Issues**

- 160. The Bank in collaboration with regulated entities have adopted a conscious approach and review of the system capacities to ensure sustainable, reliable, resilient and high system performance on an on-going basis.
- 161. During the year, all banks and FMIs were implementing the requisite system capacities on an on-going basis to ensure the accommodation of increased volumes and values and that services delivered are achieved without constraints.

**Basic Payment Systems Indicators**

- 162. Basic annual national payment systems indicators measured against the gross domestic product (GDP) and population (per capita), reflected an upward trajectory for the RTGS, mobile, and POS streams, during the past seven years, as shown in Figure 30.

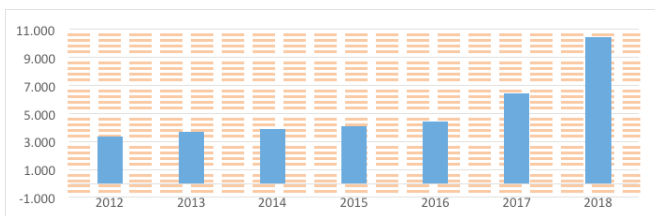
**Figure 30: Transaction Value per Capita –US (Unit) 2012-2018**



Source: Reserve Bank of Zimbabwe, 2018

- 163. Furthermore, the aggregate transaction values to GDP increased to 10.4 times in 2018, compared to 6.5 times in the previous year, as shown in Figure 31.

**Figure 31: Transaction Value to GDP – US (2012-2018)**



Source: Reserve Bank of Zimbabwe, 2018

- 164. The growth in the usage of payment systems can be attributed to the enhanced public awareness and education initiatives by the Bank and other stakeholders over the past years.

**Risk Management and Oversight Activities**

- 165. The Bank conducted three full scope risk based onsite inspections and two targeted inspections on payment service providers, during the year under review.
- 166. In the same period, the Bank continued with offsite analysis of payment services providers through review of regulatory returns submitted to ensure Payment Systems Providers or Financial Market Infrastructures (PSPs/FMIs) were compliant with regulatory requirements. Furthermore, the information gathered from the reports submitted was also used to build-up the respective risk profiles.
- 167. The reports revealed that the measures undertaken by payment system operators were largely adequate and ensured the efficient and safe functioning of the payment system.
- 168. Notably, the oversight activities were aimed at ensuring the development and supervision of financial market infrastructure, in a manner that guaranteed maximum benefits from electronic delivery channels, without undermining security and confidence.

- 169. The Bank, jointly with the World Bank, conducted a sensitization workshop with payment systems providers on the 24 Principles for Financial Market Infrastructure. The workshop aimed at equipping and informing the stakeholders on the current standards and developments. It also offered an opportunity for discussion issues of concern and sourcing for feedback on the payment systems standards.

- 170. On risk management, the focus was to improve the market players' understanding of the 24 PFMIs, Society for the Worldwide Financial Telecommunication (SWIFT), Euro MasterCard and Visa (EMV) and 40 Financial Action Task Force (FATF) recommendations through training and enhancing compliance.

- 171. To this end, a cocktail of risk management measures were pursued and put into place to ensure effective compliance and include the following:

**Cyber Security Issue**

- 172. The Bank, through monetary policy pronouncements, during the year 2018, sought to establish a minimum cybersecurity baseline to be adopted by financial institutions and PSPs. It served as guidance for the effective implementation of the PSPs cybersecurity policy towards enhancing the entity's resilience in the face of growing threats and attacks.

- 173. The policy places cybersecurity at the forefront and should be fully integrated into financial services overall business management objectives and strategy.

- 174. The six key focus areas are namely, Cybersecurity Governance and Oversight, Cybersecurity Risk Management Programme, Cyber Resilience Assessment, Cybersecurity Operational Resilience, Metrics, Monitoring & Reporting, Compliance with Statutory and Regulatory Requirements.

175. PSP's are required to build resilience and sharpen capability to anticipate, detect, recover and contain attacks. The need to build their security architecture, regular training of staff, and improving cybersecurity culture in the workplace, vendor/third party security vetting, access control, regularly test vulnerability and data loss prevention is of paramount importance.

176. The Bank intensified its surveillance and monitoring role to identify and take action to mitigate against cyber threats in a timely manner for enhanced financial system stability.

**Customer Security Programme**

177. The Customer Security Programme (CSP), launched by the Society for Worldwide Interbank Financial Telecommunication (SWIFT) in 2016, is designed to assist customers implement practices that are critical to act as preventive measures against cybercrime and allow ability to detect and recover when breaches occur.

178. The operations of SWIFT are reviewed on an ongoing to ensure security of the financial system.

179. As at the end of 2018, 96% of the Zimbabwean banks were compliant with the SWIFT Customer Security Program, whilst 4% were still working towards compliance on all mandatory controls that were required at the time of their respective attestation.

**Migration to Euro MasterCard and Visa (EMV) Technology**

180. The Bank in collaboration with banks initiated a process to migrate all payment cards and related access ATMs and POS from magnetic stripe technology to Euro MasterCard and Visa (EMV) technology to scale up security in the electronic card payment system.

181. These current and existing efforts have culminated in a measurable reduction of cloned cards in the market as compared to previous periods. In this regard, the market achieved EMV compliance of over 80% of the card and related infrastructure in the country exceeded the targeted 60% for the year.

**Collaboration and Cooperation**

182. To strengthen cooperation with other regulatory authorities, the Bank participated in meetings and engagements with key regulators namely POTRAZ, IPEC, SECZIM and DPC. The major focus areas of discussion and collective action related to consumer protection, financial literacy and stability aspects.

**Interoperability**

183. Interoperability measures aimed at boosting efficiency, accessibility and competition within the payment ecosystem continued to be implemented during 2018.

184. The Bank enforced the implementation and completion of the Zimswitch-ZIPIT Project Phase 2 by all participant banks to include all key AML/CFT issues in the faster payments for the country. The project will enable the creation of an integrated and interoperable digital retail payments ecosystem which will facilitate real time and seamless electronic funds transfer across payment systems.

185. During the period under review, mobile funds transfers from internet and POS machines were enabled to facilitate mobile integration with mobile money accounts, bringing the requisite convenience to the transacting public.

**Payment Systems Initiatives**

186. In 2018, the Bank approved/ licensed nearly twenty digital payments products which were largely additives leveraging on near field communication, quick response and mobile technologies among others.

187. The status of payment systems initiatives is as shown in Table 14.

**Table 14: Status of Payment Systems Initiatives in 2018**

Payment Stream	Approved	Work In Progress	Enquiries/ Guidance	Rejected	Rejected
E-Banking Platform	0	0	14	0	0
Mobile Banking	10	0	10	1	1
Card	3	0	3	0	0
Crypto Currency/ Virtual Currency	0	0	7	0	0
Switch	1	0	6	0	0
POS	3	0	3	0	0
Total	17	0	43	1	1

**Source: Reserve Bank of Zimbabwe, 2018**

188. The Bank continued to take advantage of local or national expos, symposiums and workshops to target different audiences for purposes of disseminating information to bolster financial literacy and education as well as raise levels of consumer awareness.

**Digital Financial Services (DFS) Driving Financial Inclusion**

189. Financial inclusion is widely recognized as one of the most important engines of economic development, whilst its contribution to GDP has been amply documented. Critical pillars to the financial inclusion landscape includes the Digital Financial Services (DFS), which are a lubricant of the economic engine of development.

190. DFS now transcends many fields and have been at the centre of accelerating the Zimbabwe National Financial Inclusion Strategy, by delivering a broad range of financial services which include loans (credit), savings, investments, remittances, payments, insurance, trading, among others.

191. The overall objective of the strategy is to increase the productive capacity of its citizens through enhancing the proportion of financially included adults from 39% in 2014, to at least 90% by 2020, leveraging on DFS.

192. Similarly, the Bank has been driving and facilitating DFS developments in the economy as evidenced by the sustained increase in the number of POS and mobile financial services access devices deployed among other parties.

193. During 2018, the Bank deepened the risk based approach in the regulatory arrangement which has resulted in the approval of cost-effective and convenient payment delivery channels such as mobile point of sale (mPOS), real time payment mechanisms, tap and go among others.

194. Supporting the narrative is mobile money which continues to deepen financial inclusion, with the number of subscribers to mobile financial services increasing to 10.9 million in 2018, from 9.5 million in 2017, representing 8% and 19% increases, respectively.

**National Payment Systems Statistics**

195. The total payment streams transaction values for 2018 increased by 64.3%, from \$97.1 billion recorded in 2017 to \$159.5 billion. Similarly, the volumes increased by 125% to 2,227,568 million, from 988,381 in 2017.

**Table 15: Payment Streams Transactional Activities from 2015 to 2018**

PAYMENT STREAMS	2015	2016	2017	2018	Proportion of Total 2018	% Change from Previous Year
<b>VALUES IN BILLIONS</b>						
RTGS	44.869	48.109	61.715	85.350	53.5%	38.3%
SWIFT FX PAYMENTS	5.465	4.609	4.079	3.816	2.4%	-6.4%
SWIFT FX RECEIPTS	5.273	4.567	3.657	3.916	2.5%	7.1%
CHEQUE	0.144	0.113	0.069	0.047	0.0%	-31.6%
POS	1.723	2.898	6.636	8.991	5.6%	35.5%
ATMS	3.854	2.284	0.428	0.171	0.1%	-60.1%
MOBILE	4.646	5.816	18.021	44.142	27.7%	144.9%
INTERNET	1.614	2.504	2.504	13.097	8.2%	423.1%
<b>TOTAL VALUE</b>	<b>67.588</b>	<b>70.900</b>	<b>97.109</b>	<b>159.530</b>	<b>100.0%</b>	<b>64.3%</b>

<b>VOLUMES IN MILLIONS</b>						
RTGS	2.063	2.902	5.903	6.404	0.29%	8%
SWIFT FX PAYMENTS	0.195	0.119	0.095	0.097	0.00%	2%
SWIFT FX RECEIPTS	0.163	0.149	0.115	0.112	0.01%	-3%
CHEQUE	0.362	0.348	0.320	0.235	0.01%	-27%
POS	14.543	52.407	214.858	323.214	14.51%	50%
ATMs	13.413	12.333	8.098	4.105	0.18%	-49%
MOBILE	228.203	298.586	754.742	1,886.546	84.69%	150%
INTERNET	0.560	1.110	4.249	6.855	0.31%	61%
<b>TOTAL VOLUME</b>	<b>259.502</b>	<b>367.954</b>	<b>988.381</b>	<b>2,227.568</b>	<b>100.00%</b>	<b>125%</b>

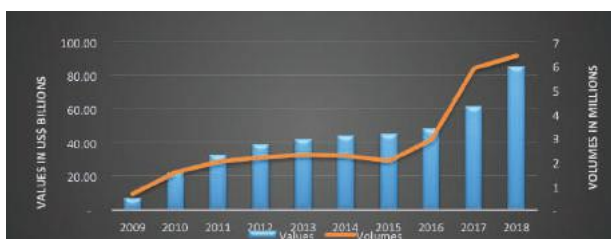
Source: Reserve Bank of Zimbabwe, 2018

**Real Time Gross Settlement (RTGS) System**

196. A cumulative total of 6.4 million transactions valued at \$85.4 billion, were processed through the RTGS system during the year 2018.

197. The total RTGS volumes and values increased by 9% and 38.3% respectively, compared to the same period in 2017, as shown on Figure 32.

**Figure 32: Total RTGS System Transactional Activities from 2009 to 2018**



Source: Reserve Bank of Zimbabwe, 2018

**Retail Payment Streams**

198. The retail payment streams cumulative values and volumes went up significantly by 96%, with mobile constituting the largest proportion of 63.45%, as shown in Table 16.

199. There was also a corresponding increase in the number of devices and access points deployed which is a clear testimony of the huge investment in the economy, in digital financial services.

200. Point of sale (POS) devices increased by 67% to 99,935 in 2018 from 59,939 in 2017. During the year, the market embraced mobile point of sale (mPos) as part of the payments points amounting to 21,248 which are included in the POS figure.

201. All access points and devices recorded positive growth during the year under review except for ATMs, bank agents and credit cards, as shown in Table 16.

**Table 16: Payment Access Points and Devices for 2017 and 2018**

PAYMENT SYSTEMS ACCESS POINTS					
	2015	2016	2017	2018	Change
ATMs	556	569	561	551	-1.78%
POS	16,363	32,629	59,939	99,935	66.73%
Bank Agents	1,723	4,059	4,865	4,815	-1.03%
Mobile banking Agents	38,745	40,590	47,838	50,740	6.07%
MPOS				21,248	-

PAYMENT SYSTEMS ACCESS DEVICES					
	2015	2016	2017	2018	Change
Debit Cards	2,365,160	3,127,153	4,281,683	4,734,299	10.57%
Credit Cards	10,854	16,030	17,411	17,204	-1.19%
Prepaid Cards	30,125	43,288	63,987	88,406	38.16%
Active Mobile Banking Subscribers	4,683,959	3,279,049	4,611,608	6,139,160	33.12%
Active Internet Banking Subscribers	108,662	168,339	277,674	353,103	27.16%

Source: Reserve Bank of Zimbabwe, 2018

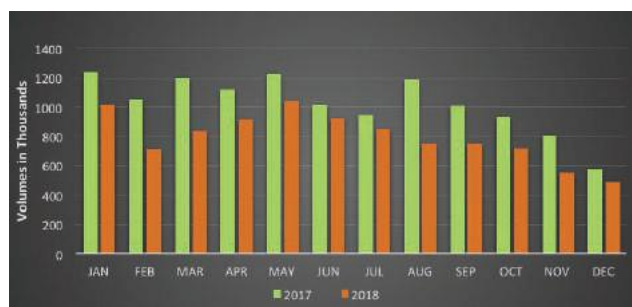
209. The value of Mobile Financial Services (MFS) transactions during the year stood at US\$44 billion, an increase of 144.95% from the US\$18 billion recorded in 2017. MFS transaction volumes also increased by 121.32% to 1,670 million in 2018, from 754.7 million recorded in 2017.

**Regional and International Developments**

210. The SADC Integrated Regional Electronic Settlement System (SIRESS) has been renamed to the Southern African Development Community Real Time Gross Settlement (SADC-RTGS) system, effective 1st October 2018. It continued to grow in terms of values and volumes, as shown in Figures 33 and 34.

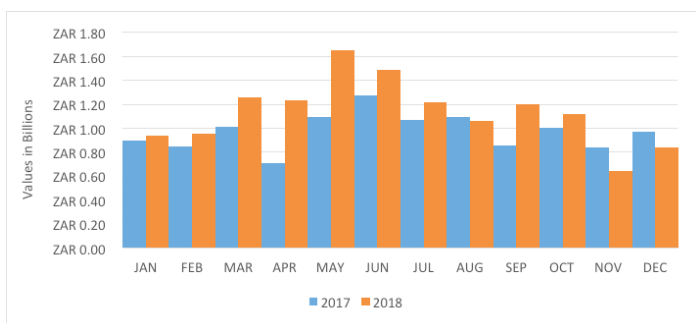
211. Further developments include the finalisation and inclusion of the US dollar (USD) as settlement currency into the SADC-RTGS system.

**Figure 34: SADC-RTGS Month on Month Comparison Volumes -2017 and 2018**



Source: Reserve Bank of Zimbabwe, 2018

**Figure 33: SADC-RTGS Month on Month Comparison Values -2017 and 2018**



Source: Reserve Bank of Zimbabwe, 2018



## EXCHANGE CONTROL DEVELOPMENTS

212. The Bank issued Exchange Control Directive RT02/2018, on the 13th February 2018, to achieve the following objectives:

- (i) Authorised Dealers to ring-fence international remittances and individual foreign currency inflows;
- (ii) Nostro Stabilization Facilities to be used for payment for critical imports;
- (iii) Ring-fencing of portfolio inflows to meet portfolio investment outflows under the Zimbabwe Portfolio Investment Fund;
- (iv) Introduction of a 7% tax-free savings bonds on non-resident transferable funds;
- (v) Enhanced Export Incentive Scheme (10%) for the Horticulture, Cotton, Macadamia Nuts and Gold sub-sectors;
- (vi) Export promotion and development initiatives by Authorised Dealers to complement the Reserve Bank initiatives in promoting exports;
- (vii) Upward review from 20% to 35% of foreign currency retention thresholds for Platinum, Chrome and privately held Diamond mines;
- (viii) General agriculture, horticulture, manufacturing, tourism, telecommunications, transport, other services to retain 100% of their foreign currency earnings;
- (ix) Retained foreign currency receipts was available to the exporter for own business use within 14 days;
- (x) Upward review of the threshold to USD2,000 for export by individuals without completion of a Form CD1;
- (xi) In line with the need to improve the ease of doing export business, penalties for non-compliant exporters were removed; and
- (xii) Establishment of a foreign investment Desk to cater for non-resident Zimbabwean investors.

213. On the 4th October 2018, the Bank issued Exchange Control Directive RT120/2018, to achieve the following objectives:

- (i) Separation of RTGS FCA and Nostro FCA bank accounts based on source of funds;
- (ii) Designation of Nostro FCA accounts;
- (iii) Ease administration of Nostro FCAs;
- (iv) Purchase of fuel by foreign haulage truckers to be in foreign currency in order to curb the proliferation of parallel market activities;
- (v) Purchase of Gold by jewelers to be in foreign currency in order to curb the proliferation of parallel market activities; and
- (vi) Review the debt to equity investment ratio from 1:1 to 2:1 in order to promote foreign investment.

### Supply and Demand of Foreign Currency

214. Global foreign currency receipts for the period 1st January – 31st December 2018, amounted to US\$6.3 billion compared to US\$5.5 billion received during the same period in 2017, representing a 13.5% increase.

215. Export receipts constituted 68% of the total foreign currency receipts, followed by international remittances 18%, loan proceeds 13%, income receipts with a modest 1%.

216. Global foreign payments decreased by 5.7% to US\$4.48 in 2018, from US\$4.75 billion recorded in 2017.

217. A foreign currency net position of US\$1 822.1 million was achieved during the period under review, compared to US\$799.6 million for the same period in 2017.





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Table 1: Monetary Survey

	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
<b>Net Foreign Assets</b>	-86,042.14	-239,224.67	-374,368.83	-728,596.76	-691,268.72	-643,665.14	-556,149.85	-1,327,513.88	-1,877,294.72
<b>Central Bank</b>	-614,980.92	-680,668.60	-639,940.50	-730,087.39	-629,622.76	-639,497.71	-574,251.01	-1,126,260.86	-1,758,219.23
<b>Other Depository Corporations</b>	528,938.78	441,443.94	265,571.67	1,490.63	-61,645.96	-4,167.43	18,101.16	-201,253.02	-119,075.49
<b>Net Domestic Assets (NDA)</b>	2,309,574.29	3,156,338.69	4,093,096.05	4,616,575.16	5,068,399.98	5,379,804.12	6,194,430.87	9,144,792.53	11,887,199.99
<b>Domestic Claims</b>	2,535,393.80	3,695,276.67	4,815,576.28	5,205,580.02	5,422,983.32	6,329,950.04	7,481,417.88	10,697,155.53	14,880,344.65
<b>Claims on Central Government(net)</b>	828,599.81	892,815.70	1,199,696.61	1,491,415.12	1,555,167.85	2,374,108.23	3,597,963.54	6,277,467.58	9,980,336.76
<b>Claims on Central Government</b>	965,344.47	1,105,282.65	1,406,083.71	1,583,492.70	1,652,977.52	2,483,931.32	3,758,737.40	6,412,445.92	10,063,093.05
<b>Less Liabilities to</b>									
<b>Central Government</b>	136,744.65	212,466.94	206,387.11	92,077.58	97,809.67	109,823.09	160,773.86	134,978.34	82,756.29
<b>Claims on Other Sectors</b>	1,706,793.99	2,802,460.97	3,615,879.67	3,714,164.90	3,867,815.48	3,955,841.82	3,883,454.35	4,419,687.96	4,900,007.89
<b>Other Financial Corporations</b>	35,485.70	44,912.44	76,815.35	38,903.84	24,193.92	81,997.26	82,282.79	62,784.00	156,610.64
<b>State and Local Government</b>	17,507.84	16,123.28	20,810.52	18,619.20	12,198.23	45,257.57	34,237.41	46,177.22	37,159.65
<b>Public Non Financial Corporations</b>	22,923.34	64,424.45	71,216.88	80,528.68	86,261.61	172,204.57	253,405.61	591,300.63	647,586.90
<b>Private Sector</b>	1,630,877.10	2,677,000.80	3,447,036.92	3,576,113.18	3,745,161.72	3,656,382.42	3,513,528.54	3,719,426.11	4,058,650.69
<b>Other Items(Net)</b>	225,819.52	538,937.98	722,480.23	589,004.85	354,583.34	950,145.92	1,286,987.02	1,552,363.01	2,993,144.66
<b>Broad Money-M3</b>	2,223,532.14	2,917,114.03	3,718,727.22	3,887,978.42	4,377,131.27	4,736,138.98	5,638,281.02	7,817,278.65	10,009,905.27
<b>Securities Other than Shares</b>									
<b>Included in Broad Money</b>	55,848.18	57,954.25	55,930.97	82,609.89	119,858.96	44,656.65	62,894.35	68,638.47	58,584.04
<b>Broad Money-M2</b>	2,167,683.96	2,859,159.78	3,662,796.25	3,805,368.52	4,257,272.31	4,691,482.33	5,575,386.66	7,748,640.18	9,951,321.23
<b>Other Deposits</b>	590,236.95	860,052.98	1,231,486.93	1,327,429.62	1,532,981.91	1,632,979.65	1,471,657.19	1,401,725.04	1,508,902.47
<b>Narrow Money-M1</b>	1,577,447.01	1,999,106.81	2,431,309.32	2,477,938.90	2,724,290.40	3,058,502.69	4,103,729.48	6,346,915.14	8,442,418.76
<b>Transferable Deposits</b>	1,577,447.01	1,999,106.81	2,431,309.32	2,477,938.90	2,723,991.75	3,051,375.71	4,033,558.66	6,014,977.26	7,940,376.20
<b>Currency Outside Depository Corporations</b>	0.00	0.00	0.00	0.00	298.65	7,126.98	70,170.81	331,937.88	502,042.57

Source: Reserve Bank of Zimbabwe, 2018

**Table 2: Institutional Asset Base and Market Share**

	2012	2013	2014	2015	2016	2017	2018	Market Share (%)
<b>Commercial Banks</b>	4,604,687,298	4,904,957,639	5,633,320,582	6,260,377,926	7,066,935,424	9,279,145,363	35,795,653,888.21	87.34
<b>Merchant Banks</b>	402,288,508	158,588,381	99,998,770	91,564,731	**	**	**	**
<b>Building Societies</b>	717,144,950	921,033,146	1,234,855,548	1,408,846,687	1,497,005,608	1,740,131,986	4,821,570,020.67	11.76
<b>P.O.S.B</b>	80,599,023	91,188,954	105,153,436	143,480,509	164,329,313	226,694,598	368,250,129.59	0.90
<b>GRAND TOTAL</b>	<b>5,804,719,779</b>	<b>6,075,768,120</b>	<b>7,073,328,336</b>	<b>7,904,269,853</b>	<b>8,728,270,345</b>	<b>11,245,971,948</b>	<b>40,985,474,038.47</b>	<b>100</b>

Source: Reserve Bank of Zimbabwe, 2018

Table 3: Yearly Inflation - Percentage Change in Consumer Price Index (%)

	NON-FOOD INFLATION												FOOD INFLATION	ALL ITEMS
	ALCOHOLIC BEVERAGES & TOBACCO	CLOTHING FOOTWEAR	HSING, WATER, ELECTRICTY, GAS & OTHER FUELS	FURNITURE AND EQUIPMENT	HEALTH	TRANSPORT	COMMUNICATION	RECREATION & CULTURE	EDUCATION	RESTAURANTS & HOTELS	MISC. GOODS & SERVICES	TOTAL NON FOOD	FOOD &NON ALCOHOLIC BEVERAGES	
WEIGHTS	4.9	4.3	27.6	5.3	1.4	8.4	2.7	2.3	4.3	1.1	6.5	68.7	31.3	100
2018														
January	1.8	4.1	-0.5	9.0	1.8	1.3	0.4	8.0	-2.3	1.6	6.6	2.5	6.2	3.5
February	2.0	5.2	-0.7	8.7	1.8	1.2	0.6	9.0	-2.3	1.5	6.3	2.4	4.3	3.0
March	2.0	4.8	-1.3	8.5	1.9	-0.4	-1.0	10.5	-2.2	1.3	5.4	2.4	4.5	2.7
April	2.3	5.1	-1.4	8.4	2.1	-0.7	-1.3	10.4	-3.6	2.8	5.7	2.3	4.9	2.7
May	2.2	5.2	-1.4	8.3	2.0	-0.6	-1.3	10.7	-3.6	3.3	6.1	2.3	4.9	2.7
June	2.6	5.3	-0.7	7.4	2.4	-0.2	-1.2	10.2	-3.6	3.3	6.8	2.5	5.1	2.9
July	2.8	5.7	-0.7	7.9	2.7	0.2	-1.0	10.9	6.3	5.4	7.5	3.9	6.3	4.3
August	3.2	6.0	-0.8	8.8	2.9	0.7	-1.1	10.5	6.3	5.5	7.8	4.2	7.5	4.8
September	3.4	7.0	-0.5	10.6	4.8	1.5	-0.9	10.0	6.3	5.8	7.8	4.8	7.9	5.4
October	10.8	53.8	2.2	35.6	17.1	19.6	0.1	36.2	6.3	15.7	19.3	18.7	26.8	20.9
November	18.5	69.1	7.0	46.0	20.6	22.0	0.3	56.7	8.2	27.3	36.2	26.0	42.7	31.0
December	30.2	81.5	10.5	57.1	30.8	56.5	1.6	60.5	8.2	44.3	48.8	37.1	53.7	42.1

Source: ZIMSTAT, 2018

**Table 4: Central Government Operations- US\$ Millions**

	2012	2013	2014	2015	2016	2017	2018
<b>Total revenue and grants</b>	3,495.80	3,741.00	3,727.20	3,737.10	3,501.90	3,870.00	3,495.80
<b>Total expenditure and net lending</b>	3,587.90	3,981.30	3,916.60	3,923.60	4,705.50	6568.1	3,587.90
<b>Deficit</b>	-92.1	-240.3	-189.4	-186.5	-1203.6	-2,698.10	-92.1
<b>Financing</b>	75.4	240.7	189.4	129	1425.1	2,698.10	75.4
<b>of which : Foreign (net)</b>	-41.1	7.6	-49.9	-63.4	184.5	-72.4	-41.1
<b>Domestic (net)</b>	116.5	233.1	239.3	192.4	1240.6	2770.5	116.5

*Source: Ministry of Finance and Economic Development, 2018*

**Table 5: Gross Domestic Product at Factor Cost by Industry (US\$ millions)**

PERIOD	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Agriculture, Hunting and Fishing and forestry</b>	1,038.35	1,157.19	1,222.05	1,376.81	1,363.95	1,704.94	1,653.79	1,618.00	1,267.20
<b>Mining and quarrying</b>	560.81	802.41	1,006.30	1,063.64	1,186.54	1,156.96	1,089.42	1,219.00	1,267.20
<b>Manufacturing</b>	1,066.19	1,108.81	1,293.48	2,403.51	2,466.38	2,454.64	2,373.34	2,382.83	2,428.25
<b>Electricity, gas, steam and air conditioning supply</b>	278.55	358.80	436.37	448.27	453.11	546.45	533.16	460.80	480.41
<b>Water supply; sewerage, waste management and remediation activities</b>	31.44	39.63	38.28	43.70	38.97	40.00	41.23	40.00	45.00
<b>Construction</b>	136.74	182.21	288.54	376.17	398.59	426.01	426.29	441.73	496.99
<b>Wholesale and retail trade; repair of motor vehicles and motorcycles</b>	1,856.68	2,116.12	2,149.12	2,463.05	2,936.54	2,963.54	3,044.00	3,409.28	3,732.35
<b>Transportation and storage</b>	486.06	511.65	612.06	615.19	618.32	651.37	674.10	678.82	732.30
<b>Accommodation and food service activities</b>	437.61	498.76	506.54	580.53	692.13	698.49	717.46	719.34	787.51
<b>Information and communication</b>	594.07	1,136.99	1,320.12	733.30	1,374.05	1,375.00	1,412.13	1,413.00	1,524.32
<b>Financial and insurance activities</b>	826.36	708.62	730.30	1,137.14	1,300.75	950.34	983.60	1,082.49	1,135.72
<b>Real estate activities</b>	110.46	126.29	193.22	302.87	340.53	385.00	417.10	420.48	427.03
<b>Professional, scientific and technical activities</b>	101.71	259.90	287.70	350.63	365.30	354.49	356.81	382.85	384.53
<b>Administrative and support service activities</b>	83.17	142.37	141.68	130.57	137.63	133.00	133.73	138.15	138.75
<b>Public administration and defence; compulsory social security</b>	323.56	540.41	910.46	1,272.24	1,300.72	1,447.49	1,495.51	1,612.89	1,634.57
<b>Education</b>	301.19	656.83	948.33	1,326.45	1,523.65	1,684.15	1,834.49	1,889.53	2,135.16
<b>Human health and social work activities</b>	68.60	130.27	205.65	279.41	313.53	348.24	395.00	417.57	455.15
<b>Arts, entertainment and recreation</b>	2.31	3.28	5.32	6.53	7.11	8.38	9.89	10.88	12.24
<b>Other service activities</b>	95.84	109.10	126.77	189.31	181.80	183.48	187.78	188.82	203.00
<b>Domestic Services</b>	20.53	23.37	27.16	40.55	42.98	44.70	47.00	49.35	52.31
<b>Gross Domestic Product at factor cost</b>	8,398.10	10,577.36	12,399.20	15,072.53	16,965.98	17,470.71	17,732.81	18,475.79	19,803.84

Source: ZIMSTAT, 2018

**Table 6: Real Gross Domestic and National Product Per Capita at Market Prices (US\$)**

Period	Current Prices			Constant Prices				
	Gross Domestic Product	Net Investment Income paid to Other Countries/2	Gross National Product	Gross Domestic Product	Gross National Product	Poulation (million)	Per capita Gross Domestic Product	Per capita Gross National Product
2011	14,101.92	-2,000.31	12,101.61	14,670.03	12,661.74	12.23	1,177.43	1,016.24
2012	17,114.85	-2,213.58	14,901.27	17,114.85	14,901.27	12.34	1,310.35	1,140.88
2013	19,091.02	-1,877.60	17,213.42	17,455.35	15,757.80	12.46	1,305.70	1,178.72
2014	19,495.52	-1,852.24	17,643.28	17,870.25	16,080.68	13.06	1,308.96	1,177.87
2015	19,963.12	-1,982.35	17,980.77	18,188.32	15,155.97	13.37	1,304.45	1,086.98
2016	20,548.68	-1,775.73	18,772.95	18,325.80	15,258.15	13.65	1,286.91	1,069.83
2017	22,040.90	-1,961.31	20,079.60	19,187.85	15,829.19	13.94	1,347.45	1,085.04

**Source:** ZIMSTAT, 2018

**\*\*Calculated using GDP at constant prices**

**Table 7: Distribution of National Income (US\$ millions)**

INCOME APPROACH									
Period	Wages and salaries	Gross Operating Surplus	Mixed Income	Taxes on Production	GDP at Basic Prices	Taxes on Products	GDP at Market Prices	Net primary income from abroad	Gross National Income
2011	5,226.73	5,092.91	2,079.56	151.47	12,550.67	1,551.25	14,101.92	-2,000.31	12,101.61
2012	6,387.67	6,143.39	2,541.47	171.33	15,243.86	1,870.99	17,114.85	-2,213.58	14,901.27
2013	7,091.13	7,053.49	2,821.35	185.20	17,151.18	1,939.84	19,091.02	-1,877.60	17,213.42
2014	7,043.89	7,624.26	2,802.56	184.07	17,654.78	1,840.74	19,495.52	-1,852.24	17,643.28
2015	7,285.60	7,716.49	2,730.72	186.00	17,918.81	2,044.31	19,963.12	-1,982.35	17,980.77
2016	7,649.88	8,164.91	2,661.00	194.85	18,670.64	1,878.04	20,548.68	-1,775.73	18,772.95
2017	8,254.22	8,622.04	2,927.59	209.77	20,013.61	2,027.29	22,040.90	-1,961.31	20,079.60

**Source:** ZIMSTAT, 2018

**Table 8: Expenditure on Gross Domestic Product (US\$ millions)**

Period	Private consumption	Net Non-profit making bodies	Government Consumption expenditure	Gross fixed capital formation	Increase in Stocks	Total domestic Expenditure	Net export of goods and services	Expenditure on gross domestic product
2012	115,044.324	1,039.03	3,423.99	2,079.17	-392.16	21,194.35	-4,079.49	17,114.85
2013	15,041.93	847.73	2,504.98	1,589.92	4.79	19,989.34	-2,533.99	17,455.35
2014	14,686.51	797.20	3,001.95	1,792.30	5.41	20,283.39	-2,413.14	17,870.25
2015	17,559.67	878.48	3,478.32	1,891.69	7.66	23,815.83	-5,627.51	18,188.32
2016	15,657.96	847.16	3,935.12	1,901.04	7.22	22,348.50	-4,022.70	18,325.80
2017	15,831.02	905.61	4,506.05	1,981.72	6.67	23,231.10	-4,043.25	19,187.85

**Source:** ZIMSTAT, 2017

**Table 9: Balance of Payments – US\$ Millions**

	2012	2013	2014	2015	2016	2017	2018
<b>Trade balance</b>	-4081.5	-4226.7	-3 872.6	-3250.6	-2129.6	-1587.5	-2472.4
<b>Current Account Balance (excluding official transfers)</b>	-2277.6	-2648.7	-2333.8	-1596.6	-2277.6	-277.6	-1391.7
<b>Capital Account Balance (including official transfers)</b>	1812.6	1725.6	2127.2	1764.8	1140.5	1388.2	1138.0
<b>Net Errors and Omissions</b>	489.8	822.4	224.6	-83.7	-553.6	-1110.6	253.7
<b>Gross Foreign Reserves (US \$m)</b>	432.1	331.4	349.4	433.9	421.3	385.4	291.7
<b>Import Cover (months) at 100% (Goods &amp; Services)</b>	0.8	0.6	0.7	0.9	1.0	0.9	0.5
<b>Exchange Rate:</b>							
<b>US\$/ZAR</b>	8.48	9.65	10.85	12.76	14.66	13.27	13.24
<b>GBP/US\$</b>	1.62	1.7	1.65	1.54	1.2	1.29	1.33

Source: Reserve Bank of Zimbabwe, 2018

**Table 10: Exports of Major Commodities and Total Imports - US\$ Millions**

Year	Tobacco	Gold	Ferro-Alloys	Textiles/Clothing	Total Exports	Total Imports
2001	594	225	82	20	2114	1826
2002	435	159	107	18	1802	1820
2003	321	152	120	28	1670	1778
2004	227	263	185	21	1684	1989
2005	204	191	158	23	1602	1994
2006	207	202	146	16	1732	1966
2007	190	154	141	14	1711	1937
2008	229	94	153	0.2	1660	2630
2009	301	155	70	0.7	1613	3213
2010	384	334	118	2.2	3244	5162
2011	731	599	260	2.4	4416	7562
2012	773	715	126	2.5	3808	6710
2013	877	639	167	2.5	3694	6809
2014	773	624	244	2.0	3558	6306
2015	855	753	181	1.82	3614	6062
2016	933	913	115	0.3	3701	5236
2017*	775	886	279	2.2	3476	4933
2018	904	1,245	278	2.9	4669	6616

Source: Reserve Bank of Zimbabwe, 2018

**Table 11: Zimbabwe Stock Exchange Statistics**

Period	Share Prices (2009=100)		Market Capitalization
	Industrial Shares	Mining Shares	US\$ Millions
2010	151.27	200.40	3,868.14
2012	213.04	47.02	5,482.00
2013	202.12	45.79	5,203.10
2014	162.79	71.71	4,327.10
2015	114.85	23.72	3,073.40
2016	144.53	58.51	4,007.95
2017	333.0	142.4	9,580.57
2018	487.13	227.71	19,424.41

**Source:** Reserve Bank of Zimbabwe, 2018

**Table 12: Selected Economic Indicators**

	2011	2012	2013	2014	2015	2016	2017	2018
<b>ANNUAL MONEY SUPPLY</b>								
<b>GROWTH RATE</b>								
M1 % change	26.7	21.6	1.9	9.9	12.3	34.2	54.7	33.2
M2 % change	31.9	28.1	3.9	11.9	10.2	18.8	39.0	28.4
M3 % change	31.2	27.5	4.6	12.6	8.2	19.1	38.7	28.1
<b>REAL SECTOR /1</b>								
Real GDP: Factor Cost (US\$ m)	4,670.0	16,988.1	17,455.4	17,870.3	18,188.3	18,325.3	19,187.8	
Real GDP Growth rate (%)	14.2	15.8	2.8	2.4	1.8	0.8	4.7	
<b>EXTERNAL DEBT</b>								
Total Long-Term External Debt	8,461.9	8,769.6	9,268.7	10,821.2	9,928.0	9,878.3	10,062.3	11,200
Public and Publicly Guaranteed Debt	8,095.5	8,289.6	8,267.0	8,559.9	8,014.5	7,958.0	8,113.1	9,105.6
Bilateral Creditors	4,797.1	4,789.8	4,945.8	5,269.4	4,875.0	4,907.5	5,037.5	5,158.8
Multilateral Creditors	2,549.8	2,854.8	2,707.2	2,703.6	2,552.5	2,477.4	2,568.3	2,572.9
Private Creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private Non-Guaranteed Long-term	366.4	480.0	1,001.7	2,261.3	1,913.4	1,920.3	1,949.3	2,095.1
Central Bank Loans ( Long Term)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	933.2
Publicly Guaranteed Short-Term	748.6	645.0	614.0	587.0	587.0	573.0	507.2	440.7
Public and Publicly Guaranteed Debt	133.6	30.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve Bank (Assumed Debt)	615.0	615.0	614.0	587.0	587.0	573.0	507.2	440.7
Private Non-Guaranteed Short-term	403.7	216.0	950.3	1,807.2	1,670.9	1,731.2	1,791.6	1,933.3
Private Non-Guaranteed External Debt	770.1	696.0	1,952.0	4,068.5	3,584.3	3,651.5	3,740.9	4,028.5
Total Public & Publicly Guaranteed	8,844.2	8,934.6	8,881.0	9,146.9	8,601.5	8,531.0	8,620.3	10,479.5
External Debt	8,229.2	8,319.6	8,267.0	8,559.9	8,014.5	7,958.0	8,113.1	9,105.6
Total Public External Debt (Excl. RBZ)	62.7%	52.6%	46.5%	46.9%	43.1%	41.5%	39.1%	42.6%
Total Public External Debt / DGP	62.9%	52.9%	53.5%	64.8%	58.1%	56.5%	53.8%	53.4%
<b>RATE OF INFLATION</b>								
End of period	4.90%	2.90%	0.30%	-0.80%	-2.50%	-0.93%	3.46%	42.1%
Period Average	3.50%	3.73%	1.60%	-0.20%	-2.40%	-1.56%	0.90%	10.66%

Source: Reserve Bank of Zimbabwe, 2018; ZIMSTAT, 2018



## **RESERVE BANK OF ZIMBABWE**

**AUDITED FINANCIAL STATEMENTS FOR  
THE YEAR ENDED 31 DECEMBER 2018**

**FINANCIAL STATEMENTS**

**For the year ended 31 December 2018**



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These financial statements were prepared by the Finance Division of the Reserve Bank of Zimbabwe under the direction and supervision of the Director, Ms. Tsitsi Hungwe (PAAB registration number 04556).

## DIRECTORS' REPORT

For the year ended 31 December 2018



The Directors of the Reserve Bank of Zimbabwe ("the Bank", "RBZ") have pleasure in submitting their report for the financial year ended 31 December 2018.

### 1. NATURE OF BUSINESS

1.1 The Reserve Bank of Zimbabwe was established under the Reserve Bank of Zimbabwe Act [Chapter 22:15].

**As required by section 6 of the Reserve Bank of Zimbabwe Act [Chapter 22:15], the following are the functions of the Bank: -**

- 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 operation of the payment system;
- e) to formulate and execute the monetary policy of Zimbabwe;
- 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 organisations 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 subsidiaries of the Bank and their activities are listed below:-

- i) Fidelity Printers and Refiners (Private) Limited**  
-refiners of gold  
-printers of currency and securities.
- ii) Aurex (Private) Limited**  
-producers of gold jewellery and diamond cutting & polishing.
- iii) Export Credit Guarantee Corporation**  
-insurers of Zimbabwe's exports and providers of domestic credit guarantees.  
-providers of short term insurances
- iv) Finance Trust of Zimbabwe (Private) Limited**  
-investment company.
- v) Homelink (Private) Limited**  
-providers of money transfer services, promoting and marketing investments and espousing  
-development of housing schemes for Zimbabweans' living abroad.

**DIRECTORS' REPORT**

For the year ended 31 December 2018



- vi) Carslone (Private) Limited (Dormant)**  
-miners of gold.
- vii) Fiscorp (Private) Limited (Dormant)**  
-administrators of quasi fiscal activities.
- viii) Tuli Coal (Private) Limited (Dormant)**  
-miners of coal.
- ix) Transload (Private) Limited (Dormant)**  
-producers of bio-diesel from jatropha.
- x) Venture Capital Company of Zimbabwe (Private) Limited (Dormant)**  
-financiers of small to medium size private sector enterprises.
- xi) Zimbabwe Asset Management Corporation (ZAMCO) (Private) Limited**  
-purchasers of non-performing loans to strengthen and to resuscitate the financial services sector thus to enhance local production.
- xii) ResZim Investments (Private) Limited**  
-investment Company.

The Bank does not consolidate the results of its subsidiary companies. Refer to 'note 2' of the financial statements on the Bank's basis of preparation of financial statements.

**2.DIRECTORS' RESPONSIBILITY STATEMENT**

The Directors are responsible for the preparation and integrity of the financial statements that present the state of affairs of the Bank. These include statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity for the year then ended and other 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 as outlined in the basis of preparation in 'note 2' and 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 these financial statements. The financial statements are prepared under the historical cost convention except for the revaluation of freehold land and buildings, investment properties, unquoted shares and other assets and liabilities that are denominated in currencies other than the United States dollars (US\$), which are converted at the spot rate (ruling exchange rate) at the reporting date.

**DIRECTORS' REPORT**

For the year ended 31 December 2018



The accounting policies are prepared on the basis of International Financial Reporting Standards (IFRS), except as described in 'note 2' to the financial statements.

The audited financial statements are presented in United States dollars. These were audited by the Bank's independent auditors, Ernst & Young, who were given unrestricted access to all the accounting records and supporting documentation.

**3. BOARD OF DIRECTORS**

The Bank is governed by a Board of Directors appointed by the Minister of Finance and Economic Development in accordance with the Reserve Bank of Zimbabwe Act [Chapter 22:15]. The Board is chaired by the Governor as Executive Chairman and consists of the two Deputy Governors and other appointed non-executive Directors.

**3.1 BOARD MEMBERS**

As provided for by the Reserve Bank of Zimbabwe Act [Chapter 22:15], the Board was constituted as follows:-

Name	Designation
Dr. J.P. Mangudya	Governor and Board Chairman (Executive)
Mrs. R. Likukuma	Deputy Chairman (Independent Non-Executive Director)
Dr. K. Mlambo	Deputy Governor (Executive)
Dr. J.T. Chipika	Deputy Governor (Executive)
Mrs. P. Chapendama	Independent Non - Executive Director
Mr. Z.R. Churu	Non-Executive Director
Mr. C.R. Maradza	Independent Non - Executive Director
Mrs. V. Mudimu	Independent Non - Executive Director
Mr. O.J.S. Mukumba	Independent Non - Executive Director
Mr. L. Murahwa	Independent Non - Executive Director
Mr. J.S. Mutizwa	Independent Non - Executive Director
Mr. M.Z. Nyabadza	Independent Non - Executive Director

**3.2 BOARD COMMITTEES**

The Board has three committees which help it to discharge its mandate. The committees have clearly defined terms of reference setting out their roles, responsibilities and reporting procedures. All the three committees were constituted and each committee held four meetings during the year.

**DIRECTORS' REPORT**

For the year ended 31 December 2018



**The committees are as follows:**

- i. Audit and Oversight Committee,
- ii. Human Resources Committee and
- iii. Banking Sector Stability Committee.

**3.2.1 AUDIT AND OVERSIGHT COMMITTEE**

This committee assists the Board of Directors in fulfilling its oversight responsibilities in relation to the Bank's financial reporting, internal control systems and internal and external audit functions.

Consistent with good corporate governance practice, no Bank executive is a member of the Audit and Oversight Committee. The committee met regularly with the Bank's external auditors and senior management to review accounting, auditing, internal control and financial reporting matters. Both internal and external auditors have unrestricted access to the Audit and Oversight Committee.

**3.2.2 HUMAN RESOURCES COMMITTEE**

The purpose of this committee is to carry out an oversight function with respect to the review and monitoring of the implementation of human resources policies of the Bank.

**3.2.3 BANKING SECTOR STABILITY COMMITTEE**

This committee provides guidance to the Board on banking sector stability.

**4. ACCOUNTING POLICIES**

The accounting policies adopted by the Bank are set out in 'note 3' to the financial statements.

**5. RESULTS OF THE BANK'S OPERATIONS**

The Bank realized a surplus of US\$122 million (2017 surplus: US\$160 million) as indicated below:

	2018 US\$	2017 US\$
	000	000
Surplus from Bank operations	117,536	77,603
Financial assets impairment reversal	4,435	82,661
Surplus for the year	121,971	160,264

Surplus for the year was largely generated from financial markets operations and grants received from Government. The Bank appreciates the Government's continued support. The Bank also realised an impairment reversal of US\$4 million (2017: US\$83 million) which was Government repayment of RBZ legacy debts per the Reserve Bank of Zimbabwe Debt Assumption Act, 2015. These repayments are treated as Government repayment of its loans and advances in the Bank's books which had been previously impaired.

## DIRECTORS' REPORT

For the year ended 31 December 2018



### 6. INTERBANK FACILITY (AFTRADES)

The Bank continued to facilitate the interbank facility underwritten by the African Export Import Bank (Afreximbank), through the African Export Import Bank Trade Debt Backed Securities (AFTRADES) during the year. This provided for surplus banks and deficit banks to lend or borrow from each other, respectively, in a controlled environment. This facility assisted the Bank in its role of lender of last resort to a greater extent. Subsequent to year end, the facility matured in February 2019 and was not rolled over.

### 7. SAVINGS BONDS

The Bank held US\$2.1 billion in savings bonds as at 31 December 2018 which were used to mop up excess liquidity in the market.

### 8. STATUTORY RESERVES

The Bank introduced weekly statutory reserve requirements on RTGS balances for commercial banks with effect from 1 November 2018 at a level of 5% to mop up excess liquidity from the market. A total of US\$393 million was mopped by year end.

### 9. FINANCIAL INCLUSION AND SUSTAINABLE ECONOMIC DEVELOPMENT FACILITIES

The Reserve Bank of Zimbabwe continues to avail funding targeted at various priority groups under the National Financial Inclusion Strategy. During the year, the Bank expanded the productive sector facilities to include a US\$50 million Construction Finance Facility for retooling and working capital requirements for the construction industry in line with the growing economy. This facility, like all other facilities, was disbursed through normal banking channels with an all-inclusive interest rate of 10%. At year end, Revolving Empowerment Facilities amounting to US\$501.1 million had been put in place.

### 10. NOSTRO STABILISATION FACILITIES

The Bank continued to seek and negotiate facilities from offshore for the country. During the year, the Bank accessed US\$1.1 billion from new and existing revolving facilities from Afreximbank, Gemcorp, Afrigrain and Fuel Suppliers. These facilities enabled the Bank to cater for critical importation of petroleum products, electricity, crude cooking oil, medicals, fertilizer, agro chemicals and other raw materials for use by industry. The Bank has continued to leverage on the exports of minerals and tobacco for the repayment of these facilities.

### 11. LOANS AND ADVANCES TO GOVERNMENT AND TO STATUTORY BODIES

As at 31 December 2018, legacy loans and advances to Government and to Statutory Bodies were US\$0.2 billion (2017: US\$0.2 billion) before impairment. The Bank adopted the Banking Regulations SI 205 of 2000, which requires that an analysis of a loan's performance be made to determine the level of impairment. Accordingly, in prior years, the Directors decided to fully impair non performing Government and Statutory Bodies loans due to uncertainty in recoverability. Also, facilities in 'note 10' above, which were later advanced to Government and other advances for fiscal support are part of Loans and Advances to Government and Statutory Bodies.

### 12. CREDIT REGISTRY

Credit Registry System was fully functional during the year. As at 31 December 2018, there were 165 (2017: 108) subscribers to the Credit Registry system comprising of banks, microfinance institutions and other non-bank subscribers. The Credit Registry held 845,672 accounts of which 563,420 were active loan accounts.

**DIRECTORS' REPORT**

For the year ended 31 December 2018

**13. IFRS 9 "FINANCIAL INSTRUMENTS"**

In the 2018 financial year, the Bank applied IFRS 9 Financial Instruments (as revised in July 2014) for the first time. IFRS 9 introduced forward looking impairment model for all financial instruments. Expected Credit Loss (ECL) models have been applied to qualifying financial assets. The Bank engaged consultants to build models for the calculation of ECLs. As at 1 January 2018, calculated ECLs were US\$22,597,904 and at year end the balance was US\$33,842,870. These were calculated on financial securities, all loans & advances on the Bank's Statement of Financial Position and expected rental collections for the year.

**14. BASIS OF FUNDING**

The Bank has made great strides towards self-sustenance with the Government grant reduced by 50% from US\$24 million in 2017 to US\$12 million in 2018. However, the February 2019 Monetary Policy ushered in an interbank rate which resulted in a calculated foreign exchange gap in the Bank's books. The Bank will leverage on statutory surrender requirements from exporters and new lines of credit for the servicing of these foreign loans and facilities. These financial statements were therefore prepared on a going concern basis. The Board believes that the Bank will continue to be a going concern in the foreseeable future.

**APPROVAL OF FINANCIAL STATEMENTS**

The financial statements which appear on pages 16 to 78 were approved by the Board of Directors on 27 March 2019. In line with the Reserve Bank of Zimbabwe Act [Chapter 22:15], the Directors approved the following officials to sign the financial statements:

Dr. J.P. Mangudya  
Mrs. R. Likukuma

Governor and Board Chairman  
Deputy Board Chairman and Audit and Oversight Committee  
Chairman

Dr. K. Mlambo  
Dr. J.T. Chipika  
Mr. A.J. Manase

Deputy Governor  
Deputy Governor  
Bank Secretary and Director Legal and Corporate Affairs

**Dr. J.P. Mangudya**

Governor,  
Board Chairman

**Mrs. R. Likukuma**

Deputy Board Chairman  
Audit and Oversight Committee Chairman

**Dr. J.T. Chipika**

Deputy Governor

**Dr. K. Mlambo**

Deputy Governor

**Mr. A.J. Manase**

Bank Secretary and Director  
Legal and Corporate Affairs

**Date: 24 June 2019**

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE BOARD OF DIRECTORS OF THE RESERVE BANK OF ZIMBABWE AND THE MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT**

#### **Report on the Audit of the Annual Financial Statements**

##### **Adverse Opinion**

We have audited the financial statements of the Reserve Bank of Zimbabwe set out on pages 16 to 78, which comprise the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, the notes to the financial statements which include a summary of significant accounting policies and other explanatory information.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying financial statements have not been prepared in all material respects in accordance with the Reserve Bank of Zimbabwe Act (Chapter 22:15).

##### **Basis for Adverse Opinion**

As explained in note 3.2.2 to the financial statements, the functional currency applied by management is the United States Dollar (US\$) and the financial statements are presented in US\$ on the basis that the official exchange rate as at 31 December 2018 between the Real Time Gross Settlement Electronic Dollar (RTGS\$) and the United States Dollar (US\$) is 1:1.

Zimbabwe witnessed significant monetary and exchange control policy changes in 2016 and increasingly through to 2019. The Reserve Bank of Zimbabwe (RBZ) together with the Ministry of Finance and Economic Development promulgated a series of exchange control operational guidelines and compliance frameworks during this period. Specifically, there was a requirement for banks to separate foreign currency accounts (FCAs) into two categories, namely RTGS FCA and Nostro FCA during October 2018. Although the rate was legally pegged at 1:1, multiple pricing practices and other transactions observed and reported publicly indicated exchange rates other than 1:1 between RTGS and the US\$ amounts. Finally, in February 2019 there was a Monetary Policy Statement which introduced the RTGS Dollar (RTGS\$) and the interbank foreign exchange market.

These events triggered the need for reporting entities to assess whether there was a change in functional currency (from US\$ to RTGS\$) and the 1:1 RTGS\$:US\$ exchange rate as at and prior to the 31 December 2018 year end.

## INDEPENDENT AUDITOR'S REPORT (continued)

Based on International Financial Reporting Standards IAS 21-*The Effects of Changes in Foreign Exchange Rates* ("IAS 21") the functional currency of an entity is *the currency of the primary economic environment in which the entity operates and reflects the underlying transactions, events and conditions that are relevant to it.* In addition, paragraph 2.12 of the *Conceptual Framework for Financial Reporting* ("the Conceptual Framework") prescribes that for financial information to be useful, it *"must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon."* In addition, International Financial Reporting Standards IAS10- *Events after the Reporting Period* ("IAS 10") also requires an entity to adjust the amounts recognised in its financial statements to reflect events after the reporting period that provide evidence of conditions that existed at the end of the reporting period.

We believe that events in the market and subsequent promulgation of the RTGS\$ as a formal currency supports that there was a change in functional currency from US\$ to RTGS\$ and that transactions in the market indicated a different rate between the two currencies despite the legal 1:1 RTGS\$:US\$ exchange rate and this occurred prior to the 31 December 2018 year end. This impacts the basis for measuring transactions that occurred between 01 October and 31 December 2018, the valuation of assets and liabilities at year end as well as the accounting for foreign exchange differences. We believe that the financial statements are required to be adjusted for these changes and that it is inappropriate to provide note disclosures as a proxy for adjusting the financial statements as this is not in conformity with IAS 10.

The financial statements of the Bank include balances and transactions denominated in RTGS\$ that were not converted to US\$ at an RTGS\$:US\$ exchange rate that reflects the economic substance of its value as required by International Financial Reporting Standards ("IFRS"). This is because management applied the legal rate of 1:1 as pronounced by Statutory Instrument 133 of 2016, Statutory Instrument 33 of 2019 and the Monetary Policy Statements of the 22nd of February 2018, 1st of October 2018 and 20th of February 2019.

In terms of the Reserve Bank of Zimbabwe Act (Chapter 22:15), the financial statements are prepared in accordance with accounting policies as determined by the Directors which have been defined as IFRS excluding certain standards as defined in note 2 to the financial statements.

In terms of IAS 21, foreign currency monetary items shall be translated using the closing rate, non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured. Foreign currency transactions shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Therefore, had RTGS\$ been designated as the functional currency and a different RTGS\$:US\$ currency rate been determined and applied by management, almost every account in, and the information provided by way of notes to, the accompanying financial statements, would have been materially different. The effects of the departure from IFRS and the framework as defined by the Reserve Bank of Zimbabwe Act (Chapter 22:15), are pervasive to the financial statements and have not been quantified.

## INDEPENDENT AUDITOR'S REPORT (continued)

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Zimbabwe, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

### Emphasis of matter on the Basis of Preparation

We draw attention to Note 2 to the financial statements, which describes the basis of preparation. The financial statements are prepared to comply with the requirements of the Reserve Bank of Zimbabwe Act (Chapter 22:15) and as a result the financial statements may not be suitable for another purpose.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and which are not materially impacted by the matter described in the Basis for Adverse Opinion section. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our adverse opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Adverse Opinion section we have determined the matter described to be the key audit matter to be communicated in our report. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How the matter was addressed in the audit
<p><b><u>Non-compliance with the Reserve Bank of Zimbabwe Act (Chapter 22:15) in respect of Loans and advances to the Government</u></b></p> <p>Section 11 (a) of the Reserve Bank of Zimbabwe Act (Chapter 22:15) states that 'the Bank shall not lend or advance moneys to, or directly buy, discount or re-discount bills, notes or other obligations from, the State or any fund established by the State so that the amount outstanding at any time exceeds the equivalent of twenty per centum of the previous year's ordinary revenues of the State.' As at 31 December 2018, the Bank had exceeded this limit.</p>	<p>We performed the following audit procedures among others:-</p> <ul style="list-style-type: none"><li>- Obtained confirmation of balances from the different Ministries including the Ministry of Finance and Economic Development.</li><li>- For selected material payments on behalf of the Government, we reviewed supporting documentation for approvals and authorization of the transactions.</li></ul>

## INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matter	How the matter was addressed in the audit
<p><b><u>Non-compliance with the Reserve Bank of Zimbabwe Act (Chapter 22:15) in respect of Loans and advances to the Government (Continued)</u></b></p> <p>We have assessed this matter as significant for our audit for the following reasons: -</p> <ul style="list-style-type: none"> <li>- the balance increased significantly from \$1.9 billion in prior year to \$3.5 billion in the current year and constitutes 41% of the Bank's total assets as at year end and</li> <li>- the balance has exceeded the 20% statutory limit stated above by a significant amount thus not compliant with the provisions of the Reserve Bank of Zimbabwe Act (Chapter 22:15).</li> </ul>	<ul style="list-style-type: none"> <li>- Engaged executive management and those charged with governance to discuss this matter.</li> </ul> <p>We assessed the adequacy of the Bank's disclosures included in section 11 of the Director's report and Note 13 to the financial statements in relation to loans and advances to the Government.</p>

### Other Information

The Directors are responsible for the Other Information. The Other Information comprises the information included in the financial statements that includes the Directors' Report as required by the Reserve Bank of Zimbabwe Act (Chapter 22:15) but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Adverse Opinion section above, the Bank did not comply with the requirements of IAS 21 - Effects of Changes in Foreign Exchange Rates. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Directors' Report affected by the failure to comply with the referred standard.

### Responsibilities of the Directors for the Financial Statements

The Bank's 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), and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

## **INDEPENDENT AUDITOR'S REPORT (continued)**

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

## INDEPENDENT AUDITOR'S REPORT (continued)

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Fungai Kuipa (PAAB Practising Number 335).



Ernst & Young  
Chartered Accountants (Zimbabwe)  
Registered Public Auditors

Harare

25 June 2019

## DIRECTORS' REPORT

For the year ended 31 December 2018



	Notes	2018 US\$ 000	2017 US\$ 000
Interest income	7.1	313,751	151,674
Commission income	7.2	9,767	9,551
Interest and commission expense	7.3	(232,339)	(65,500)
<b>Net interest and commission income</b>		<b>91,179</b>	<b>95,725</b>
Other income	7.4	121,942	65,901
<b>Net interest and commission income after other income</b>		<b>213,121</b>	<b>161,626</b>
Operating expenses	7.5	(95,585)	(84,023)
<b>Surplus for the year before reversal of impairment of financial assets</b>		<b>117,536</b>	<b>77,603</b>
Reversal of financial assets impairment	8	4,435	82,661
<b>Surplus for the year</b>		<b>121,971</b>	<b>160,264</b>
<b>Other comprehensive income (OCI)</b>			
Other comprehensive income to be reclassified to Profit or loss in subsequent periods			
Fair value gain on buildings	21	-	3,114
Fair value gain/(loss) on equity investments	22	18,121	(6,584)
<b>Net gain in other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<b>18,121</b>	<b>(3,470)</b>
<i>Other comprehensive income not to be reclassified to Profit or loss in subsequent period</i>			
<b>Net gain after other comprehensive income not to be classified to profit or loss in subsequent periods</b>		<b>18,121</b>	<b>(3,470)</b>
<b>Total other comprehensive income for the year</b>		<b>18,121</b>	<b>(3,470)</b>
<b>Total comprehensive income for the year</b>		<b>140,092</b>	<b>156,794</b>

## STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2018



	Notes	2018 US\$ 000	2017 US\$ 000
<b>Assets</b>			
Cash and bank balances	9	86,748	292,018
Gold and foreign assets	10	212,310	93,921
Financial securities	11	2,062,178	1,478,746
Other receivables	12	1,659,302	797,111
Loans and advances to Government and Statutory Bodies	13	3,542,571	1,863,549
Other loans and advances	14	791,354	628,695
Other investments	15	23,717	4,495
Investments in subsidiaries	16	122,827	48,767
Non-current assets held for sale	17	750	750
Investment property	18	11,710	13,600
Property and equipment	19	81,348	79,929
<b>Total Assets</b>		<b>8,594,815</b>	<b>5,301,581</b>
<b>Equity and Liabilities</b>			
<b>Capital and reserves</b>			
Share capital	20	2,000	2,000
Share premium	20	98,000	98,000
Revaluation reserve	21	7,112	7,112
Mark to market	22	58,532	40,411
General reserve fund	23	-	-
Accumulated surplus	24	252,952	153,579
<b>Surplus attributable to equity Shareholders</b>		<b>418,596</b>	<b>301,102</b>
<b>Liabilities</b>			
Term Deposits	25	2,697,166	673,674
Bond notes and coins in circulation	26	522,543	344,082
International Monetary Fund facilities	27	472,132	482,259
Foreign liabilities	28	1,594,451	958,274
Deposit accounts	30	2,779,076	2,465,906
Payables	31	110,851	76,284
<b>Total liabilities</b>		<b>8,176,219</b>	<b>5,000,479</b>
<b>Total equity and liabilities</b>		<b>8,594,815</b>	<b>5,301,581</b>

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2018 (Continued)



A handwritten signature in black ink, appearing to read 'Mangudya', written over a horizontal line.

Dr. J.P. Mangudya  
**Governor,  
Board Chairman**

A handwritten signature in black ink, appearing to read 'Likukuma', written over a horizontal line.

Mrs. R. Likukuma  
**Deputy Board Chairman,  
Audit and Oversight Committee Chairman**

A handwritten signature in black ink, appearing to read 'Mlambo', written over a horizontal line.

Dr. K. Mlambo  
**Deputy Governor**

A handwritten signature in black ink, appearing to read 'Chipika', written over a horizontal line.

Dr. J.T. Chipika  
**Deputy Governor**

A handwritten signature in black ink, appearing to read 'Manase', written over a horizontal line.

Mr. A.J. Manase  
**Bank Secretary and Director  
Legal and Corporate Affairs**

**Date: 24 June 2019**

**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2018**


	Share capital US\$	Share premium US\$	General reserve US\$	Mark to Market reserve US\$	Revaluation reserve US\$	Accumulated (deficit)/Surplus US\$	Total US\$
Balance at 1 January 2017	2,000	98,000	-	46,995	3,998	(6,685)	144,308
Surplus for the year	-	-	-	-	-	160,264	160,264
Other comprehensive income	-	-	-	(6,584)	3,114		(3,470)
<b>Balance at 31 December 2017</b>	<b>2,000</b>	<b>98,000</b>	<b>-</b>	<b>40,411</b>	<b>7,112</b>	<b>153,579</b>	<b>301,102</b>
Expected Credit Losses 1 Jan 2018	-	-	-	-	-	(22,598)	(22,598)
Surplus for the year	-	-	-	-	-	121,971	121,971
Other comprehensive income	-	-	-	18,121	-	-	18,121
<b>Balance at 31 December 2018</b>	<b>2,000</b>	<b>98,000</b>	<b>-</b>	<b>58,532</b>	<b>7,112</b>	<b>252,952</b>	<b>418,596</b>

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2018



	2018 US\$ 000	2017 US\$ 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Operating cash flows</b>		
Surplus for the year	121,971	160,264
<b>Adjustment for items not affecting cash flows</b>		
-Government grant treasury bills (refer note 7.4)	(77,100)	-
-Depreciation (refer note 8)	5,194	3,443
-Fair value loss / (gain) on investment property (refer note 18)	1,890	(5,235)
-Fair value gain on property & equipment	-	(13,426)
-(Revaluation) / Impairment of investments	(1,353)	327
-Bad debt	737	48
-Expected credit losses	11,244	-
-Profit on disposal of property and equipment	(16)	(74)
-Sundry assets disposal	(19)	-
-Reversal of financial assets impairment (refer note 8)	(4,435)	(82,661)
-Other accrued interest receivable	(308,726)	(135,962)
-Interest expense (refer note 7.3)	232,339	65,500
-Derecognition of liabilities	(56)	(7,023)
	<b>(18,330)</b>	<b>(14,799)</b>
<b>Operating cash flows before movements in working capital</b>		
Interest and commission paid		
-Interest and commission paid	(21,389)	(4,931)
	<b>(39,719)</b>	<b>(19,730)</b>
<b>Movements in working capital</b>		
Increase in other receivables	(27,706)	(121,759)
(Decrease) / increase in Special Drawing Rights (SDR) holdings	(56,526)	4,544
Decrease in deposit accounts.	313,313	1,871,515
(Increase) / decrease in payables	(554,693)	3,243
Increase in advances	(2,160,751)	(1,652,363)
	<b>(2,486,363)</b>	<b>105,180</b>
<b>Net working capital movements</b>		
	<b>(2,526,082)</b>	<b>85,450</b>
<b>Net cash (outflow) / inflow from operating activities</b>		

## STATEMENT OF CASH FLOWS (Continues)

For the year ended 31 December 2018



	2018 US\$ 000	2017 US\$ 000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investing Activities		
Purchase of shares and financial securities	(213,959)	(93,610)
Proceeds from disposal of property and equipment	88	86
Purchase of property and equipment (refer to note 39)	(8,265)	(9,472)
Net cash from Investing Activities	(222,136)	(102,996)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase / (decrease) in liabilities	2,544,035	(466)
Net cash from Financing Activities	2,544,035	(466)
(Decrease) / Increase in cash and cash equivalents due to revaluation	(1,087)	1,060
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(205,270)</b>	<b>(16,952)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>292,018</b>	<b>308,970</b>
-Balances with foreign banks	286,804	295,359
-Foreign currency	4,114	13,511
-Committed funds	1,100	100
<b>Cash and cash equivalents at end of the year</b>	<b>86,748</b>	<b>292,018</b>
Balances with foreign banks	84,233	286,804
- Foreign currency	1,415	4,114
-Committed funds	1,100	1,100

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2018****1. REPORTING ENTITY**

The Reserve Bank of Zimbabwe is a Statutory Body established in terms of the Reserve Bank of Zimbabwe Act [Chapter 22:15]. The Bank's registered office is number 80 Samora Machel Avenue, Harare.

**2. BASIS OF PREPARATION**

The financial statements of the Bank are prepared and presented as prescribed by 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, listed & other shares and other financial instruments which are denominated in currencies other than the US\$, which are converted at the ruling exchange rate at the reporting date.

**2.1 Financial Reporting Framework**

The Bank presents its statement of financial position in order of liquidity. The accounting policies are prepared on the basis of International Financial Reporting Standards (IFRS), except as described below.

**2.1.1 IFRS 3 Business Combinations and IFRS 10****Consolidated Financial Statements**

The financial statements of the subsidiary companies of the Bank are not consolidated. 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. This is however, not in accordance with both IFRS 3 Business Combinations and IFRS 10 Consolidated Financial Statements which require that an entity (the parent) that controls one or more other entities (subsidiaries) should present consolidated financial statements.

**2.1.2 IAS 21 Effects of changes in foreign exchange rates**

Exchange gains and losses are accounted for in accordance with the provisions of section 34 of the Reserve Bank of Zimbabwe Act [Chapter 22:15] which states that all exchange losses and gains are borne by the Bank on account of the Government of Zimbabwe. Therefore, these are held as either receivables/payables (see note '31') on the statement of financial position since the Bank is required to pay the Government of Zimbabwe in the event of a gain or receive from the Government of Zimbabwe in the event of a loss. This however does not conform to IAS 21 - effects of changes in foreign exchange rates, which requires that all realised and unrealised foreign exchange gains and losses should be recognised in the statement of profit or loss and other comprehensive income.

**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 adjustments in the subsequent year.

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 6' to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****3.1 Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms.

**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 income**

The Bank recognises fees on an accrual basis from licensing services in accordance with the substance of the underlying transaction. Also, the Bank recognises income from facility fees from its money market activities. Facility fees are recognised using the effective interest rate of the average life of the underlying asset. Due to the short term nature of the loans and advances, the facility fees have been amortised equally over the term of the loan as an estimation of the effective interest rate.

**3.1.3 Commission income**

The Bank provides RTGS services to financial institutions. Revenue from commission income is recognised when control of the services is transferred to the financial institution at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services. The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring to financial institutions.

**3.1.3 Dividend income**

Dividend income from investments is recognised when the dividend has been declared.

**3.1.4 Other income**

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

**3.1.5 Rental income**

Rental income arising from operating leases on investment property is accounted for on a straight line basis over the lease term.

**3.1.6 Government grant**

The Bank recognizes income related to Government grants as and when it is received.

**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.

In terms of section 34(1) of the Reserve Bank of Zimbabwe Act [Chapter 22:15], any exchange gains and losses arising on the translation of monetary foreign assets and liabilities and or the settlement of 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 either "other receivables" or "other payables" on the statement of financial position.

**3.2.2 Presentation and functional currency**

Since 2009 Zimbabwe has been using multi-currencies as legal tender. The United States dollar (US\$) was the principal trading currency and was both the unit of account and settlement, thereby becoming the reporting currency in the country. The US\$ became the preferred currency in the economy as a store of value and wealth. Large fiscal deficits led to creation of electronic dollars. This led to gradual imbalance between the hard currency and the electronic dollars. Also, the current account deficit widened.

To boost exports, Government, through the RBZ introduced bond notes in 2016, as an export incentive inclusive of diaspora remittances. The incentive was meant to increase exporters' competitiveness and foreign currency inflows into the country. These incentives were paid at levels between 2.5% to 5% at the initial stage and were gradually increased to take into account macroeconomic variables. The bond notes, bond coins and RTGS co - circulated with US\$ at 1:1.

During the year, delays in foreign payments and multiple pricing (US\$, bond note, bond coin or RTGS) were witnessed in the market, depending on the mode of payment. In October 2018, the RBZ directed banks to open separate FCA Nostro and FCA RTGS accounts, though maintaining the parity 1:1 status.

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2018**

The Bank's mode of payment consisted of US\$, bond notes, bond coins and RTGS. Foreign payments were paid for in US\$ or other equivalent hard currencies. Also, the Bank allocated US\$ to key sectors of the economy requiring foreign currency at the rate of 1:1 with bond notes, bond coins and RTGS throughout the year.

The Directors, having taken note of the above information, have assessed in terms of IAS 21 if there was a change in functional currency during the year. The assessment encompassed deliberations on whether the aforementioned modes of payment may represent different forms of currency. The Directors concluded that the US\$ was the functional and presentation currency for the year ended 31 December 2018.

**3.3 Employee benefits****3.3.1 Retirement benefit costs**

The Bank contributes towards a defined contribution plan. Contributions to this plan are recognised as an expense in the statement of profit or loss and other comprehensive income in the periods in which services are rendered by the employees.

**3.3.2 Pension scheme**

The Bank and its employees contribute 12% and 6% of pensionable earnings respectively to the Fintrust Pension Fund. The fund is a defined contribution fund, the assets of which are held in a separate trustee administered fund.

**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, when 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 and Capital Gains Tax in terms of the Income Tax Act [Chapter 23:06] and the Capital Gains Tax Act [Chapter 23:01].

**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 reporting date, 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. Property and equipment are revalued after three years in accordance with the Bank's accounting policy. 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 cost less accumulated depreciation and impairment losses, if any. When significant equipment is required to be replaced at intervals, the Bank depreciates them separately based on their specific useful lives. All other repairs and maintenance costs are recognised in profit or loss as incurred.

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2018**

Depreciation is charged so as to write off the acquisition 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	50 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 sale 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.

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

**3.7 Financial instruments**

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

All financial assets and liabilities are initially recognised on the trade date i.e., the date the Bank becomes a party to the contractual provisions of the instrument. The classification of financial instruments at initial recognition depends on their purpose and characteristics and management's intention in acquiring them. The Bank's financial instruments consist primarily of cash and deposits with banks, equity investments, loans and advances to customers,

customer deposits, Treasury Bills held to maturity, amounts due to banks, loans and borrowings.

**3.7.1 Financial assets**

Financial assets are classified into the following categories: financial assets 'at fair value through other comprehensive income' (FVT OCI) and amortised cost. The classification depends on the nature and purpose of the financial asset and it is determined at the time of initial recognition.

The Bank's main financial assets are loans and advances, financial securities, FVTOCI investments and other receivables.

**3.7.1.1 Loans and receivables**

Receivables, loans and advances to Government and to Statutory Bodies, other loans and advances not quoted on active markets are classified as loans and receivables. These include loans to subsidiaries as well as amounts due from the Government of Zimbabwe and Statutory Bodies. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method less impairments. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables.

**3.7.1.2 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 the reporting date. Gains and losses arising from movements in exchange rate of foreign assets and in the fair value of 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].

**3.7.1.3 Financial assets designated at fair value through other comprehensive income (FVTOCI)**

FVTOCI financial assets are equity investments. After initial measurement, FVTOCI financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income (OCI) and posted in the mark to market reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income.

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2018**

When the investment is determined to be impaired, the cumulative loss is reclassified from the mark to market reserve to the statement of profit or loss as impairment loss. Dividend received whilst holding FVTOCI financial assets is reported as dividend income.

**3.7.1.4 Financial securities**

Non derivative financial assets with fixed or determinable payments and fixed maturities are classified as financial securities when the Bank has the positive intention and ability to hold them to maturity. After initial measurement, financial securities are measured at amortised cost using the effective interest rate method, less, impairment. The effective interest rate amortisation is included as finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss as finance costs. The Bank's investments in Treasury Bills and other deposits have been classified as financial securities.

**3.7.2 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") facilities, domestic loans, payables, foreign loans, other deposits payable and deposit accounts.

IMF facilities, foreign loans, domestic loans, other deposits payable and interest bearing deposit accounts are subsequently measured at amortised cost using the effective interest rate method.

**3.7.2.1 Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value

through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 is met. The Bank has not designated any financial liability as fair value through profit or loss.

**3.7.2.2 Loans and borrowings**

After initial measurement, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or cost that are an integral part of the EIR. The effective interest amortised is included as interest expense in the statement of profit or loss.

This category generally applies to interest bearing loans and borrowings.

**3.8 Currency in circulation**

Currency issued by the Bank represents a claim on the Bank in favour of the holder. The liability for currency in circulation is recorded at face value in the financial statements. Currency in circulation represents the face value of notes and coins issued to commercial banks by the Reserve Bank of Zimbabwe. Unissued notes and coins held by the Bank in the vaults are not part of the currency in circulation.

**3.8.1 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 realize 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.

**3.8.2 Impairment and provisioning policies**

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Bank to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



Specifically, IFRS 9 requires the Bank to recognise a loss allowance for expected credit losses on:

- i. Debt investments measured subsequently at amortised cost or at FVTOCI;
- ii. Lease receivables;

In particular, IFRS 9 requires the Bank to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit impaired financial asset), the Bank is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

For previously impaired legacy Government debt, the Bank has decided to maintain them fully impaired as required by the Banking Regulations S1 205 of 2000.

### 3.8.3 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 asset 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 discharged, 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 the consideration received (including any new asset obtained less any new liability assumed), and any cumulative gain that had been recorded in other comprehensive income is recognised in profit or loss.

### 3.9 Investments in subsidiaries and joint ventures

A subsidiary is an investment wherein the Bank controls the investee. The Bank controls an investee when it has power to govern the financial and operating policies, is exposed to variable returns from its involvement with the investee and has ability to use its power to affect the amount of the investee's returns.

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 cost. Subsequent to initial recognition, the investments in subsidiaries or joint ventures are carried at cost less any accumulated impairment. Subsidiaries and joint ventures are tested for impairment on an annual basis and impairments are accounted for through statement of profit or loss.

### 3.10 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.

### 3.11 Leases

The Bank has entered into commercial property leases on its investment property portfolio. The Bank has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases. Rental income and expenditure under operating leases is accounted for through profit or loss on a straight line basis, over the period of the lease.

### 3.12 Non-current assets held for sale

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

- i. they are available for immediate sale;
- ii. management is committed to a plan to sell;
- iii. it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
- iv. an active programme to locate a buyer has been initiated;
- v. the asset is being marketed at a reasonable price in relation to its fair value; and
- vi. the sale is expected to be completed within 12 months from the date of classification.

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

- i. their carrying amount immediately prior to being classified as held for sale in accordance with the Bank's accounting policy, or
- ii. fair value less cost to sell.

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2018



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

#### 3.13 Fair value measurement

The Bank measures non-financial assets, such as investment properties, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- i. In the principal market for the asset or liability, or
- ii. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when

pricing the asset or liability, assuming that market participants act in their economic best interest. The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- i. Level 1. Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- ii. Level 2. Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- iii. Level 3. Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### 3.14 Rounding Off

Amounts in these financial statement are rounded to the nearest thousand (000) unless otherwise stated.

#### 3.15 Comparative Information

Certain comparative information may be reclassified where necessary for consistency with the current year presentation.

#### 4. STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

The Bank has not adopted early any standard, interpretation or amendment that has been issued but is not yet effective.

##### 4.1 IFRS 16 "Leases"

Effective for annual periods beginning on or after 1 January 2019. IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose 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. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Bank does not expect the standard to have material financial impact in future financial statements.

#### 5. NEW STANDARDS AND INTERPRETATIONS IN ISSUE

##### 5.1 IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).

The standard was published by IASB on 28 May 2014. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts.

IFRS 15 provides a principles based approach for revenue recognition and introduces the concept of recognising revenue for performance obligations as they are satisfied. Application of the standard did not have material impact on the Bank's financial statements.

##### 5.2 IFRS 9 "Financial Instruments"

In the 2018 financial year, the Bank applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



Additionally, the Bank adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

- i. The classification and measurement of financial assets and financial liabilities,
- ii. Impairment of financial assets, and

Details of these new requirements as well as their impact on the Bank's financial statements are described below.

The Bank has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

### 5.2.1 Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Bank has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Bank has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

#### Specifically:

Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;

All other debt investments and equity investments are measured subsequently at fair value through other comprehensive income (FVTOCI).

Despite the foregoing, the Bank may make the following irrevocable election/designation at initial recognition of a financial asset:

The Bank may irrevocably elect to present subsequent changes in

fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and, the Bank may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Bank has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (5.2.2) below.

The Directors reviewed and assessed the Bank's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Bank's financial assets as regards their classification and measurement:

The Bank's investments in equity instruments (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available for sale financial assets and were measured at fair value at each reporting date under IAS 39 have been designated as at FVTOCI. The change in fair value on these equity instruments continues to be accumulated in revaluation reserve.

Financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2018**



Changes in classification of the Bank's financial assets upon application of IFRS 9.

	<b>IAS 39</b> <b>Classification and measurement</b>	<b>IFRS 9</b> <b>Classification and measurement</b>
<b>Financial Assets</b>		
Cash and bank balances	Amortised cost (loans and receivables)	Amortised cost
Investments in SWIFT	FVTOCI (available for sale)	FVTOCI
Investments in Afreximbank	FVTOCI (available for sale)	FVTOCI
South African treasury bills	Amortised cost (held to maturity)	Amortised cost
Financial securities (treasury bills)	Amortised cost (held to maturity)	Amortised cost
Other receivables	Amortised cost (loans and receivables)	Amortised cost
Loans and advances to Government and statutory bodies	Amortised cost (loans and receivables)	Amortised cost
Other loans and advances	Amortised cost (loans and receivables)	Amortised cost
Other investments	FVTOCI (available for sale)	FVTOCI
Investments in subsidiaries	FVTOCI (available for sale)	FVTOCI

None of the reclassifications of financial assets have had any impact on the Bank's financial position, profit or loss, other comprehensive income or total comprehensive income in either year.

**5.2.2 Impairment of financial assets**

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Bank to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Bank to recognise a loss allowance for expected credit losses on:

- i. Debt investments measured subsequently at amortised cost or at FVTOCI;
- ii. Lease receivables -rental income

In particular, IFRS 9 requires the Bank to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Bank is

required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for lease receivables in certain circumstances.

**5.2.3 Classification and measurement of financial liabilities**

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Application of IFRS 9 does not lead to any reclassification and measurement of financial liabilities.

**5.2.4 Disclosures in relation to the initial application of IFRS 9**

There were no financial assets or financial liabilities which the Bank had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Bank has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Bank has elected to designate as at FVTPL at the date of initial application of IFRS 9.

The application of IFRS 9 has no impact on the cash flows of the Bank.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



## 6. CRITICAL JUDGMENTS 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 estimates that have a significant effect on the amounts recognised in the financial statements.

### 6.1 Property and equipment 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 policy allows revaluation of its property and equipment after every three-year interval. The Bank's land and buildings were independently revalued based on open market values as at 31 December 2017, by external property valuers.

### 6.2 Fair valuation of investment properties

The fair value of investment properties at year-end was independently determined by the Bank's property valuers. This resulted in a fair value decrease of US\$1.9 million. The Directors have reviewed the results of the independent valuation for reasonableness and they believe the investment properties have been fairly valued. The key assumptions used in the fair value of investment property are further explained below:

The valuations were conducted in accordance with International Valuation Standards using the following assumptions:

- i. The properties have no significant structural defects and that any defects would not require more than the normal level of maintenance and expenditure
- ii. Each property is not contaminated and is not adversely affected by any existing or proposed environmental law.
- iii. There are no abnormal ground conditions, or 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 and structural or latent defect.
- iv. 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 key assumptions used and the inputs into the valuation methods are disclosed in 'note 37'.

### 6.3 Impairment of loans and advances

The Bank has adopted IFRS 9 which introduced a forward looking impairment model for all financial instruments. Expected Credit Loss (ECL) model has been applied to financial assets.

### 6.4 Investments in subsidiaries and unquoted shares

Investments in subsidiaries are stated at cost less accumulated impairment, if any. The Bank tests all investments in subsidiaries for impairment on an annual basis. The breakdown of investments and impairments are disclosed in 'note 16'.

The Bank's investments in unquoted shares are in Infrastructural Development Bank of Zimbabwe (IDBZ) and African Import Export Bank (Afreximbank). The Bank engaged services of professional consultants for the independent fair valuation of its investments in IDBZ and Afrximbank. The Directors have reviewed the results of the independent valuations for reasonableness and they believe the investments in unquoted shares have been fairly valued. The key methods and assumptions used and the inputs into the valuation methods are disclosed in 'note 10' and 'note 15' respectively.

### 6.5 Provision for legal disputes

The Bank's legacy legal issues continued during the year. The Directors do not believe that there will be an outflow of resources from the Bank arising from these cases other than already provided for, except from the cost of defending the cases. Consequently, no additional provision has been made for these cases.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



7. INCOME AND EXPENDITURE	2018 US\$ 000	2017 US\$ 000
<b>7.1 Interest and commission income comprise:</b>		
<b>Interest income</b>		
- Interest on Treasury Bills (foreign and local Treasury Bills)	95,057	42,843
- Interest on Local and foreign bank balances	350	544
- Interest on Government loans & advances	177,115	87,475
- Interest on advances to financial institutions	41,229	20,812
	<b>313,751</b>	<b>151,674</b>
 Interest earning assets as at 31 December 2018 were US\$6.3 billion (2017: US\$4 billion). (See note 35.2) The average interest rate on assets was 6.4% per annum (2017: 6.1%).		
<b>7.2 Commission earned (RTGS)</b>	<b>9,767</b>	<b>9,551</b>
The performance obligation is the delivery of RTGS services and is satisfied upon delivery of the service and payment made.		
<b>7.3 Interest and commission expense comprises:</b>		
- interest expense on loans and advances	190,323	40,095
- interest on interbank facilities	42,016	25,405
	<b>232,339</b>	<b>65,500</b>
 Interest expense consists of interest on interbank advances, savings bonds, loans and borrowings. Interest bearing liabilities as at 31 December 2018 were US\$4 billion (2017: US\$1.5 billion). The average interest rate charged on liabilities was 7.6% per annum (2017:6.5%).		
<b>7.4 Other income comprises:</b>		
Dividends from shares (local and foreign)	3,549	2,767
Government grant (budgetary support)	12,000	24,000
Government Grant Treasury Bills	77,100	-
Licensing fees, customs declaration (CD) forms	7,371	13,678
Mark to market revaluation on investment property	-	5,235
Reversal of devaluation - buildings	-	13,426
Other income (derecognition of liabilities)	56	5,911
Fees received and other income	21,023	-
Profit on disposal of property and equipment	35	74
Rent receivable	808	810
	<b>121,942</b>	<b>65,901</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



	2018 US\$ 000	2017 US\$ 000
<b>7. INCOME AND EXPENDITURE (continued)</b>		
<b>7.5 Operating expenses</b>	<b>95,585</b>	<b>84,023</b>
<b>Included in operating expenses are:</b>		
Auditors' remuneration	274	209
Advertising Expenses	480	412
Bond notes & coins printing	13,847	17,217
Computer software licences	2,220	2,267
Depreciation of property and equipment	5,194	3,443
Impairment of unquoted investments	3,312	327
Impairment of investment property	1,890	-
Expected credit losses	11,244	-
Repairs, maintenance and Bank vehicle expenses	1,520	966
Gratuity	1,891	1,300
Utility bills and telecommunication	1,679	1,684
<b>Employee benefits</b>	<b>36,224</b>	<b>41,419</b>
-salaries	25,977	23,914
-staff bonuses	1,660	1,449
-medical expenses	1,593	1,595
-Pension & NSSA contributions	2,417	10,610
-other expenses	4,577	3,851
Directors' fees	367	385
<b>8. REVERSAL OF FINANCIAL ASSETS IMPAIRMENT</b>		
Movements in provision for doubtful debts comprise:		
Change in provision for doubtful debts (Gvt) (see note 13.1)	4,435	82,661
	<b>4,435</b>	<b>82,661</b>
<b>9. CASH AND BANK BALANCES</b>		
Nostro accounts balances	83,909	286,804
Bank balances/cash at hand	1,739	4,114
Committed Funds	1,100	1,100
	<b>86,748</b>	<b>292,018</b>

Cash and Bank Balances comprise cash on hand and demand deposits with local and foreign banks (including SDR balances held at the International Monetary Fund).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



	2018 US\$ 000	2017 US\$ 000
<b>10. GOLD AND FOREIGN ASSETS</b>		
Gold (coins)	515	523
Foreign investments	206,149	86,792
	<b>206,664</b>	<b>87,315</b>
<b>Encumbered assets</b>	<b>5,646</b>	<b>6,606</b>
South African Treasury Bills (Financial securities)	5,646	6,606
	<b>212,310</b>	<b>93,921</b>
<b>Foreign investments reconciliation</b>		
Opening balance	86,792	90,832
Additional shares	2,932	2,526
Short term investment - Warrants	110,000	-
Fair value adjustment	6,425	(6,566)
<b>Balance at year end</b>	<b>206,149</b>	<b>86,792</b>

Foreign investments are shares and other investments in African Export-Import Bank (Afreximbank) and SWIFT. The following valuation methods were used to calculate the value of the Bank's shareholding in Afreximbank:

METHOD OF VALUATION	ASSIGNED WEIGHT
Discounted Free Cash flow	20%
Dividend Valuation	65%
Net Asset Value	15%

The weights were assigned based on the strength and weakness of each method and are based on the consultant's professional judgement. This is consistent with the method used in the prior year.

The South African Treasury Bills of ZAR82.5 million are financial securities investment at the South African Reserve Bank. These Treasury Bills were pledged as security for the South African overdraft facility of ZAR75 million. The movement in the investments is mainly due to US\$/ZAR fluctuations.

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	2018 US\$ 000	2017 US\$ 000
<b>11. FINANCIAL SECURITIES</b>		
<b>Zimbabwe Treasury Bills</b>	<b>2,062,178</b>	<b>1,478,746</b>
<b>12. OTHER RECEIVABLES</b>		
Receivables	132,287	69,688
Prepayments	7,568	7,934
Impairment loss (note 12.1)	(1,092)	(1,092)
Expected credit losses (note 35.5)	(365)	-
	<b>138,398</b>	<b>76,530</b>
Export Incentives	1,078,689	332,451
Government IMF drawdown	434,499	383,860
IMF interest and charges paid	7,716	4,270
<b>Balance at year end</b>	<b>1,659,302</b>	<b>797,111</b>

Export incentives are receivable from Government and they do not accrue interest. Receivables include accrued interest on other advances not yet matured. Government IMF drawdown is made up of SDR294 million (2017: SDR258 million) withdrawn by Government from its IMF SDR allocation. These balances are recorded at the spot exchange rate on the day of the transaction. Government liquidated SDR36.5 million (US\$50.6 million) during the year.

	2018 US\$ 000	2017 US\$ 000
<b>12.1 Impairment allowance reconciliation</b>		
Opening Balance	(1,092)	(1,092)
Expected credit losses (note 35.5)	(365)	-
<b>Balance at year end</b>	<b>(1,457)</b>	<b>(1,092)</b>
<b>13. LOANS AND ADVANCES TO GOVERNMENT AND STATUTORY BODIES</b>		
Loans and advances Loans and advances (legacy debt)	162,554	166,989
Government advances	2,836,616	1,184,227
Government loans	706,236	679,322
Impairment loss	(162,554)	(166,989)
Expected credit losses (note 35.5)	(281)	-
	<b>3,542,571</b>	<b>1,863,549</b>
<b>13.1 Movement of impairment</b>		
Balance at the beginning of the year	(166,989)	(249,650)
Movement for the year	4,435	82,661
Expected credit losses (note 35.5)	(281)	-
<b>Balance at the end of the year</b>	<b>(162,835)</b>	<b>(166,989)</b>

The movement in loans and advances (legacy debt) is a result of Government repayment of a previously provided for loan and expected credit losses arising from the application of IFRS 9.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



	2018 US\$ 000	2017 US\$ 000
<b>14. OTHER LOANS AND ADVANCES</b>		
<b>Advances</b>		
-Interbank advances	385,817	231,786
-Loans to subsidiaries	233,654	231,673
-Finance Lease	-	1,500
<b>Private sector loans</b>		
-Advances	205,816	164,537
-Fertilizer debtors (legacy)	748	748
	<b>826,035</b>	<b>630,244</b>
Impairment of other loans and advances	(1,485)	(1,549)
Expected credit losses (note 35.5)	(33,196)	-
	<b>791,354</b>	<b>628,695</b>
<b>Movement in impairment of other loans and advances</b>		
Balance at the beginning of the year	(1,549)	(1,549)
Movement	64	-
Expected credit losses (note 35.5)	(33,196)	-
	<b>(34,681)</b>	<b>(1,549)</b>

**Interbank and other advances**

Interbank advances consists of Afrades and loans to banks.

**Loans to subsidiaries**

Fidelity Printers and Refineries' administered gold facility constitute the bulk of loans to subsidiaries.

**Private Sector Advances**

Private sector loans are advances made by the Bank to strategic quasi-Government institutions and other facilities.

	2018 \$000	2017 \$000
<b>15. OTHER INVESTMENTS– IDBZ</b>		
Opening balance	4,495	4,734
Additional Investment	2,873	88
Fair value (loss)	-	(327)
Revaluation	16,349	-
<b>Total</b>	<b>23,717</b>	<b>4,495</b>

The investments in unquoted local shares are classified as fair value through other comprehensive income. The Bank's unquoted local shares refer to 12.56% shareholding in IDBZ. The Bank engaged professional consultants who are experienced in the valuation of entities, to evaluate the fair value of the Bank's investment in unquoted local shares. The Net Asset Valuation method was used in the valuation of IDBZ. It was deemed appropriate model of valuation because most of IDBZ's assets and liabilities are carried at fair value.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



		2018 US\$ 000	2017 US\$ 000
<b>16</b>	<b>INVESTMENT IN SUBSIDIARIES</b>		
<b>16.1</b>	<b>Investment in subsidiaries at cost less impairment losses</b>		
	<b>Shareholding</b>		
	Fidelity Printers & Refiners (Private) Limited	16,648	16,648
	Aurex (Private) Limited (note 15.2)	14,300	4,300
	Homelink (Private) Limited	29,679	10,679
	Export Credit Guarantee Corporation (ECGC)	14,355	1,970
	Zimbabwe Asset Management Corporation (ZAMCO)	35,288	288
	Tuli Coal (Private) Limited	12,057	11,570
	Reszim Investments (Private) Limited	-	-
	Finance Trust of Zimbabwe (Private) Limited	-	-
	Carstone (Private) Limited	-	3,312
	Fiscorp (Private) Limited	-	-
	Transload (Private) Limited	500	-
	Venture Capital Company of Zimbabwe (Pvt) Ltd	-	-
		<b>122,827</b>	<b>48,767</b>

Investments in subsidiaries are carried at cost less impairment losses. All of the above subsidiaries are incorporated in Zimbabwe. During the year, the Bank capitalised some of its subsidiaries to the tune of US\$77 million.

		2018 US\$ 000	2017 US\$ 000
<b>17.</b>	<b>NON-CURRENT ASSETS HELD FOR SALE</b>		
	Buildings	750	760
	Devaluation	-	(10)
	<b>Balance at the end of the year</b>	<b>750</b>	<b>750</b>

The Bank continue to report these assets as held for sale. Subsequent to year end, property worth US\$150,000 was disposed.

		2018 US\$ 000	2017 US\$ 000
<b>18.</b>	<b>INVESTMENT PROPERTY</b>		
	Opening balance	13,600	8,365
	Fair value adjustment	(1,890)	5,235
	<b>Closing balance</b>	<b>11,710</b>	<b>13,600</b>

The Bank's investment property was revalued at 31 December 2018 by independent professional valuers. 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. Refer to "note 6.2" and "note 37" for the key valuation assumptions and inputs.

The following amounts were recognised in the statement of comprehensive income as a result of rentals from the investment property held:

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	<b>2018 US\$ 000</b>	<b>2017 US\$ 000</b>
Rental income	808	810
Direct operating expenses from property that generated rental Income	(72)	(87)
	<b>736</b>	<b>723</b>

The Bank leases (operating lease) its investment properties to various tenants. The lease agreements are renewable on an annual basis. Future minimum lease payments as at 31 December 2018:

<b>Up to 1 Year</b>	<b>2 to 5 Years</b>	<b>More than 5 Years</b>
<b>US\$ 807,804</b>	-	-

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



## 19. PROPERTY AND EQUIPMENT (2018).

	Land US\$ 000	Buildings US\$ 000	Furniture, equipment and machinery US\$ 000	Motor vehicles US\$ 000	Total US\$ 000
<b>Cost</b>					
<b>At 1 January 2017</b>	242	63,085	8,294	5,218	76,839
Additions	-	-	3,360	1,016	4,376
Disposals	-	-	(86)	(450)	(536)
Revaluation	(32)	10,575	-	-	10,543
<b>At 31 December 2017</b>	<b>210</b>	<b>73,660</b>	<b>11,568</b>	<b>5,784</b>	<b>91,222</b>
Additions	-	-	2,248	4,437	6,685
Disposals	-	-	(124)	(1,233)	(1,357)
<b>At 31 December 2018</b>	<b>210</b>	<b>73,660</b>	<b>13,692</b>	<b>8,988</b>	<b>96,550</b>
<b>Accumulated Depreciation</b>					
<b>At 1 January 2017</b>	-	4,628	5,296	4,457	14,381
Charge for the year	-	1,518	1,605	320	3,443
Disposals	-	-	(74)	(450)	(524)
Depreciation Adjustment	-	(6,007)	-	-	(6,007)
<b>At 31 December 2017</b>	<b>-</b>	<b>139</b>	<b>6,827</b>	<b>4,327</b>	<b>11,293</b>
Charge for the year	-	1,804	2,255	1,135	5,194
Disposals	-	-	(124)	(1,161)	(1,285)
<b>At 31 December 2018</b>	<b>-</b>	<b>1,943</b>	<b>8,958</b>	<b>4,301</b>	<b>15,202</b>
<b>Net Book Values</b>					
<b>At 31 December 2018</b>	<b>210</b>	<b>71,717</b>	<b>4,734</b>	<b>4,687</b>	<b>81,348</b>
<b>At 31 December 2017</b>	<b>210</b>	<b>73,521</b>	<b>4,741</b>	<b>1,457</b>	<b>79,929</b>



## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2018



	2018 US\$ 000	2017 US\$ 000
<b>24. ACCUMULATED SURPLUS/ (DEFICIT)</b>		
Opening Balance	153,579	(6,685)
Movement	121,971	160,264
Expected credit losses	(22,598)	-
Closing balance	<b>252,952</b>	<b>153,579</b>
<b>25. TERM DEPOSITS</b>		
Savings Bonds	2,135,541	165,175
Short term deposits	485,460	483,422
Other	76,165	20,506
	<b>2,697,166</b>	<b>669,103</b>
<b>26. BOND NOTES AND COINS IN CIRCULATION</b>		
Bond Notes	435,985	289,828
Bond Coins	86,558	54,254
	<b>522,543</b>	<b>344,082</b>
<b>27. INTERNATIONAL MONETARY FUND FACILITIES</b>		
Net cumulative SDR allocations	470,895	481,022
IMF No.1 and 2	1,237	1,237
	<b>472,132</b>	<b>482,259</b>
The Special Drawing Rights (SDR) amounts equivalent owed to IMF SDR allocations and PRGT were as follows:		
	<b>2018 SDR</b>	<b>2017 SDR</b>
Net Cumulative SDR allocations	338,581,039	338,581,039
IMF No 1 and 2	-	-
	<b>338,581,039</b>	<b>338,581,039</b>

The Special Drawing Rights (SDR) amounts equivalent owed to IMF SDR allocations and PRGT were as follows:

The IMF No 1 and 2 accounts are denominated in US\$. The exchange rate applied, USD/SDR 1.39078 (2017, USD/SDR 1.420700)

## NOTES TO THE FINANCIAL STATEMENTS

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**28. FOREIGN LIABILITIES**

Aggregated foreign loans
Short term foreign deposits
PTA accounts
Foreign payables
Other deposits
Interest accrued

2018 US\$ 000	2017 US\$ 000
1,328,762	833,361
208,263	77,580
4,249	4,046
3,879	12,854
34,316	30,433
14,982	4,571
<b>1,594,451</b>	<b>962,845</b>

Included in foreign liabilities are facilities and lines of credit from regional and international institutions which the Bank secured for the importation of critical inputs such as electricity, fuel, raw materials for industries and medical supplies.

South African Reserve Bank overdraft is included in foreign loans. The facility is secured by encumbered assets in the form of South African Treasury Bills held at the South African Reserve Bank.

**30. DEPOSIT ACCOUNTS****Local Financial institutions**

-Bankers RTGS
-Government FCAs (legacy)
-Statutory reserves
-Corporates FCAs
-Other
-Short term local deposits

2,197,302	2,197,180
41,382	41,469
393,439	-
-	56
129,051	90,167
17,902	137,034
<b>2,779,076</b>	<b>2,465,906</b>

**31. PAYABLES**

Local Payables
Gold & foreign currency adjustment account

69,093	44,869
41,758	31,415
<b>110,851</b>	<b>76,284</b>

## NOTES TO THE FINANCIAL STATEMENTS

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**31.1 LEAVE PAY PROVISION RECONCILIATION**

Opening balance 1 January

Net provisions accrued

Closing balance 31 December

	2018 US\$ 000	2017 US\$ 000
Opening balance 1 January	1,411	1,370
Net provisions accrued	117	41
Closing balance 31 December	<b>1,528</b>	<b>1,411</b>

The leave pay provision is included in the payables balance at year end.

**31.2 Gold and Foreign Currency Adjustments (GFCA account)**

At the reporting date, the Bank had a balance of US\$42 million unrealised foreign exchange gains. In accordance with section 34 of the RBZ Act [Chapter 22:15] any realised exchange gains or losses are for the account of Government. Any payment of the exchange gains to the Government shall be made in accordance with arrangements approved by the Ministry of Finance and Economic Development. In the same light, any exchange losses are receivable from Government of Zimbabwe and any payment by the Government of Zimbabwe on the receivable balance shall be upon request by the Bank. The GFCA account does not accrue any interest.

**32 CONTINGENTS AND COMMITMENTS**

**32.1** The Bank had contingent liabilities of US\$30,669,753 (2017: US\$12,390,728) as at 31 December 2018. The increase relates to a legal case in dispute. The Bank believes the outcome of the negotiations are uncertain.

**32.2** As at the date of approval of these financial statements, guarantees/letters of intent which amounted to US\$551 million were made to third parties that may result in exposures to the Bank in the event of default or a call for specific performance by those counterparties.

**33. CAPITAL COMMITMENTS**

Authorised and contracted:

Authorised and uncontracted:

	2018 US\$ 000	2017 US\$ 000
Authorised and contracted:	91	428
Authorised and uncontracted:	-	-
	<b>91</b>	<b>428</b>

**34. RETIREMENT BENEFIT SCHEMES****34.1 Private scheme**

The Bank and its employees contribute to the Fintrust Pension Fund. The fund is a defined contribution fund, the assets of which are held in a separate trustee administered fund. The Bank contributes 12% and the employees 6% of pensionable earnings. During the year under review, the Bank contributed US\$2,041,303 (2017: US\$10,277,776) towards this plan and the cost is included in the staff costs.

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**34.2 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\$375,481 (2017: US\$332,338) towards this plan and the cost is included in the staff costs.

**34.3 Recognition of pension 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 recognized as an expense when they fall due.

**34.4 Contributions recognized as an expense during the year**

Fintrust Pension Fund  
 National Social Security Authority Scheme

	2018 US\$ 000	2017 US\$ 000
	2,041	10,278
	376	332
	<b>2,417</b>	<b>10,610</b>

**35. RISK MANAGEMENT**

The Bank is exposed to a range of risks. Risk governance policies and procedures are performed by Divisional Directors. Certain aspects of risk management specific to financial instruments are described below.

**35.1 Market price risk**

Market price risk is the risk of loss resulting from changes in market conditions and prices. Market price risk includes interest rate risk, currency risk and equity price risk. 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.

**35.2 Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This is managed at both the board and management level through regular policies and benchmarks which relate to interest rate risk management. The majority of the Bank's loans and advances facilities are at concessionary rates and some are at nil interest which is not market linked.

The Bank's senior management oversees the management of these risks and they are supported by a committee that advises on financial risks and the appropriate risk governance framework for the Bank. The risk committee provides assurance that the Bank's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Bank's policies and risk objectives.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



Listed below are the Bank's interest earning assets and interest bearing liabilities:

		2018 US\$ 000	2017 US\$ 000
<b>Financial assets</b>	<b>Average Interest</b>		
Foreign Treasury Bills	6%	5,646	6,605
Advances to Government	7%	3,004,843	1,369,355
Zimbabwe Treasury Bills	5%	2,062,178	1,478,746
Interbank advances	4%	385,817	231,786
Government Loans	8%	432,526	613,018
Loans to subsidiaries	5%	233,654	231,673
Loans and advances other	9%	206,563	166,785
<b>Total</b>		<b>6,331,226</b>	<b>4,097,968</b>
<b>Financial Liabilities</b>			
Foreign liabilities	9%	1,575,589	945,419
Deposits	7%	388,000	399,500
Savings Bonds	7%	2,135,541	165,175
<b>Total</b>		<b>4,099,130</b>	<b>1,510,094</b>

### 35.3 Equity Risk Analysis

The Bank is exposed to equity price risk on its investments classified as fair value through other comprehensive income.

#### 35.3.1 AFRICAN EXPORT AND IMPORT BANK (AFREXIMBANK)

The fair value of the Bank's investments in Afreximbank was estimated using a weighted average equity price based on Dividend Valuation Model (DVM), Discounted Cash Flow model (DCF) and Net Asset Value model (NAV).

#### 35.3.2 INFRASTRUCTURE DEVELOPMENT BANK (IDBZ)

The Net Asset Valuation method was used in the valuation of IDBZ. It was deemed appropriate model of valuation because IDBZ's assets and liabilities are carried at fair value.

### 35.4 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in exchange rates. The Bank's assets and liabilities are predominantly held in US\$ (the Bank's functional currency) hence reduced currency risk. The Bank's exposure to currency risk from holding SDRs, gold and foreign-exchange reserves and investments is limited by the fact that movements in gold and foreign exchange rates against the dollar are for the account of the Zimbabwean Government in terms of the RBZ Act [Chapter 22:15].

### 35.5 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 is also exposed to credit risk on expected rental collections when its tenants fail to pay rentals for occupying its investment properties.

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Credit mitigation is employed by the Bank through taking collateral mostly in the form of Treasury Bills, real estate and other guarantees. The Bank is exposed to credit risk from its operating activities, financing activities including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Credit risk from balances with banks and financial institutions is managed by the Bank's financial markets division in accordance with the Bank's policy.

**Expected Credit Losses**

The Bank applied for the first time IFRS 9 'Financial Instruments' at the beginning of the year. IFRS 9 introduced forward looking impairment models for all financial assets and lease receivables. The total expected credit losses during the year were as follows:

	31 Dec 2018 US\$	1 Jan 2018 US\$
Other loans and advances	33,196	21,918
Other receivables <sup>4</sup>	365	526
Government and Statutory bodies	281	154
	<b>33,842</b>	<b>22,598</b>

**Concentration of credit risk**

The Bank deals with a variety of financial institutions and its loans and advances are structured and spread among them. In addition, the Bank has procedures and policies in place to limit the amount of credit exposure to any counterparty. The Bank reviews, on a regular basis, the credit limits of counterparties and takes action accordingly to ensure that exposure limits are not exceeded. At the reporting date, the Bank was exposed to concentration risk as its deposits and other advances were concentrated to the Government of Zimbabwe and financial services sector.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



## 35.5.1 Credit risk Analysis

	Neither Past Due/nor impaired	Past due not impaired	Past due and impaired	Total
Credit risk Analysis 2018	US\$	US\$	US\$	US\$
Gold and foreign assets	6,161	-	-	6,161
Receivables	1,209,566	8,979	1,092	1,219,637
Other receivables	439,665	-	-	439,665
Financial securities	2,062,178	-	-	2,062,178
Government loans and advances	3,542,571	-	-	3,542,571
Government recoverable	-	-	162,554	162,554
Advances	791,354	-	1,485	792,839
<b>Total non-derivative assets</b>	<b>8,051,495</b>	<b>8,979</b>	<b>165,131</b>	<b>8,225,605</b>
<b>Credit risk Analysis 2017</b>				
Gold and foreign assets	7,128	-	-	7,128
Receivables	400,758	9,316	1,092	411,166
Other receivables	385,945	-	-	385,945
Financial securities	1,478,746	-	-	1,478,746
Government recoverable	-	-	166,989	166,989
Government loans and advances	1,863,549	-	-	1,863,549
Advances	628,695	-	1,549	630,244
<b>Total non-derivative assets</b>	<b>4,764,821</b>	<b>9,316</b>	<b>169,630</b>	<b>4,943,767</b>

## 35.6 Liquidity risk

Liquidity risk concerns the ability of the Bank to fulfil its financial obligations as they become due without incurring unacceptable losses. Ultimate responsibility of managing liquidity risk lies with the Board of Directors which has built an appropriate liquidity risk management framework for the management of the Bank's short, medium and long term funding and liquidity requirements.

The table below shows the Bank's financial assets and financial liabilities grouped into relevant maturities and the amounts disclosed in the table are the contractual undiscounted cash flows.

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## 35.6.1 Maturity Analysis (2018)

	On demand	Due between 0-3 months	Due between 3-12 months	Due between 1-5 years	Due After 5 years cost	Total carrying amount
	US\$	US\$	US\$	US\$	US\$	US\$
<b>Assets held for managing liquidity risk</b>						
Cash and Bank balances	86,748	-	-	-	-	86,748
Financial securities	-	151,769	455,430	1,346,465	114,159	2,067,823
Available for sale	515	-	96,149	110,000	-	206,664
Loans and receivables	-	1,202,090	1,499	10,518	445,195	1,659,302
Other Loans and advances	-	5,978	21,239	387,020	25,182	439,418
Interbank advances	-	155,743	70,882	110,311	15,000	351,936
Government loans and advances	-	-	3,542,571	-	-	3,542,571
<b>Total assets held for managing liquidity risk</b>	<b>87,263</b>	<b>1,515,580</b>	<b>4,187,770</b>	<b>1,964,314</b>	<b>599,536</b>	<b>8,354,462</b>
<b>Non-derivative liabilities</b>						
Term deposits	-	764,715	1,736,606	195,845	-	2,697,166
International Monetary Fund facilities	1,237	-	-	-	470,895	472,132
Foreign liabilities	-	408,425	622,284	563,742	-	1,594,451
Deposit accounts	2,779,076	-	-	-	-	2,779,076
Payables	110,851	-	-	-	-	110,851
Bond notes and coins in circulation	522,543	-	-	-	-	522,543
<b>Total non-derivative liabilities</b>	<b>3,413,707</b>	<b>1,173,140</b>	<b>2,358,890</b>	<b>759,587</b>	<b>470,895</b>	<b>8,176,219</b>
<b>Net exposure</b>	<b>(3,326,444)</b>	<b>342,440</b>	<b>1,828,880</b>	<b>1,204,727</b>	<b>128,641</b>	<b>178,244</b>

## NOTES TO THE FINANCIAL STATEMENTS

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## 35.6.2 Maturity Analysis (2017)

	On demand	Due between 0-3 months	Due between 3-12 months	Due between 1-5 years	Due After 5 years cost	Total carrying amount
	US\$	US\$	US\$	US\$	US\$	US\$
<b>Assets held for managing liquidity risk</b>						
Cash and Bank balances	292,018	-	-	-	-	292,018
Financial securities	-	58,105	248,302	1,139,125	39,818	1,485,351
Available for sale	523	-	86,792	-	-	87,315
Loans and receivables	-	395,491	1,649	9,269	390,702	797,111
Other Loans and advances	-	-	321,716	63,951	8,970	394,637
Interbank advances	-	18,799	212,987	-	-	231 786
Government loans and advances	-	-	1,863,549	-	-	1,863,549
<b>Total assets held for managing liquidity risk</b>	<b>292,541</b>	<b>472,395</b>	<b>2,734,995</b>	<b>1,212,345</b>	<b>439,490</b>	<b>5,151,767</b>
<b>Non-derivative liabilities</b>						
Term deposits	-	96,454	141,689	430,960	-	669,103
International Monetary Fund facilities	1,237	-	-	-	481,022	482,259
Foreign liabilities	-	563,497	244,493	154,855	-	962,845
Deposit accounts	2,465,906	-	-	-	-	2,465,906
Payables	76,284	-	-	-	-	76,284
Bond notes and coins in circulation	344,082	-	-	-	-	344,082
<b>Total non-derivative liabilities</b>	<b>2,887,509</b>	<b>659,951</b>	<b>386,182</b>	<b>585,815</b>	<b>481,022</b>	<b>5,000,479</b>
<b>Net exposure</b>	<b>(2,594,968)</b>	<b>(187,556)</b>	<b>2,348,813</b>	<b>626,530</b>	<b>(41,532)</b>	<b>151,288</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



## 35.6.4 Secured and unsecured Loans and Advances (2018)

	Secured value 2018  US\$	Unsecured value 2018  US\$	Total carrying Amount 2018  US\$
<b>Financial Assets</b>			
Loans and advances to financial institutions	-	1,659,302	1,659,302
Other loans and advances	194,796	596,558	791,354
Government loans and advances	-	3,542,571	3,542,571
<b>Total</b>	<b>194,796</b>	<b>5,798,431</b>	<b>5,993,227</b>
<b>Secured and Unsecured Financial Liabilities</b>			
Term deposits	-	2,697,165	2,697,165
Bond notes and coins in circulation	-	522,543	522,543
International Monetary Fund facilities	-	472,132	472,132
Foreign Liabilities	-	1,594,451	1,594,451
Deposit accounts	-	2,779,076	2,779,076
Payables	-	110,851	110,851
<b>Total</b>	<b>-</b>	<b>8,176,218</b>	<b>8,176,218</b>

The security tendered on the financial assets is in the form of Zimbabwe Treasury Bills. The Bank has not surrendered any security on the loans that it owes.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



## 35.6.5 Secured and unsecured Loans and Advances (2017)

	Secured value 2018  US\$	Unsecured value 2018  US\$	Total carrying Amount 2018  US\$
<b>Financial Assets</b>			
Loans and advances to financial institutions	-	797,111	797,111
Other loans and advances	118,800	509,895	628,695
Government loans and advances	-	1,863,549	1,863,549
<b>Total</b>	<b>118,800</b>	<b>3,170,555</b>	<b>3,289,355</b>
<b>Secured and Unsecured Financial Liabilities</b>			
Term deposits	-	669,103	669,103
Bond notes and coins in circulation	-	344,082	344,082
International Monetary Fund facilities	-	482,259	482,259
Foreign Liabilities	-	962,845	962,845
Deposit accounts	-	2,465,906	2,465,906
Payables	-	76,284	76,284
<b>Total</b>	<b>-</b>	<b>5,000,479</b>	<b>5,000,479</b>

The security tendered on the financial assets is in the form of Zimbabwe Treasury Bills. The Bank has not surrendered any security on the loans that it owes.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

**36. CAPITAL MANAGEMENT**

The Bank's objective when managing capital which is a broader concept than the equity on the face of financial position, is to safeguard the Bank's ability to continue as a going concern so as to maintain

The Bank is not subject to capital requirements by a regulatory body.

The table below summarises the composition of the Bank's capital for the year ended 31 December 2018.

	2018 US\$	2017 US\$
Share capital	2,000	2,000
Share premium	98,000	98,000
Revaluation reserve	7,112	7,112
Mark to market	58,532	40,411
General reserve fund	-	-
Accumulated Surplus	252,952	153,579
<b>Total</b>	<b>418,596</b>	<b>301,102</b>

The allocation of capital between specific business operations is largely driven by the main obligation of the Bank to impose efficient strategies on the financial system in an attempt to mostly manage inflation and financial sector stability. The Directors set the asset and liability management policies which determine the eventual asset allocation dependent on the strategic objectives of the Bank.

The Bank's policies in respect of capital management are in accordance with its mandate as spelt out by the Reserve Bank of Zimbabwe Act [Chapter 22:15] and any directives from the Minister of Finance and Economic Development.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



## 37. Fair Value Measurement

## Quantitative disclosures fair value measurement hierarchy for assets as at December 2018

	Date of valuation	Total US\$	Fair Value measurement using		
			Quoted prices in active markets US\$	Significant observable inputs US\$	Significant unobservable inputs US
<b>Assets measured at fair value</b>					
Investment properties	31 December 2018	11,710	-	-	11,710
<b>FVTOCI financial investments</b>					
Unquoted equity shares	31 December 2018	23,717	-	-	23,717
<b>Revalued property and equipment</b>					
Land and buildings	31 December 2018	71,921	-	-	71,921
<b>Other Assets</b>					
Gold and foreign assets	31 December 2018	212,310	6,160	-	206,150

## Quantitative disclosures fair value measurement hierarchy for assets as at December 2017

	Date of valuation	Total US\$	Fair Value measurement using		
			Quoted prices in active markets US\$	Significant observable inputs US\$	Significant unobservable inputs US
<b>Assets measured at fair value</b>					
Investment properties	31 December 2017	13,600	-	-	13,600
<b>FVTOCI financial investments</b>					
Unquoted equity shares	31 December 2017	4,495	-	-	4,495
<b>Revalued property and equipment</b>					
Land and buildings	31 December 2017	73,731	-	-	73,731
<b>Other Assets</b>					
Gold and foreign assets	31 December 2017	93,921	7,128	-	86,793

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



## 37. Fair Value Measurement (continued)

## Description of valuation techniques used and key inputs to valuation of properties 2018

	Valuation Technique	Significant unobservable inputs	Range
<b>Investment properties</b>	Direct Comparison and Income capitalisation.	Capitalisation rate Estimated rental value per sqm per month.	9.5-9.7% US\$4.50- US\$15
<b>Office properties</b>	Direct Comparison and Income capitalisation.	Capitalisation rate Estimated rental value per sqm per month.	9-10.5% US\$3- US\$15
<b>Land</b>	Market Value	The market value was determined through analysis of property data, comparable evidence and trends.	Sale trends usually higher (8%-13.5% of the asking price).
<b>Residential properties</b>	Market Value	The market value was determined through analysis of property data, comparable evidence and trends.	Sale trends usually higher, (10%-20% of the asking price).

## Description of valuation techniques used and key inputs to valuation of properties 2017

	Valuation Technique	Significant unobservable inputs	Range
<b>Investment properties</b>	Direct Comparison and Income capitalisation.	Capitalisation rate Estimated rental value per sqm per month.	9.5% US\$4.50- US\$15
<b>Office properties</b>	Direct Comparison and Income capitalisation.	Capitalisation rate Estimated rental value per sqm per month.	9-10.5% US\$3- US\$15
<b>Land</b>	Market Value	The market value was determined through analysis of property data, comparable evidence and trends.	Sale trends usually higher (8%-13.5% of the asking price).
<b>Residential properties</b>	Market Value	The market value was determined through analysis of property data, comparable evidence and trends.	Sale trends usually higher, (10%-20% of the asking price).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

**38. 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 Corporation	100
Finance Trust of Zimbabwe	100
Homelink (Private) Limited	100
Carslone (Private) Limited (Dormant)	100
Fiscorp (Private) Limited (Dormant)	100
Zimbabwe Asset Management Corporation (ZAMCO)	100
Tuli Coal (Private) Limited (Dormant)	100
Transload (Private) Limited (Dormant)	100
Venture Capital Company of Zimbabwe (Private) Limited (Dormant)	100
ResZim (Private) Limited	100

**38.1 Balances with related parties**

Related Party	Relationship	Transaction	2018 US\$	2017 US\$
Fidelity Printers and Refineries	Subsidiary	loan	93,332	123,513
Homelink	Subsidiary	loan	77,757	24,195
Zimbabwe Asset Management Company	Subsidiary	loan	62,565	81,038
Aurex	Subsidiary	loan	-	2,927
<b>Total</b>			<b>233,654</b>	<b>231,673</b>

**38.2 Compensation of key management personnel of the Bank.**

The Bank has not entered into transactions with its Directors and their associates in 2018.

**Salaries and benefits to management personnel**

Compensation paid to the Bank's senior management and Directors during the year is as follows

	2018 US\$	2017 US\$
Short term senior managers benefits	2,063	3,559
Directors fees	367	385
Senior managers loans	1,150	1,251
<b>Total</b>	<b>3,580</b>	<b>5,195</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



## 39 NOTES TO THE STATEMENT OF CASH FLOWS

## Property and equipment

## 39.1 Additions

## Property and equipment

Additions as per PPE note (note 19)

2018  
US\$

6,685

2017  
US\$

4,376

Add assets purchased not yet delivered

1,580

6,235

Less assets purchased in prior year capitalised

-

(1,139)

**Balance as per Statement of Cash flow****8,265****9,472**

## 39.2 Disposals

## Property and equipment

Disposals as per PE note (note 19)

1,357

535

Less accumulated depreciation

(1,285)

(523)

Profit on disposal

72

12

16

74

**Balance as per Statement of Cash flow****88****86**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2018**



**40. COMPARATIVE FIGURES**

Comparative figures are based on the 2017 audited financial statements.

**41. EVENTS AFTER REPORTING PERIOD**

Subsequent to year end, the following events took place:

**41.1.1** The Governor of Reserve Bank of Zimbabwe presented his Monetary Policy Statement on the 20th of February 2019 which made the following significant pronouncements:

- i. Establishment of an Inter-Bank Foreign Exchange Market which formalized the trading of RTGS balances and bond notes and coins with US\$ and other hard currencies. Trading started on the 22nd of February with the rate at RTGS\$2.50 to US\$1.00.
- ii. Introduction of the local settlement of Nostro FCA transfers on the RTGS platform with effect from the 25th of February 2019.

**41.1.2** Statutory Instrument 33 of 2019, Presidential Powers (Temporary Measures) (Amendment of Reserve Bank of Zimbabwe Act and Issue of Real Time Gross Settlement Electronic Dollars RTGS Dollars) Regulations, 2019, was gazetted on the 22nd of February 2019 to legalize measures contained in the Monetary Policy Statement.

**41.1.3** The Reserve Bank of Zimbabwe discontinued the Export and Diaspora Incentive Schemes through Exchange Control Directive RU28/2019 issued to Authorized Dealers on the 20th of February 2019.

**41.1.4** The table below demonstrates the effects of the above on the Bank's monetary and non-monetary assets and liabilities as at 31 December 2018

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



## SENSITIVITY ANALYSIS

	Assets Nostro FCA	Assets RTGS \$	TOTAL USD @1:1	TOTAL @1:2.5	TOTAL @1:2	TOTAL @1:6
<b>Assets</b>						
Cash & bank balances	85,324	1,424	86,748	214,734	172,072	513,367
Gold & foreign assets	212,310	-	212,310	530,774	424,619	1,273,858
Financial securities	-	2,062,178	2,062,178	2,062,178	2,062,178	2,062,178
Other receivables	-	1,659,302	1,659,302	1,659,302	1,659,302	1,659,302
Gold & Foreign Adjustment	-	-	-	2,681,935	1,774,038	9,037,219
Loans & advances to GVT	-	3,542,571	3,542,571	3,542,571	3,542,571	3,542,571
Other loans and advances	-	791,354	791,354	791,354	791,354	791,354
Other investments	-	23,717	23,717	23,717	23,717	23,717
Investments in subsidiaries	-	122,827	122,827	122,827	122,827	122,827
Assets held for sale	-	750	750	750	750	750
Investment property	-	11,710	11,710	11,710	11,710	11,710
Property and equipment	-	81,348	81,348	81,348	81,348	81,348
<b>Total Assets</b>	<b>297,634</b>	<b>8,297,181</b>	<b>8,594,815</b>	<b>11,723,200</b>	<b>10,666,486</b>	<b>19,120,201</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018



## SENSITIVITY ANALYSIS

Equity and Liabilities	Liabilities		TOTAL USD	TOTAL	TOTAL	TOTAL
	Nostro FCA	RTGS \$	@1:1	@1:2.5	@1:2	@1:6
<b>Capital and reserves</b>						
Share capital	-	2,000	2,000	2,000	2,000	2,000
Share premium	-	98,000	98,000	98,000	98,000	98,000
Revaluation reserve	-	7,112	7,112	7,112	7,112	7,112
Mark to market	46,846	11,686	58,532	128,801	105,378	292,763
Accumulated surplus		252,952	252,952	252,952	252,952	252,952
<b>Surplus – equity</b>	<b>46,846</b>	<b>371,750</b>	<b>418,596</b>	<b>488,865</b>	<b>465,442</b>	<b>652,827</b>
<b>Liabilities</b>						
Term Deposits	-	2,697,166	2,697,166	2,697,166	2,697,166	2,697,166
Currency in circulation	-	522,543	522,543	522,543	522,543	522,543
I.M.F facilities	472,132	-	472,132	1,180,329	944,263	2,832,790
Foreign liabilities	1,594,451	-	1,594,451	3,986,127	3,188,902	9,566,705
Deposit accounts	-	2,779,076	2,779,076	2,779,076	2,779,076	2,779,076
Payables	-	110,851	110,851	69,094	69,094	69,094
<b>Total liabilities</b>	<b>2,066,583</b>	<b>6,109,636</b>	<b>8,176,219</b>	<b>11,234,335</b>	<b>10,201,044</b>	<b>18,467,374</b>
<b>Total Equity and Liabilities</b>	<b>2,113,429</b>	<b>6,481,386</b>	<b>8,594,815</b>	<b>11,723,200</b>	<b>10,666,486</b>	<b>19,120,201</b>

## 42. BASIS OF FUNDING

The Bank has made great strides towards self-sustenance with the Government grant reduced by 50% from US\$24 million in 2017 to US\$12 million in 2018. However, the February 2019 Monetary Policy ushered in an interbank rate which resulted in a calculated foreign exchange gap in the Bank's books. The Bank will leverage on statutory surrender requirements from exporters and new lines of credit for the servicing of these foreign loans and facilities. These financial statements were therefore prepared on a going concern basis. The Board believes that the Bank will continue to be a going concern in the foreseeable future.

