



Reserve Bank *of* Zimbabwe

ANNUAL REPORT

2017

Reserve Bank of Zimbabwe - Annual Report 2017 Reserve Bank of Zimbabwe - Annual Report 2017 Reserve Bank of Zimbabwe - Annual Report 2017 Reserve Bank of Zimbabwe - Annual Report 2017



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Dr. J. P. Mangudya (Governor)

This Annual Report is presented at a time when the country is experiencing renewed hope and confidence as the new Government has ushered in a new economic order aimed at easing the cost of doing business as well as promoting both domestic and foreign investment. Government is also intensifying the re-engagement process to improve the country's relations with the international community and to resolve the external payment arrears to the remaining International Financial Institutions as well as bilateral creditors.

This is critical for the country to access external capital at affordable terms. The re-engagement process is also important to unlock additional external financing critical for supporting sustainable economic growth in the medium to long term and re-building international reserves to optimal levels of at least 3 months of import cover.

While the year 2017 was fraught with a number of challenges, notably cash shortages, resurging inflationary pressures and limited fiscal space, the new dispensation brought about renewed hope of achieving macroeconomic stability.

In addition, the good 2016/17 agriculture season, supported by Government interventions in the agriculture sector through Command Agriculture, significantly increased the country's food security and dampened inflation which ended the year

at 3.5%. The linkages between agriculture and the rest of the economy also assisted in improving industry capacity, especially in agro-processing. The economy is thus estimated to have grown by 3.7% in 2017, largely driven by strong growths in agriculture, mining, electricity and water, and service sectors.

In 2017, the Bank availed a number of specific intervention funds to promote production, business linkages, financial inclusion and export earnings. The special interventions in the economy include enhanced productive sector facilities and the export incentive scheme; reduced cost of doing export business and enhanced nostro stabilisation facilities for better foreign exchange access for the productive sectors. The interventions had a positive impact on production, export competitiveness and financial inclusion.

As part of measures to enhance a cash-lite society and the promotion of bank use, the Bank continued to promote and support the use of mobile and electronic payment systems through educational and awareness campaigns. Resultantly, the volume of transactions processed through the National Payment Systems increased by 169% in 2017. Moreover, the number of low cost accounts opened by banks increased from 229,264 as at 31st March 2016 to more than 3 million as at 31st December 2017.



We are pleased to note that the banking sector remained generally safe and stable in 2017, premised on enhanced oversight by the Central Bank; adequate capitalisation; improved earnings performance; and satisfactory asset quality. As at 31st December 2017, all operating banking institutions were in compliance with the prescribed minimum capital requirements. The Bank also made significant progress towards enhancing the credit infrastructure through the operationalization of the Credit Registry, which went live during the first half of 2017. In addition, Government has since gazetted the Movable Property Security Interest Act to give legal effect to the establishment of a Collateral Registry at the Bank.

We look forward to a positive economic outlook on account of strong policies being pursued by Government under the new dispensation. The "Zimbabwe is open for business agenda" is already bearing fruit, as attested to by investment enquiries from virtually all corners of the globe and a notable number of new investments that have already been set up. As

Monetary Authorities, we strongly believe that price stability, a smooth payments system, improved ease of doing business and investor confidence are important pillars for reviving the growth prospects of the economy, in order to realise the national vision of becoming a middle income country by 2030. I thank all the Reserve Bank of Zimbabwe stakeholders, the Board of Directors, Management and Staff for working diligently in 2017. The year 2018 should see us double our efforts to make our country great again.



Dr. J. P. Mangudya
Governor



BANK COMPLIANCE AND GOVERNANCE

Introduction

1. The Reserve Bank fulfilled its role and responsibility in economic development by ensuring adherence to accountability structures which include the Board of Directors, Board Committee and Executive Meetings, in line with best practice and as provided for by the Reserve Bank of Zimbabwe Act.

2. The Bank also ensured that banking institutions adhered to good corporate governance principles in the course of their operations.

3. The Central Bank reviewed its strategic plan in line with the new mantra of "Zimbabwe is Open Business".

The Bank's Strategic Plan Review Workshop

4. The Bank held its annual Strategic Plan Review workshop on the 28th of November 2017, at the Reserve Bank Sports Club. The workshop was attended by Board Members, Senior Management and Chief Executive Officers of the Bank's subsidiary companies.
5. The Strategic Plan was aligned to the New Economic Order and the performance management training which members of staff had undergone prior to the meeting.
6. The meeting resolved that all strategic pillars be aligned with the vigorous promotion of exports to increase the country's export earnings and boost foreign exchange reserves.

Board of The Reserve Bank of Zimbabwe

7. The Board of Directors remained fully constituted in accordance with the Reserve Bank of Zimbabwe Act with the following members:-

Dr. J.P. Mangudya	Governor and Chairman
Mrs. R. Likukuma	Deputy Chairperson
Dr. K. Mlambo	Executive Director Deputy Governor
Dr. J.T. Chipika	Executive Director Deputy Governor
Mrs. P. Chapendama	Non- Executive Director
Mr. Z.R. Churu	Non- Executive Director
*Amb. Dr. A. Mabhozi	Non- Executive Director
Mr. C.R. Maradza	Non- Executive Director
Mrs V. Mudimu	Non- Executive Director
Mr. O.J.S. Mukumba	Non- Executive Director
Mr. L. Murahwa	Non- Executive Director
Mr. J.S. Mutizwa	Non- Executive Director
Mr. M.Z. Nyabadza	Non- Executive Director

* Dr. C.L. Dhlwayo retired on the 31st of March 2017 after serving two full five year terms as Deputy Governor and on the Board. She was replaced by Dr. J.T. Chipika as deputy Governor on the 1st of April 2017.

*Ambassador Dr. A. Mabhozi resigned in October 2017, after an appointment as the Minister of State for Matebeleland South.

8. The Bank continued with the following Board Committees in accordance with the Reserve Bank of Zimbabwe Act during 2017:-

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

9. The Board and its Committees met as scheduled, as indicated below:-

- i. The Main Board – 29th March 2017, 21st June 2017, 20th September 2017 and 29th November 2017.
- ii. Audit and Oversight Committee- 22nd March 2017, 31st May 2017, 6th September 2017 and 20th November 2017.
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Legislation

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

Presidential Powers (Temporary Measures) (Amendment of Exchange Control Act) Regulations, 2017 cited as Statutory Instrument 145 of 2017

11. The Statutory Instrument stipulated that amnesty be granted to all persons and companies which externalised assets and investments whether legally or illegally externalised.

Exchange Control (Amendment) Regulations, 2017 (No. 5) cited as Statutory Instrument 122A of 2017

12. The Statutory Instrument made provision for bond notes and coins to be included as a medium of exchange and as currency. This removed challenges which were being experienced in implementing Exchange Control laws and regulations.

Reserve Bank of Zimbabwe Amendment Act, 2017

13. The amendment was deemed to have come into effect on 31 October 2016. It stipulated that bond notes and coins be used as legal tender with other multi-currencies, and the issuance and validation thereof.

Dr. C.L. Dhlwayo's Farewell Dinner

14. The Bank bid farewell to Dr. C.L. Dhlwayo at a dinner held in her honour on 22nd December 2017 at Victoria 22 Restaurant. Dr. Dhlwayo served the Bank for a sterling 36 years, under the Bank Supervision Division before being appointed Deputy Governor in 2003, a position she held until her retirement in 2017.



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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 and Supervision 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



Dr. J. P. Mangudya
Governor

Reserve Bank of Zimbabwe
Executive Management



Dr. J.T. Chipika
Deputy Governor



Dr. K. Mlambo
Deputy Governor



Mr F. Masendu
Director, Exchange
Control



Mr S. Nyarota
Director, Economic Research



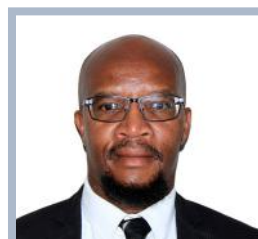
Mr. A. Saburi
Director, Financial Markets



Ms. T. Hungwe
Director, Finance & Procurement



Mr. N. Mataruka
Director, Bank Supervision



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



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



OPERATING ENVIRONMENT: INTERNATIONAL CONTEXT



Global and Regional Economic Developments

15. Global economic activity continues to firm up with output being estimated to have increased from 3.2% in 2016 to 3.7% in 2017. The pick-up in growth has been broad based, with notable upside coming from growth in Europe and Asia. The IMF revised global growth forecasts to 3.9% for 2018 and 2019, citing further increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes.
16. The U.S. is expected to institute an array of tax policy changes that are widely expected to stimulate activity in the world's largest economy, with the short-term impact on the United States mostly driven by the investment response to the corporate income tax cuts. The effect on U.S. growth is estimated to be positive through 2020.
17. Table 1 summarizes global economic growth developments for selected regions and countries.

Table 1: Global Economic Growth & Outlook (%)

	2014	2015	2016	2017 Estimate	2018 Proj
World Output	3.4	3.2	3.2	3.7	3.9
Advanced Economies	1.9	2.1	1.7	2.3	2.3
US	2.4	2.6	1.5	2.3	2.7
Euro Area	0.9	2.0	1.8	2.4	2.2
Japan	0.0	1.2	0.9	1.8	1.2
Emerging Market & Developing Economies	4.6	4.1	4.4	4.7	4.9
China	7.3	6.9	6.7	6.8	6.6
India	7.2	7.6	7.1	6.7	7.4
Sub-Saharan Africa	5.1	3.4	1.4	2.7	3.3
Zimbabwe¹	3.8	1.1	0.7	3.7	4.5
Latin America & the Caribbean	1.3	0.1	-0.7	1.3	1.9

Source: IMF (World Economic Outlook Update (January 2018))

18. Overall, global growth in 2017 picked up in a number of economies, supported by improvements in investment, particularly in advanced economies and increased manufacturing activity in Asia. Expectations of favourable global financial conditions and strong consumer confidence will keep final demand high, and with it a significant positive impact on overall growth in some economies.
19. Headline inflation is also picking up in advanced economies, on account of the increase in fuel prices and higher aggregate demand, while wage and core-

price inflation remain depressed. On the downside, the possibility of tightening of financial conditions in the form of higher interest rates than currently prevailing and more volatile asset prices poses a threat to near term global growth prospects.

Sub-Saharan Africa

20. Economic growth in sub-Saharan Africa is estimated at 2.7% in 2017, up from 1.4% recorded in 2016. Growth is expected to further increase to 3.3% in 2018, with sizable differences across countries. Fiscal deficits are stabilizing and current account deficits narrowing in most sub-Saharan African countries, partly reflecting a slight rebound in commodity prices. There are, however, mounting vulnerabilities in the region, notably, rising public debt, financial sector strains and low external buffers. Public debt is high not only in oil exporting countries but in many fast-growing economies as well.

Commodity Price Developments

21. Despite expectations of more robust global commodity demand in 2017 and going forward, commodity prices softened during the first half of 2017, before making recoveries in the second half of the year. Reflecting mixed fortunes, gold, copper, nickel and crude oil prices firmed during the year 2017. Platinum prices, however, retreated during the same period.
22. As with the broader group of emerging market and developing economies, the IMF predicted that low-income developing countries, such as Zimbabwe, dependent on commodity exports, continue to face weaker economic prospects than those countries with more diversified export bases. These countries had benefited from China's rapid manufacturing growth in years past. Permanently lower export prices, therefore, call for new growth models.

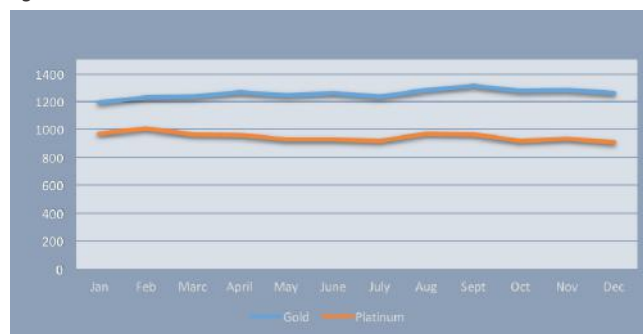
Precious Metals

23. Gold prices firmed by 0.8%, from an annual average of US\$1,248.33/oz in 2016 to an average of US\$1,258.04/oz in 2017. The yellow metal price was supported by a weaker US dollar, amid soft US economic data, which boosted safe haven demand prospects for gold. In addition, the interest rate cut in China, coupled with hopes that demand would improve, exerted upward pressure on gold prices.
24. Platinum prices decreased by 3.8%, from US\$986.45/oz in 2016 to an average of US\$949.07/oz in 2017. The decrease was underpinned by low industrial demand for platinum. The industrial metal is used as a catalytic



converter for diesel powered cars in Europe and China. Figure 1 shows movement of gold and platinum prices for 2017.

Figure 1: Gold and Platinum Prices



Source: Bloomberg, BBC and KITCO, 2017

Base Metals

25. Copper prices rallied by 26.9%, from an annual average of US\$4,862.36/tonne in 2016 to US\$6,170.05/tonne in 2017. The increase was underpinned by signs of growth in global demand particularly in China, the world's largest base metal consumer.
26. Similarly, nickel prices rose by 8.8%, from an average of US\$9,587.97/tonne in 2016 to US\$10,429.45/tonne in 2017. This was on account of supply gaps emanating from the continued ban on nickel ore exports in Indonesia, one of the world's largest nickel producers.

Figure 2: Copper and Nickel Prices for 2017 (US\$/tonne)



Source: Bloomberg, BBC and KITCO, 2017

Crude Oil

27. Crude oil prices surged markedly by 21.3%, from an average of \$45.21/barrel in 2016 to an average of US\$54.86/barrel in 2017, as shown in Figure 3. The main drivers of crude oil prices, particularly in the first half of 2017, were higher-than-expected US shale production and stronger-than-expected production recoveries in Libya and Nigeria. In addition, exports from OPEC countries remained at relatively high levels, even with lower production. The strengthening of global demand in the second half of 2017, also exerted upward pressure on crude oil prices.

Figure 3: Crude Oil Prices 2017 (US\$/Barrel)



Source: Bloomberg, BBC and KITCO, 2017

Exchange rates developments

28. The U.S. dollar and the euro remained close to their August 2017 levels in real effective terms as at end December 2017, according to the IMF's World Economic Outlook Report. The Japanese yen depreciated by 5% on widening interest differentials, while the British pound appreciated by close to 4% on the back of a hike in interest rates by the Bank of England in November 2017, coupled with heightened expectations of a Brexit deal. On the other hand, currencies for most emerging market economies generally appreciated on account of improved growth outlook and firmer commodity prices.
29. Zimbabwe's implied nominal effective and real effective exchange rates continued to exhibit signs of depreciation and convergence to their equilibrium value of 100 in 2017. This emanated from a positive inflation trajectory experienced in the domestic economy. Accordingly, the nominal and real effective exchange rates depreciated by 9.7% and 9.1% to 80.4 and 59.2, respectively, in 2017.

Figure 4: Implied Nominal & Real Effective Exchange Rate (2009=100)



Source: Reserve Bank of Zimbabwe, 2017

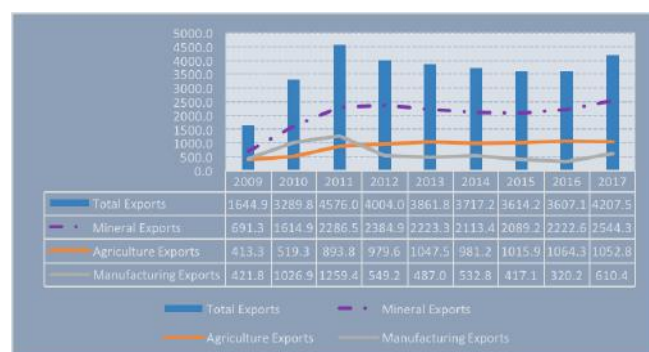
30. The country's the real effective exchange rate, however, remained well below optimum levels, implying that the country's exports are not competitive in both the domestic and external markets.

Merchandise Trade Developments

Merchandise Exports

31. On the back of strengthening global mineral prices and export support measures instituted by the Government and the Reserve Bank of Zimbabwe, merchandise exports increased by 16.6%, from US\$3,607.1 million realized in 2016 to US\$4,207.5 million in 2017.
32. The surge in merchandise export was largely underpinned by increases in export receipts for gold and platinum group of metals (PGMs). In particular, the increase in gold export receipts was on account of improvements in both production, as well as the price of the precious metal on the international market.
33. Gold production stood at 26.5 tonnes in 2017, propelled by the delivery bonus paid to small scale gold producers and large scale gold producers. In addition, the increase in gold production was on account of the US\$20 million Gold facility availed by the Reserve bank and being managed by Fidelity Printers and Refiners (FPR).
34. The manufacturing sector, which used to contribute immensely to the country's export earnings, continued to be adversely affected by low capacity utilization in the sector occasioned by the influx of cheap imports, foreign exchange shortages for importation of raw materials and capital equipment, obsolete industrial machinery and equipment as well as limited access to affordable lines of credit.
35. The country's export basket was largely composed of mineral exports, notably, gold and platinum, which accounted for about 48% of total export receipts. Figure 5 shows the composition of exports during the period under review.

Figure 5: Composition of Exports 2009 to 2017



Source: Zimstat and RBZ, 2017

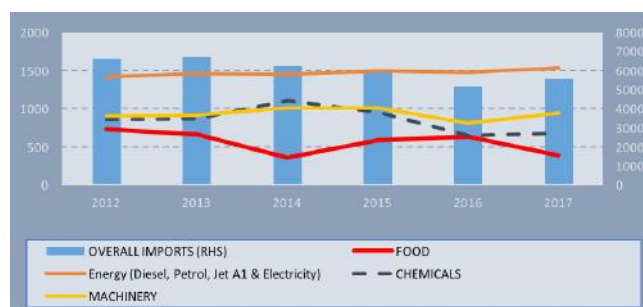
36. Agriculture exports are estimated to have declined by

1.1%, from US\$1,064.3 million in 2016 to US\$1,052.8 million in 2017, on account of decreased tobacco revenues due to low average prices. Sugar exports marginally increased in 2017 and were mainly destined for Italy; the EU; USA; Kenya; Botswana; and the DRC.

Merchandise Imports

37. Zimbabwe's merchandise imports stood at US\$5,550.7 million in 2017, a 7.5% increase from US\$5,162.9 million recorded in 2016. The surge in the country's import bill was due to increases in imports of fuels (diesel, petrol and Jet A1), machinery and manufactured goods. International crude oil prices also firmed, reflecting efforts by OPEC to curb global production.
38. Electricity imports, however, declined owing to the availability of additional capacity of 150 MW from Kariba.
39. Similarly, grain imports were lower than those recorded in 2016 as a result of the good harvest in the 206/2017 agricultural season.
40. The country's major merchandise imports comprised of energy, that is, diesel, petrol, electricity and Jet A1; and machinery; chemicals; and food (maize and rice), as shown in Figure 6.

Figure 6: Zimbabwe's imports 2012-2017 (US\$ Million)



Source: RBZ and Zimstat, 2017

Services Account

41. The services account balance improved by 22.7%, from a deficit of US\$867.1 million in 2016 to a deficit of US\$669.8 million in 2017. The improvement largely reflected the sharp decline in service payments. Services payments declined by 13.9% from US\$1 263.8 million in 2016 to US\$1088.7 million in 2017. This, in large part, reflected foreign currency shortages that the country is facing.
42. Service receipts increased by 5.6% from US\$396.7 million in 2016 to US\$418.9 million in 2017, underpinned by a surge in freight receipts, in line with the increase in

merchandise exports.

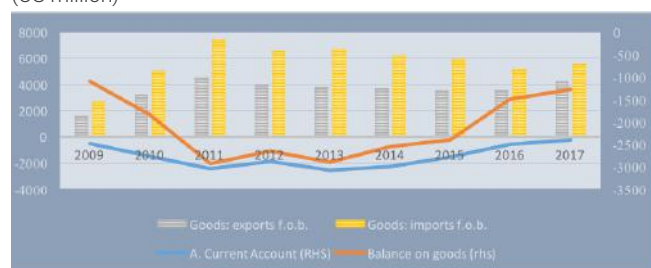
Income Account

43. The secondary income account, mainly records transfers to Non-Profit Institutions Serving Households (NPISHs) and personal remittances (transfers that a migrant makes to the country of origin). Secondary income flows are second largest contributor of foreign currency to the country after exports. The secondary income account receipts declined by about 5.1%, from US\$1,979.7 million in 2016 to US\$1,878.5 million in 2017, following declines in transfers to NPISHs.
44. Personal remittances increased from US\$1,102.8 million in 2016 to US\$1,112.8 million in 2017. As expected, transfers to NPISHs declined from US\$750.3 million in 2016 to US\$633.5 million in 2017, in line with declining aid globally. The humanitarian needs of the country were also lower in 2017, as the country recovered from the effects of the 2015/2016 drought.

Current Account

45. Developments on the merchandise trade, services and income accounts resulted in a current account deficit. The current account deficit, however, narrowed in 2017, largely due to the improved trade balance, resulting from a combination of improved export performance and import compression measures. This notwithstanding, the country's exports continued to lag behind imports, a development which exerted pressure on the foreign exchange situation in the economy.
46. The current account continued to be financed largely by debt creating flows, which if sustained, could put the country's external position on an unsustainable path in the medium to long term.

Figure 7: Merchandise exports, imports and current account balance (US million)

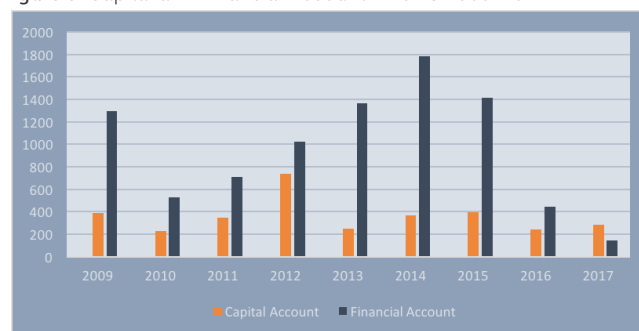


Source: RBZ, 2017

Capital and Financial Account

47. The capital account balance rose from US\$242.3 million in 2016 to US\$285.7 million in 2017. Financial account inflows, however, deteriorated significantly in 2017, on account of subdued offshore loans and foreign direct investment inflows.

Figure 8: Capital and Financial Account Inflows 2009-2017



Source: RBZ, 2017

Overall Balance of Payments

48. Reflecting developments in both the current and capital and financial accounts, the overall balance of payments worsened from a deficit of US\$99.0 million in 2016 to a deficit of US\$129.0 million in 2017. The BOP deficit was largely financed through accumulation of external payment arrears, against the backdrop of low foreign currency reserves, which stood at an average of 0.6 months of import cover in 2017.

Figure 9: Overall balance of payments (US\$ Million)



Source: RBZ, 2017

OPERATING ENVIRONMENT
DOMESTIC ECONOMIC DEVELOPMENTS

REAL GDP

49. The economy is estimated to have grown by 3.7% in 2017, largely driven by strong positive growth in agriculture; mining; electricity; and water; distribution; hotels and restaurants; and transport and communication, as shown in Figure 10.

Figure 10: Real GDP Growth (%) Estimates and Projections



Source: ZIMSTAT, MoFED and RBZ 2017

50. Table 2 shows the sectoral growth estimates and projections from 2016 to 2017.

Table 2: GDP Growth Rates by Sector (%)

	2016	2017 Est.
GDP by Industry Growth Rates	0.6	3.7
Agriculture	-3.6	14.6
Mining and quarrying	8.2	8.5
Manufacturing	-4.0	1.0
Electricity and water	-23.4	10.7
Construction	4.9	2.2
Distribution, Hotels and restaurants	7.6	1.1
Transportation and communication	2.1	2.3
Financial, banking and insurance activities	-3.2	0.2
Administrative and support service activities	10.2	-0.9
Education and training	4.4	2.3
Human health and social work activities	7.4	2.0
Private's education and health	0.9	2.2
Real estate activities	5.9	2.2

Source: ZIMSTAT, Ministry of Finance & Economic Development, Reserve Bank of Zimbabwe, 2017

Agriculture

51. The agriculture sector is estimated to have grown by 14.6% in 2017, driven by the increase in maize, tobacco, sugar cane, wheat, and dairy output.

Table 3: Agriculture Production Trends

	Weight	2015	2016	2017
Tobacco (flue cured)	25.5	198.9	202.3	190
Maize	14.0	742.2	511.0	2,155
Beef	10.2	76.0	86.0	74
Cotton	12.5	105.0	30.0	75
Sugar cane	6.8	4,399.0	4,044.0	4,350
Horticulture	6.5	69.4	65.0	67
Poultry	4.8	151.0	130.0	121.0
Groundnuts	3.2	88.9	73.7	139.0
Wheat	3.6	62.3	61.7	160.0
Dairy (m lt)	2.9	71.9	78.0	83.0
Coffee	2.1	0.7	0.5	0.5
Soybeans	1.9	57.9	47.7	36
Tea	1.9	14.0	17.7	19
Paprika	1.1	5.5	7.0	8
Pork	0.8	10.9	10.7	10.1
Wildlife	0.6	51.0	30.0	32
Sorghum	0.6	39.7	36.3	182.0
Barley	0.4	18.0	13.0	12
Sheep & goats	0.3	6.1	10.5	8.9
Sunflower seeds	0.2	21.0	25.0	10.3
Ostriches	0.1	19.0	19.0	19
Agriculture Growth (%)		16.5	-5.5	14.6

Source: Ministry of Lands, Agriculture and Rural Resettlement, 2017



52. Maize and wheat production benefited from additional financing availed through the Command Agriculture Initiatives that significantly boosted area under cropping, as well as the favourable rains received during the 2016/2017 agriculture season. Maize output increased to 2.155 million tonnes in 2017, from 511 000 tonnes in 2016. Similarly, wheat output increased by 156%, from the 61 715 tonnes produced in 2016 to 160 000 tonnes in 2017. Wheat production benefited from the stable power supply which supported irrigation activities.
53. Tobacco output declined from 202.3 million kilograms in 2016 to about 190 million kg in 2017, due to incessant rains that affected the production of the leaf crop through water-logging and higher incidence of diseases. The excessive rains also resulted in false leaf ripening, which reduced the quality of the crop.
54. Seed cotton stood at 73 034 tonnes in 2017, up from 28 425 tonnes produced in 2016, largely due to improved financing under a 3-year Government programme that seeks to revamp the cotton-to-clothing value chain. Cotton farmers also benefited from an increase in the producer price, from US\$36c/kg in 2016 to US\$45c/kg in 2017.
55. Milk output also grew by 6.4% to 83 million litres in 2017, from 78 million in 2016, on account of improved pastures, water and availability of stock feeds. Milk supply, however, remained below national requirement of about 120 million litres a year, pointing to the need for added investments in the sector.
56. Poultry output declined in 2017, compared to 2016, as shown in Table 5, largely due to the incidence of the deadly avian flu virus, which led to the culling and slaughtering of the breeding stock. The output of chicken and table eggs also declined.





Mining

57. Mining output is estimated to have grown by about 8.0% in 2017, slightly lower than the initial projection of 8.5%, due to the underperformance of Platinum Group of Metals (PGMs). The strong positive growth in gold, chrome, diamonds and coal, and other small minerals, however, sustained the growth of mining output in 2017.
58. Table 4 shows the output of selected minerals during the period under review.

Table 4: Selected Mineral Production Statistics: 2016 and 2017 Projections

	2017 Est.	2016	Variance 2016
Gold (kg)	26,495	23,187	14.3
Chrome (tonnes)	1,673,998	735,822	127.5
Coal (tonnes)	2,928,038	2,701,719	8.4
Nickel (tonnes)	16,617	17,743	-6.3
Platinum (kg)	14,258	15,110	-5.6
Palladium (kg)	11,822	12,223	-3.3
Diamonds (Carats)	2,507,862	1,745,819	43.6
Overall Growth (%)	8.0	-3.6	

Source: Ministry of Mines, Chamber of Mines, MMCZ, 2017

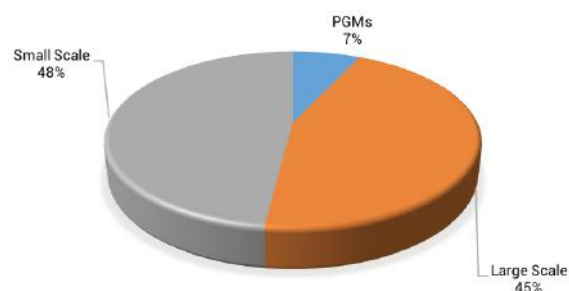
59. The favorable international mineral prices, particularly for gold and palladium, as well as the strong performance in some of the key minerals, culminated in total mineral

revenue of US\$2.38 billion in 2017, about 8.2% above the US\$2.2 billion that was realized in 2016. Overall, mining contributed about 59% of total export revenues in 2017.

Gold

60. Cumulative gold output registered a 14.3% increase to 26 495 kg in 2017, from 23 187 kg realized in 2016, driven by both small and large scale miners. Small scale miners, however, dominated the output, contributing 48% to total output. Large scale and secondary producers accounted for 45% and 7%, of total output, respectively, as shown in Figure 11.

Figure 11: Gold Output by sector (2017)



Source: Chamber of Mines, Fidelity Printers and Refiners (FPR), Ministry of Mines, 2017

61. Small scale gold miners largely benefited from the gold facility that was unveiled by Fidelity Printers and Refiners (FPR) in the last half of the year. Flooding conditions also softened across most of the mines, thereby facilitating

improved ore extraction. In addition, the continued monitoring and surveillance by the Gold Mobilization Team also minimized leakages of gold.

62. Gold production also responded positively to the favourable international prices, which averaged US\$1,257.13 per ounce in 2017, up from US\$1,249.10 per ounce in 2016.

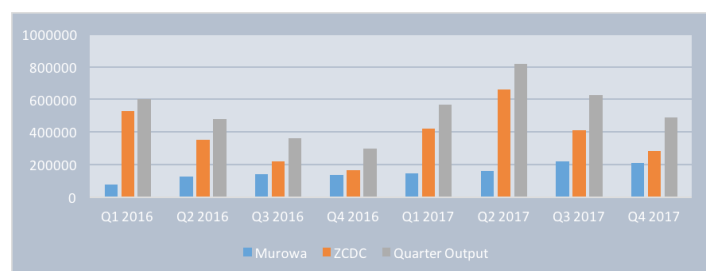
Platinum

63. Platinum output ended the year 2017 at 14 258 kg, 5.6% lower than 15 110 kg produced in 2016. Production was adversely affected by the loss of production time largely due to the on-going mine development and continuous re-development of shafts, as well as the scheduled maintenance of both plant and equipment at Zimplats. In September 2017, Zimplats shut down its smelter for 24 days to institute planned furnace maintenance and repairs. Consequently, platinum in converter matte decreased by 2%, from 269 547 ounces in 2016 to 262 871 ounces in 2017, in line with the decrease in furnace availability.
64. The negative sentiments from the auto industry on diesel cars, particularly in Western Europe and India, as well as the fall in demand for Chinese jewelry, culminated in lower demand for platinum, weighing down on international platinum prices. Consequently, prices averaged US\$948.54 per ounce in 2017, compared to US\$987 per ounce in 2016, adversely affecting the profitability of the mining houses.
65. The performance of other key PGMs performance was also in line with trends in platinum production. Palladium output stood at 11 822 kg in 2017, about 3.3% lower than the 12 223 kg recorded in 2016. Palladium prices, however, were favourable, largely driven by increased demand from the auto industry that use the commodity as a catalyst in gasoline engines.

Diamond

66. Cumulative diamond output was 2.5 million carats in 2017, about 43.6% up from 1.7 million carats produced in 2016. The increase in output was due to the ramp-up in production by both players in the industry.

Figure 12: Trends in Quarterly Diamond Output (Carats) (2016 - 2017)



Source: Ministry of Mines and Mining Development, 2017





67. Diamond production was disrupted by the transitional issues involving the consolidation of former diamond companies into one state company, the Zimbabwe Consolidated Diamond Company (ZCDC) in February 2017.

Nickel

68. Cumulative nickel output stood at 16 617 tonnes in 2017, compared to 17 743 tonnes registered in 2016. The lower than anticipated performance in nickel was partly attributed to subdued PGMs throughput, as well as the lower international prices of the commodity, particularly during the first half of the year.
69. Primary nickel producers contributed 36% of total output, while secondary producers contributed 64% in 2017. Throughput from the primary production was affected by the antiquated equipment and machinery, as well as the continued extraction of low grade ores.

Chrome

70. Chrome output increased by 127.5% to 1 673 998 tonnes in 2017, from 735 822 tonnes realised in 2016, on account of increases in volume of both ore and ferro-chrome production. Production was, however, adversely affected by unfavorable prices for both raw chrome and HCF, which have been declining since the end of the first quarter of 2017, with sharp declines witnessed particularly in the second quarter of 2017. The prices, however, bottomed out in the third quarter of 2017, and have been trending upwards since then.
71. The shortage of appropriate equipment, technology and skills also adversely affected supply of ore in the aftermath of waterlogging and flooding of the mines.

Coal

72. Coal output amounted to 2.928 million tonnes in 2017, an increase of 8.4% on the 2.702 million tonnes recorded in 2016. The increase in output was largely driven by the ramping up of production by all producers. Coal mining activities were, however, affected by foreign currency shortages for importation of critical spare parts for mining equipment and consumables. Furthermore, working capital challenges adversely affected the mining houses' ability to ramp up ore extraction as well value addition and beneficiation, particularly for coke oven battery.

Manufacturing

73. The manufacturing sector is estimated to have grown by 1.0% in 2017, driven by metals and metal products; textiles & ginning; wood & furniture; foodstuffs; and drinks, tobacco & beverages, which grew by 5.3%; 2.6%; 2.1%; 1%; and 0.7%, respectively.
74. The sector largely benefitted from improved agro-processing

value chains in foodstuffs, drinks, and ginning, also amid supportive import management measures which assisted local industries to retool, attract new investments, and increase production and employment levels. The increase in the number of manufacturing entities, following the positive impact of Statutory Instrument 64 of 2016, however, resulted in increased demand for the limited foreign currency available.

75. The 2017 CZI Manufacturing Sector Survey indicated that manufactured output volume grew by 5.5%, as sectors supported by the import management program, such as foodstuffs, paper & packaging, drinks & beverages and wood & furniture, took advantage of the protection to recapitalize and expand capacity utilization.

Table 5: Volume of Manufactured Index (VMI)

Manufacturing Sub Sector	2015	2016	2017	2018	2019	2020
Foodstuffs	98.0	100.0	101.0	105.0	110.0	115.0
Drinks, Tobacco and Beverages	96.7	97.8	99.0	100.0	105.0	110.0
Textiles and Ginning	78.7	78.0	80.0	85.0	87.0	88.0
Clothing and Footwear	91.8	95.0	95.0	97.0	99.0	100.0
Wood and Furniture	99.8	96.2	98.0	99.0	100.0	105.0
Paper, printing and Publishing	93.3	90.4	91.0	95.0	95.0	95.0
Chemical and Petroleum Products	88.4	87.4	88.0	88.0	92.0	100.0
Nonmetallic mineral products	140.6	144.0	143.0	145.0	147.0	150.0
Metals and Metal products	67.5	66.5	70.0	71.0	76.0	80.0
Transport, Equipment	63.2	66.0	66.0	67.0	68.0	69.0
Other manufactured goods	63.5	66.7	67.0	67.0	68.0	69.0
Growth Rates (%)	0.2	-0.4	1.0	2.1	3.9	4.2

Source: Ministry of Finance & Economic Development, Reserve Bank of Zimbabwe, 2017

76. The survey estimated average capacity utilization in the manufacturing sector at 45.1% in 2017, down from 47.4 % recorded in 2016.

Electricity

77. Electricity generated increased by 4.4% to 7400.1 GWh in 2017, from 7089.6 GWh in 2016, on account of improved performance at Kariba, whose output more than offset the decline in combined output of the thermal power stations and Independent Power Producers (IPPs). Table 6 compares annual electricity generation statistics in 2016 and 2017.

Table 6: Electricity Generation Statistics

Power Station	Total 2017	Total 2016	Variance
Kariba	3850.2	2917.06	32.0%
Hwange	3202.4	3472.79	-7.8%
Bulawayo	53.6	110.53	-51.5%
Munyati	38.3	116.65	-67.2%
Harare	75.4	162.13	-53.5%
IPPs	180.3	310.4	-41.9%
Total	7400.1	7089.6	4.4%

Source: Zimbabwe Power Company, Zimbabwe Energy Regulatory Authority, 2017

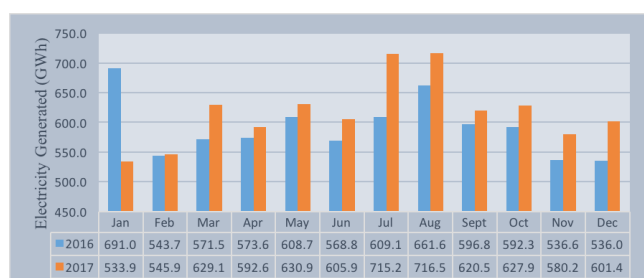




ELECTRICITY GENERATION

78. Electricity generation levels at Munyati and Bulawayo thermal power stations declined due to low coal stock levels, while mechanical breakdowns and delays in repair works negatively affected production levels at Munyati and Harare.
79. Power generation from IPPs decreased following the closure of the 100MW Dema emergency diesel power plant, which used to contribute over 50% of the IPPs output, in March 2017.
80. Despite these challenges, monthly power output in 2017 consistently surpassed the output of 2016 from February onwards. Figure 13 compares total electricity generation statistics on a monthly basis in 2016 and 2017.

Figure 13: Electricity Energy Sent Out (GWh):2016 and 2017



Source: Zimbabwe Power Company, 2017

INFLATION DEVELOPMENTS

81. The annual headline inflation stood at 3.46% in December 2017, up from -0.65% in January 2017, translating to an annual average of 0.9% in 2017, compared to an average of -1.56% in 2016. The increase in the inflation rate was driven by increases in both food and non-food inflation.
82. The increase in inflation was underpinned by speculative and profiteering tendencies; pass-through effects of parallel market premiums on foreign exchange; shortages of some imported basic commodities; as well as some external factors such as firming the South African rand and strengthening international oil prices.

Figure 14: Annual Inflation Profile



Source: ZIMSTAT, 2017

Food Inflation

83. Food inflation surged from -0.30% in January 2017 to 2.49% in September 2017, before accelerating further to 6.60% in December 2017. The increase in food inflation was largely driven by prices of meat, vegetables and fish. The reduction in livestock slaughters due to improved pastures and the impact of the avian flu on poultry production, negatively affected the supply of beef, pork and chicken.
84. The decline in prices of bread and cereals partly due to the 2016/17 bumper harvest, however, partially offset the price increases in other categories.

Non-Food Inflation

85. Annual non-food inflation accelerated from -0.82% in January 2017 to close the year at 2.0%, largely driven by increases in the furniture and household equipment; recreation and culture; and clothing and footwear sub-categories. Increases in non-food prices were largely induced by high premiums on foreign exchange sourced from parallel markets.

Regional Inflation Developments

86. Zimbabwe's inflation remained among the lowest in the SADC countries such as Botswana and Tanzania, as shown in Table 7.

Table 7: USA and Regional Inflation

	Zimbabwe	SA	Botswana	Mozambique	Tanzania	Zambia	Malawi	USA
Jul-2016	-1.6	6.0	2.7	20.3	5.1	20.2	23.5	0.8
Aug-2016	-1.4	5.9	2.6	22.2	4.9	19.6	22.8	1.1
Sept-2016	-1.3	6.1	2.6	25.9	4.5	18.9	21.2	1.5
Oct-2016	-1.0	6.4	2.8	26.3	4.5	12.5	20.1	1.6
Nov-2016	-1.1	6.6	2.9	26.4	4.8	8.8	19.9	1.7
Dec-2016	-0.1	6.8	3.0	23.7	5.0	7.5	20.0	2.1
Jan-2017	-0.1	6.6	3.1	20.6	5.2	7.0	18.2	2.5
Feb-2017	0.1	6.3	3.4	20.9	5.5	6.8	16.1	2.7
Mar-2017	0.2	6.1	3.5	21.6	6.4	6.7	15.8	2.4
Apr-2017	0.5	5.3	3.4	21.3	6.4	6.7	14.6	2.2
May-2017	0.7	5.4	3.5	20.5	6.1	6.5	12.3	1.9
Jun-2017	0.3	5.1	3.5	18.1	5.4	6.8	11.3	1.6
Jul 2017	0.14	4.6	3.4	16.2	5.2	6.6	10.2	1.7
Aug 2017	0.14	4.8	3.4	14.4	5.0	6.3	9.3	1.9
Sep-2017	0.78	5.1	3.2	10.8	5.3	6.6	8.4	2.2
Oct-2017	2.2	4.8	3.0	8.4	5.1	6.4	8.3	2.0
Nov- 2017	3.0	4.6	2.9	7.2	4.4	6.3	7.7	2.2
Dec-2017	3.5	4.5	3.2	5.7	4.0	6.1	7.1	2.1

Source: Country Central Bank Websites, 2017

Inflation Outlook

87. In the outlook period, the risk of inflation would be mitigated by the positive domestic and international goodwill, following the ushering in of a new economic and political dispensation in the country, which has had significant positive effects on reducing the country risk premium and a dampening impact on speculative tendencies, as well as on adverse inflationary expectations. On the other hand, external factors such as the strengthening of the South African rand against the US dollar; high demand for imported goods and services; and surge in oil prices, may exert some upward pressure on domestic prices.

BANKING SECTOR DEVELOPMENTS



Overview

88. The banking sector remained generally safe and stable, premised on adequate capitalisation, improved earnings performance and satisfactory asset quality. The Reserve Bank of Zimbabwe (RBZ) instituted various measures to promote the resilience of the sector, bolster confidence and improve regulatory oversight. In addition, stress tests results revealed that the banking sector is largely resilient to various shocks including credit, market and liquidity risks.
89. As at 31st December 2017, all operating banking institutions were in compliance with the prescribed minimum capital requirements. Banks are making significant progress towards attaining compliance with the 2020 regulatory capital requirements, with three institutions having already met the \$100 million minimum capital requirements for tier 1 segment as at 31st December 2017.
90. Asset quality, as measured by the ratio of non-performing loans to total loans improved over the year under review owing to a number of measures, including enhancement in credit risk management practices by banks, disposal of qualifying non-performing loans to ZAMCO and usage of the Credit Registry.
91. Earnings performance improved during the year ended 31st December 2017, compared to the corresponding period in 2016, largely as a result of reduced provisions for impaired assets on the back of improved asset quality.
92. The Central Bank continued to spearhead implementation of financial inclusion initiatives targeted at minimising constraints and challenges to the inclusion of disadvantaged groups, as well as promoting of access to and increased usage of financial services by all economic agents.
93. The Bank has made significant progress in enhancing the credit infrastructure through the operationalization of the Credit Registry. In addition, the Movable Property Security Interest Act was gazetted to give legal effect to the establishment of a Collateral Registry at the Bank.
- ### ARCHITECTURE OF THE BANKING SECTOR
94. The composition of the banking institutions licenced and regulated by the RBZ as at 31st December 2017, is shown in Table 8.

Table 8: Composition of Banking Sector

Type of Institution	Number	Other Institutions Supervised By The Reserve Bank	Number
Commercial Banks	13	Credit-only-MFIs	178
Building Societies	5	Deposit-taking MFIs	5
Savings Bank (POSB)	1	Development Finance Institutions - SMEDCO and IDBZ	3
Total Banking Institutions	19		

Source : Reserve Bank of Zimbabwe, 2017

95. FMB Capital Holdings Plc of Malawi acquired 81% of Barclays Bank Plc Shares in Afcarne in October 2017, resulting in an effective shareholding of 42.68% in Barclays Bank of Zimbabwe.
96. The RBZ and Time Bank of Zimbabwe Limited reached a resolution for Time Bank to resume banking operations, subject to prior inspection by the Central Bank to ensure that the institution puts in place the necessary capital and banking systems and structures.
97. The Zimbabwe Women Microfinance Bank was licenced in September 2017 as a deposit taking microfinance bank, and is putting in place the requisite infrastructure before commencement of business.
98. During the year 2017, the Industrial Development Corporation of Zimbabwe (IDCZ) was brought under supervision of the RBZ. This development is expected to transform the institution and enable it to contribute meaningfully towards industrial development in Zimbabwe through provision of industrial financing and enterprise development for both large corporates and small and medium enterprises.

CONDITION AND PERFORMANCE OF THE BANKING SECTOR

99. The banking sector recorded satisfactory performance in 2017 and remained sound and resilient.

Capitalisation

100. During the year under review, the banking sector remained adequately capitalised with average capital adequacy and tier 1 ratios of 27.63% and 23.97%, respectively, as at 31st December 2017. All banks complied with the minimum required capital adequacy and tier 1 ratios of 12% and 8%, respectively.

101. The aggregate core capital increased by 19.13%, from \$1.15 billion as at 31 December 2016 to \$1.37 billion as at 31st December 2017, on the back of improved earnings performance.

Asset Quality

Loans and advances

102. Banking sector loans and advances increased marginally from \$3.69 billion as at 31st December 2016 to \$3.80 billion as at 31st December 2017, as some banks adopted a cautious lending approach.

103. The trend in banking sector loans and advances for the period from 31st December 2014 to 31st December 2017, is shown in the Figure 15.

Figure 15: Trend in Banking Sector Loans & Advances (\$m)

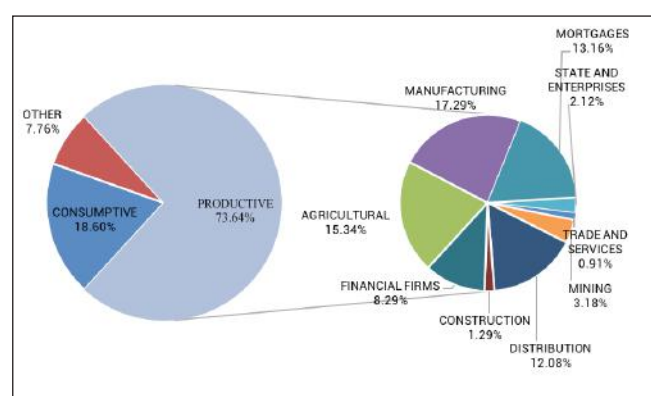


Source: Reserve Bank of Zimbabwe, 2017

Sectoral Distribution of Loans & Advances

104. The distribution of credit remained largely unchanged during the year under review. Lending to the productive sectors of the economy constituted 73.64% of total sector loans as at 31st December 2017, as shown in Figure 16.

Figure 16: Sectoral Distribution of Loans as at 31 December 2017



Source: Reserve Bank of Zimbabwe, 2017

105. The sectoral distribution of loans and advances indicated that the banking sector continued to be constrained in meeting the long-term funding requirements of capital intensive sectors such as construction and mining.

106. Lending to some individuals was for productive purposes to finance farming activities, small scale mining and mortgages. Household or individual borrowing for consumptive purposes accounted for 18.60% of total banking sector loans.

Non-Performing Loans

107. The ratio of non-performing loans (NPLs) to total loans improved from 7.87% as at 31st December 2016, to 7.08% as at 31st December 2017, as banking institutions continue to strengthen their credit risk management systems. Greater use of the Credit Registry also contributed towards the reduction of NPLs.

108. The trend in the NPLs to total loans ratio for the period from December 2011 to December 2017, is shown in Figure 17.

Figure 17: Trend in Non-Performing Loans 2011 – December 2017



Source: Reserve Bank of Zimbabwe, 2017

109. The level of NPLs is expected to continue trending downwards in response to a number of holistic NPL resolution policy measures instituted by the Bank and Government aimed at fostering responsible borrowing culture, including the requirement for banks to obtain Credit Registry reports on prospective borrowers before granting credit and the issuance of Financial Consumer Protection Framework, among others.

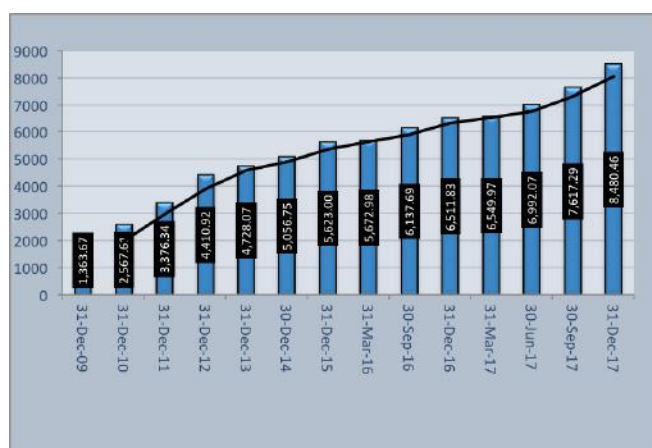
110. The sustainable reduction in NPLs is expected to strengthen banks' balance sheets and position them to meaningfully contribute to the revival of the economy.

Liquidity and Funds Management

111. Banking sector deposits increased by 30.26%, from \$6.51 billion as at 31st December 2016, to \$8.48 billion as at 31st December 2017. The bulk of the deposits were demand deposits.

112. Figure 18 shows the trend of banking sector deposits over the period 30th June 2009 to 31st December 2017.

Figure 18: Banking Sector Deposits (June 2009 – December 2017)

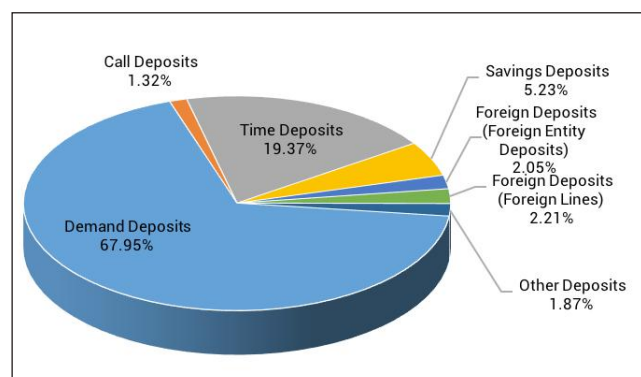


Source : Reserve Bank of Zimbabwe, 2017

113. The commercial banking sub-sector accounted for 82.90% of the banking sector deposits and 72.45% of the total banking sector loans as at 31st December 2017. Banking sector deposits were dominated by demand and time deposits, which accounted for 67.95% and 19.37% of total deposits, respectively, as at 31st December 2017.

114. The composition of total banking sector deposits as at 31st December 2017 is depicted in the Figure 19.

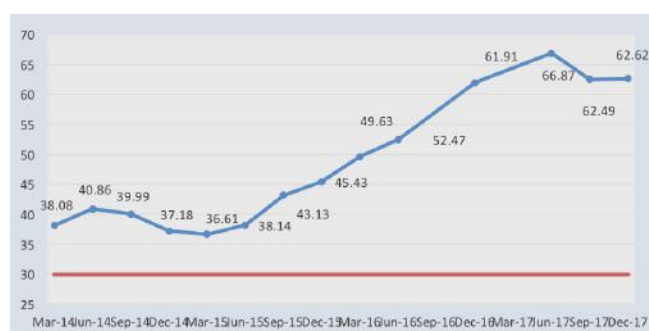
Figure 19: Banking Sector Deposits Mix as at 31 December 2017



Source: Reserve Bank of Zimbabwe, 2017

115. The average prudential liquidity ratio for the banking sector of 62.62%, as at 31st December 2017, was above the regulatory requirement of 30%. Figure 20 shows the trend in the banking sector average prudential liquidity ratio since March 2014.

Figure 20: Prudential liquidity ratio March 2014 to December 2017



Source: Reserve Bank of Zimbabwe, 2017

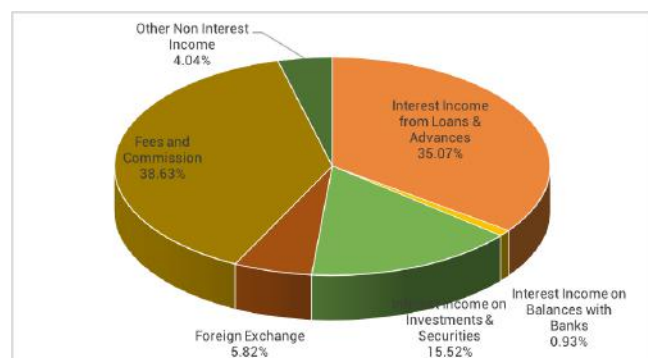
Earnings Performance

116. The banking sector reported a net profit of \$241.94 million during the year ended 31st December 2017. This represented an increase of 33.91%, from \$181.06 million reported in corresponding period in 2016.

117. Interest income continued to be the dominant source of earnings constituting 51.52% of total income of \$1.19 billion for the period ended 31st December 2017. Banking sector non-interest income was largely driven by fees and commission arising from an increase in RTGS, mobile banking and POS transaction volumes.

118. The sources of income for the banking sector for the year ended 31st December 2017 are shown in Figure 21.

Figure 21: Income Sources for the year ended 31 December 2017



Source: Reserve Bank of Zimbabwe, 2017

119. Administrative and salaries & employment benefits continued to dominate total non-interest costs for banking institutions for the year ended 31st December 2017, accounting for 50.62% and 44.63% of total banking sector costs, respectively.

120. The banking sector average return on assets (ROA) and return on equity (ROE) improved to 2.61% and 15.50% as at 31st December 2017, respectively, from 2.26% and 10.96% as at 31st December 2016, as indicated in Figure 22.

Figure 22: Profitability Indicators



Source: Reserve Bank of Zimbabwe, 2017

121. Banking institutions continue to implement revenue enhancement measures such as digital finance and agency banking, while instituting cost containment measures.

MAJOR DEVELOPMENTS AND OTHER SUPERVISORY ACTIVITIES IN THE BANKING SECTOR

122. During the year 2017, a number of a supervisory activities were conducted to promote banking sector stability and bolster confidence.

123. Risk based on-site examinations were conducted to determine the financial condition of the banking institutions, assess the effectiveness of their risk management systems and their compliance with all applicable laws, regulations, prudential guidelines and supervisory recommendations. Examination findings revealed that the examined institutions were in satisfactory conditions and that weaknesses identified could be addressed in the normal course of business.

124. The Bank continued to participate in supervisory colleges including joint on-site examination for effective supervision of cross-border banking groups. The supervisory colleges provide a platform for collaboration, coordination, cooperation and sharing of information by regulators responsible for different components of cross border banking groups.

Resolution of Troubled Banks

125. As at 31st December 2017, a total of 11,744 out of 54,909 depositors had been compensated out of the Deposit Protection Fund, in respect of the failed contributory institutions under liquidation. A total of \$3.2 million was paid, representing 50% of the total exposure of \$6.4 million.

126. A synopsis of deposit insurance payments for the period under review is shown in Table 9.

Table 9: Deposit Insurance Payments as at 31 December 2017

Institution	Total Depositors	Gross Deposits (\$m)	Exposure (Deposits Payable at \$500)	No. of Depositors Paid to Date	Value of Deposits Paid (\$'000')	% Paid to Exposure
Royal Bank	5,433	2.57	472,207	3,105	356	75.5%
Trust Bank	2,958	11.48	328,516	415	146	44.6%
Genesis	86	1.43	11,810	62	9	74.7%
Allied Bank	9,228	14.32	1,248,307	1,529	534	42.8%
Interfin Bank	13,021	137.34	918,814	682	260	28.3%
AfrAsia	24,163	18.56	3,439,276	5,951	1,936	56.3%
TOTAL	54,909	185.69	6,418,930	11,744	3,241	50.5%

Source: Reserve Bank of Zimbabwe, 2017

Enhancement of Credit Infrastructure

Credit Registry

127. The Credit Registry is now fully operational, with all banking institutions' credit data being uploaded into the Credit Registry system on a continuous basis. As at 31st December 2017, the Credit Registry held 350,000 loan records, representing 96.6% of banking sector loan records.
128. As at 31st December 2017, the Credit Registry had a total of 108 subscribers, comprising 19 banks and 89 microfinance institutions. The Credit Registry continued to widen its subscriber base by bringing additional subscribers on board. The enquiries by banking institutions grew steadily to a cumulative total of 116,491 enquiries by 31st December 2017.
129. Consumer awareness and education activities are critical to the success of the Credit Registry in promoting a sound credit culture in the country. In this regard, the Bank embarked on an outreach programme to educate consumers and stakeholders on the establishment of the Credit Registry and the implications to borrowers and lenders during the course of 2017.

Collateral Registry

130. The Movable Property Security Interest Bill was promulgated into law on 28th July 2017. The law provides for the establishment of a Collateral Registry and the registration and administration of security interests in movable collateral by the Reserve Bank.
131. The Bank, in collaboration with the World Bank, is working on the implementation process for the Collateral Registry, including procurement of the software, development of Collateral Registry Regulations and stakeholder consultations.
132. It is envisaged that the establishment of the Collateral Registry will enhance access to credit by marginalised segments of the economy including SMEs, women and youth.

Basel II/III Implementation

133. The Bank is developing the Basel III capital and liquidity management frameworks. The Basel III Standard aims at addressing weaknesses identified during the Global Financial Crisis by improving the quality, consistency and transparency of capital and reduce pro-cyclicality, as well as enhance liquidity management in banks.

IFRS 9 Implementation

134. The Bank has been championing the implementation of the International Financial Reporting Standard (IFRS) 9.
135. To ensure the effective and smooth of its implementation, the Bank has been collaborating with banking institutions, Public Accountants & Auditors Board, Institute of Chartered Accountants Zimbabwe, and accounting firms.
136. The collaborative and consultative efforts culminated in the establishment of an IFRS9 Implementation Working Group and three sub-committees, namely Transitional Arrangements & Stakeholders' Awareness, Models & Capacity Building, and Disclosures & Policies, which have been seized with IFRS 9 technical aspects and implementation strategies thereof.
137. Significant milestones have been achieved in terms of development of IFRS9 compliant models and validation thereof; stakeholder awareness, as well as disclosure requirements and revisions to requisite policies in line with the IFRS 9 Standard.
138. A pilot Quantitative Impact Assessment conducted in June 2017 to assess the impact of expected increases in provisions for bad and doubtful debts as per requirements of the new Standard determined that banking institutions have adequate reserves to absorb the shocks.

Capacity Building Initiatives

139. The Bank will continue to prioritise training programs for its Bank Supervision function to equip staff with bank supervision skills, the latest trends in bank supervision as well as share experiences with other bank supervision regulators.

Legal & Regulatory Developments

140. Subsequent to the promulgation of Banking Act Amendment No. 12 of 2015, measures were put in place to ensure that the new provisions pertaining to risk management and corporate governance became applicable to other regulated entities such as IDBZ, POSB and building societies.
141. Accordingly, the Minister of Finance & Economic Development gazetted General Notice 115 of 2017 on 10 February 2017 essentially specifying the sections of the Banking Act [Chapter 24:20] applicable to the Infrastructure Development Bank of Zimbabwe (IDBZ). IDBZ was previously not under the purview of the RBZ.



142. The Bank, in collaboration with the Ministry of Finance and Economic Development is working on a Microfinance Amendment Bill. The Bill seeks to address issues relating to perpetual licences for deposit-taking microfinance institutions, as well as enhancement of corporate governance systems and risk management practices within the microfinance sector.

EMERGING ISSUES AND REGULATORY PRIORITIES

143. As the financial sector and associated risks continue to evolve, regulatory frameworks need to simultaneously evolve with the sector. Going forward, the Reserve Bank's supervisory attention will focus on the following key areas:

- i. Financial Conglomerate Supervision;
- ii. Proportionality and Bank Regulation;
- iii. Macroprudential Supervision;
- iv. Market Conduct Supervision;
- v. Expected Loss Provisioning;
- vi. Crisis Resolution Regimes;
- vii. Financial Technology (Fintech); and
- viii. Cyber risk.

FINANCIAL INCLUSION

Implementation of the National Financial Inclusion Strategy (NFIS)

144. The Bank continued to spearhead implementation initiatives targeted at minimising constraints and challenges to the inclusion of disadvantaged groups. It is also promoting access to and increased usage of financial services by all economic agents.
145. The strategic goals of the NFIS are :
- i. To increase the overall level of access to formal financial services within the country from 69% in 2014 to at least 90% by 2020; and
 - ii. To increase proportion of banked adults from 30% in 2014 to at least 60% by 2020.
146. The Bank continues to identify and work with stakeholders in implementing various initiatives including the disbursement of empowerment funds to target beneficiaries; and promotion of financial literacy programs. This approach is key in enhancing outreach to marginalised segments such as women, the youth and persons with disabilities.

Opening of Low Cost Accounts

147. Most banks have embraced the low cost accounts model or 'no frills' accounts with very low KYC requirements and minimal bank charges targeting low income groups following realisation of the associated business opportunity.

148. The number of low cost accounts opened by banks increased from 229,264 as at 31st March 2016 to 3.02 million as at 31st December 2017.

Disbursement of Empowerment Facilities

149. The employment of funding accessed by targeted beneficiaries of financial inclusion is expected to spur economic activity and promote the achievement of the sustainable development goals. As at 31st December, a total of \$80.1 million had been accessed under the empowerment facilities.

Financial Literacy

150. The embedding of financial literacy from early childhood development is critical in building a financially literate nation. The Reserve Bank and Government are working with development partners and other stakeholders in embedding financial literacy in school curriculum, as well as in the implementation of tailored financial education programs in the country, in line with a National Financial Literacy Strategy which is being developed.

Consumer Protection and Market Conduct Supervision

151. The Reserve Bank issued a Financial Consumer Protection Framework in June 2017, to enhance consumer protection in the banking sector. The Framework applies to all banking and non-bank financial institutions that are regulated by the Bank and their agents. Going forward, the Bank will be employing various on- and off-site market conduct supervision techniques to achieve the desired levels of consumer protection in the financial sector.

Monitoring and Evaluation of NFIS Implementation

152. In line with best practice, a monitoring and evaluation framework has been established to facilitate ongoing assessment of the impact of financial inclusion initiatives under the auspices of the National Financial Inclusion Strategy.
153. Access to formal financial services by target groups such as women, SMEs and youth has continued to improve as shown in Table 10.

Table 10: Financial Inclusion Indicators

Indicator	Dec 2016	June 2017	Sept 2017	Dec 2017
Value of loans to SMEs	\$131.69 m	\$136.39 m	\$143.82 m	\$146.22 m
Percentage of loans to SMEs over total loans	3.57%	5.36%	6.12%	3.75%
Number of SMEs with bank accounts	71,730	79,484	91,457	76,524
Number of Women with Bank Accounts	769,883	856,472	916,379	935,994
Value of Loans to Women	\$277.30 m	\$303.84 m	\$339.40 m	\$310.78 m
Number of Loans to Youth	38,400	56,926	64,938	61,529
Value of Loans to Youth	\$58.41 m	\$77.09 m	\$120.69 m	\$138.93 m
Total number of Bank Accounts	1.49 m	2.91 m	2.99 m	3.07 m
Number of Low Cost Accounts	1.20 m	1.56 m	1.86 m	3.02 m
Number of ATMs	569	562	563	563
Number of Point of Sale (POS) Terminals/Machines	32,629	44,805	50,418	59,939

Source : Reserve Bank of Zimbabwe, 2017

PERFORMANCE & CONDITION OF THE MICROFINANCE SECTOR

Architecture of the Microfinance Sector

154. The number of microfinance institutions under the purview of the Reserve Bank of Zimbabwe has increased over the years as shown in Table 11.

Table 11: Number of microfinance institutions

Type of Institution	2014	2015	2016	2017
Credit-Only Microfinance Institutions*	147	149	181	181
Deposit-Taking Microfinance Institutions (DTMFIs)	-	3	4	5
Total	147	152	185	186

Source: Reserve Bank of Zimbabwe, 2017

*Inclusive of moneylending institutions

155. The number of microfinance institution branches increased by 3.5%, from 659 in 2016 to 682 in 2017. Similarly, the outreach of microfinance institutions increased by 11.27% from 290,552 active clients in 2016 to 323,286 as at 31st December 2017.

Performance of the Sector Lending Activities

156. The microfinance industry, inclusive of four operating deposit-taking microfinance institutions recorded a 23.15% increase in portfolio size, from \$206.28 million as at 31 December 2016 to \$254.04 million. This represented 6.70% of the total banking sector loans of \$3.79 billion as at the same date. Lending to the productive sectors by the microfinance industry amounted to \$155.02 million, representing 61.03% of the industry's total lending.

157. Table 12 shows key performance indicators for the microfinance industry.

Table 12: Microfinance Key Performance Indicators

Indicator	Dec 2015	Dec 2016	Dec 2017
Number of licensed Institutions	152	185	186
Total Loans (US\$M)	\$187.16 million	\$206.28 million	\$254.04 million
Total Assets (US\$M)	\$225.13 million	\$275.04 million	\$333.27 million
Total Deposits (DTMFIs)	--	\$4.19 million	\$6.41 million
Number of Savings Accounts (DTMFIs)	--	1,411	2,868
Portfolio at Risk (PaR>30 days)*	10.72%	8.34%	7.34%
Number of Active Clients	202,242	290,552	323,286
Number of Outstanding loans	262,627	352,225	416,109
Number of Branches	571	659	682

Source : Reserve Bank of Zimbabwe, 2017



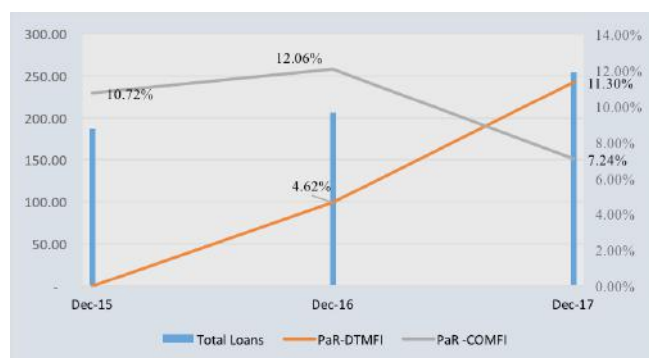


- * Portfolio at Risk [30] days-The value of all loans outstanding that have one or more instalments of principal past due more than [30] days. This includes the entire unpaid principal balance, including both the past due and future instalments, but not accrued interest. It also includes loans that have been restructured or rescheduled.

Portfolio Quality

158. The quality of the loan portfolio for the microfinance industry improved from 8.34% as at 31st December 2016 to 7.34% as at 31st December 2017. The trend in the total loans and the PaR ratios for both the deposit-taking microfinance institutions and credit-only microfinance institutions are shown in Figure 23.

Figure 23: Trend in Total Loans and PaR



Source: Reserve Bank of Zimbabwe, 2017

159. The microfinance industry is expected to enhance its credit risk management systems and ensure that the PaR ratio gravitates towards compliance with the international benchmark of 5%.

Profitability

160. The aggregate net profit for the microfinance industry increased by 11.37%, from \$19.43 million for the year ended 31st December 2016 to \$21.64 million for the year ended 31st December 2017.

Capital

161. Total capitalisation for the microfinance industry as at 31st December 2017 was \$130.22 million, representing a 2.11% increase from \$127.53 million recorded in December 2016.



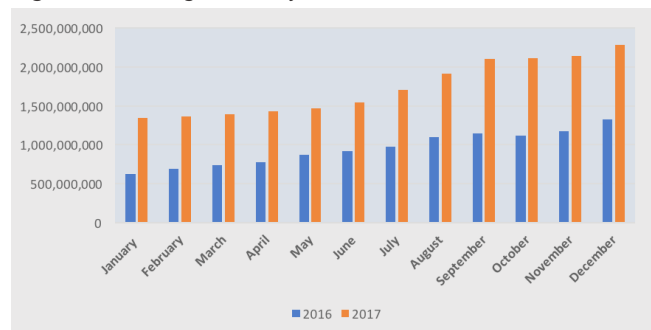
MONEY AND CAPITAL MARKETS DEVELOPMENTS



MONEY MARKET LIQUIDITY

162. Monthly RTGS account balances averaged US\$1,731.8 million in 2017, compared to US\$953.8 million in 2016 as shown in Figure 24.

Figure 24: Average Monthly RTGS Account Balances



Source: Reserve Bank of Zimbabwe, 2017

163. The increase in the RTGS balance position was largely driven by increased Government financing through the overdraft facility at the Central Bank.

164. Liquidity, as measured by RTGS account balances, remained concentrated in a few institutions with the top 5 banks accounting for around 65% of the total market liquidity.

AFREXIMBANK BACKED INTERBANK MARKET (AFTRADES) FACILITY

165. The AFTRADES facility which initially ran from February 2015 to February 2017, was rolled over for another two years at an increased amount of US\$400 million. While the initial objective of the facility was to provide liquidity support to banks experiencing short-term liquidity challenges, it is now also being used as an open market operation tool. This is largely on account of banks' liquidity conditions having improved significantly.

166. The facility is still available to banks requiring liquidity support by unlocking surplus funds to resuscitate interbank lending. By 31st December 2017, the facility had been fully subscribed with total borrowing by short banks standing at US\$70 million.

SAVINGS BOND

167. In September 2017, the Bank introduced the 7% savings bond to provide investors with a platform for saving, given that deposit rates were so low or non-existent to the extent of discouraging banking by the public. It is also being used as a tool to manage excess liquidity in

the market as the funds are largely sterilised.

168. The savings bond has maturities ranging from one year, two years, three years and five years and pays a half-yearly coupon of 7%. It enjoys tax-free interest as well as prescribed asset status, which makes it an attractive investment for insurance and pension funds.

169. As at 31st December 2017, a total of US\$165.2 million had been raised through the savings bond.

MONEY MARKET SECURITIES

Government Securities

170. Government issued securities to finance its expenditures on a private placement basis. Other issuance of government securities were largely for creditors, outstanding RBZ debt takeover and for the Zimbabwe Asset Management Company the Zimbabwe Asset Management Company (ZAMCO).

171. The stock of outstanding Treasury Bills and Bonds, increased from US\$3.2 billion in 2016 to US\$5.2 billion as at the end of 2017.

Publicly Guaranteed Securities

172. Government guaranteed securities were also issued during the year. In this regard, over US\$180 million was raised through the Infrastructure bond, Agro-bills, Irrigation Bond and AMA bills.

RBZ FACILITIES

173. In its effort to promote production, the Bank put in place a number of facilities which covered different sectors of the economy. The facilities were offered through banking institutions for on-lending to the ultimate beneficiaries.

174. The following intervention finance facilities were put in place to promote production, productivity, exports, financial inclusion business and linkages:

- i. Export Finance Facility – US\$70 million;
- ii. Gold Support Facility – US\$40 million;
- iii. Women Empowerment Fund – US\$15 million;
- iv. Tourism Support Facility – US\$15 million;
- v. Cross Border Facility – US\$15 million;
- vi. Horticulture Facility – US\$10 million;
- vii. Business Linkage Facility – US\$10 million;
- viii. Youth Empowerment Fund – US\$10 million; and
- ix. People with Disabilities Fund – US\$5 million.

175. The facilities covered various schemes ranging from

business linkages, export finance, horticulture, small scale tobacco growers, higher and tertiary education and other empowerment facilities. Disbursements were for both working capital, for a period of up to 12 months and for capital expenditure for a period up to 36 months.

INTERNATIONAL FINANCIAL MARKETS

176. The US Federal Reserve Bank raised its benchmark rate three times in 2017, in line with expectations, as borrowing costs continued on an upward trend. The key US interest rate rose from a range of 0.5% - 0.75% in December 2016 to end 2017 at 1.25% - 1.5%. In 2017, leading central banks, namely; Bank of England, European Central Bank and Bank of Canada began signaling the need to start ending quantitative easing in their respective jurisdictions in 2018.
177. Reflecting changes in world interest rates, the world's benchmark borrowing/lending rate, Libor also increased in 2017. The three-month Libor (3MO Libor) rose from about 1.00% in January 2017 to end the year around 1.7%.
178. Most commodities capped a good year of gains, against a declining US dollar which slid to its worst since 2003, on the back of tensions over North Korea, the Russian scandal surrounding US President Trump's election campaign and persistently low US inflation.

BOND MARKET

179. The Zimbabwe Stock Exchange (ZSE) established the Fixed Income Board (FIB) to facilitate the operation of its re-established debt market. The ZSE debt market was revived in April 2017, 16 years after it became dormant.
180. This platform enables investors to diversify their portfolios and mitigate risk. In addition to this, the listing of debt securities on the local bourse enables institutional and individual investors to raise capital in a transparent and efficient platform.
181. Low appetite from issuers and investors on the new market was due to an unfavourable economic environment, which made Zimbabwe vulnerable to capital outflows.
182. Since the FIB started operating, there has been only one listing in the form of medium term notes issued by Getbucks Micro Finance Bank.

183. In August 2017, GetBucks was forced to move its US\$15 million second series medium-term note to private listing due to low uptake on the ZSE.
184. The low uptake on GetBucks bond came at a time when the local stock exchange was performing exceptionally well and this was contrary to inherent benefits of the bond markets.
185. IDBZ listed bonds worth US\$65 million on the Financial Securities Exchange (FINSEC) in November 2017, becoming the second company to list on the bond market.

DEVELOPMENTS ON THE ZIMBABWE STOCK EXCHANGE

186. During the first half of 2017, the Zimbabwe Stock Exchange (ZSE) experienced steady growth with the industrial and mining indices rising from 144.53 points and 58.51 points at the end of December 2016 to 195.97 points and 69.79 points on the 30th June 2017, respectively. The second half of 2017, however, recorded exponential growth in both industrial and mining indices, leading to new respective ZSE highs of 534.13 points and 138.12 points on 14th November 2017. The growth was largely attributed to speculative behaviour by investors who flocked to the stock market seeking a safe haven, given the limited investment options in the country.
187. The mainstream index, however, declined by 37.65%, from 534.13 points on 14th November 2017 to 333.02 points as at end of 2017. On a year-on-year basis, however, the industrial and mining indices grew by 130.42% and 143.38%, respectively.

188. Figure 25 shows developments in the industrial and mining indices in 2017.

Figure 25: Zimbabwe Stock Exchange Indices



Source: Zimbabwe Stock Exchange, 2017

Market Turnover

189. As a consequence of high speculative trading activity, the cumulative volume and value of shares traded increased by 124.60% and 260.76% to 3.37 billion shares and \$694.15 million, respectively, during the year under analysis.

190. The ZSE recorded a net foreign capital outflow of \$99.99 million in 2017, compared to an outflow of \$78.32 million in 2016. The persistent decline in foreign portfolio investment was partially attributed to the negative foreign investor perception of the country, particularly before the new dispensation.

Figure 26: ZSE Market Turnover



Source: Zimbabwe Stock Exchange, 2017

Market Capitalisation

191. In line with significant increases in share prices, mainly during the second half of 2017, the ZSE gained \$5.57 billion, or 139.04% of the previous year's value to close the year at \$9.58 billion. This was, however, a significant decline in market capitalization, from a peak of around \$15 billion in mid-November 2017, during the transition to the new dispensation.

Figure 27: Market Capitalization



Source: Zimbabwe Stock Exchange, 2017

Other Developments and Outlook

192. In the short to medium term, the stock market is expected to rebound, supported by renewed investor interest emanating from companies' growth impetus, given the economic reforms being instituted by the new Government under the new economic order and political

dispensation. The positive domestic and international goodwill is expected to spur activity on the Zimbabwe Stock Exchange.

Foreign Exchange Markets

193. The US dollar was weaker against its major trading currencies in 2017 weighed down by political concerns as well as concerns on proposed tax cuts. The greenback shed off over 10% against the British pound and euro in 2017. The Australian dollar and Japanese yen gained about 5% and 3.5%, respectively, against the US dollar in 2017.

Figure 28: Exchange Rate Trends – USD vs GBP, Euro & AUD (2017)

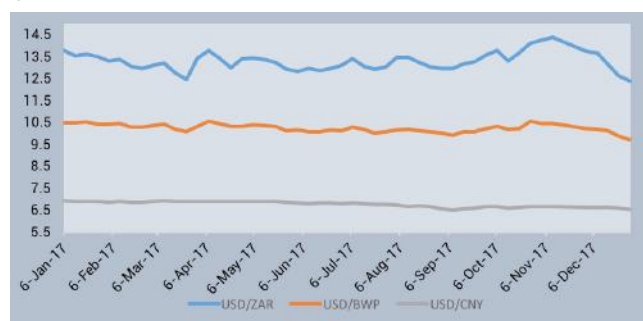


Source: Reuters, 2017

194. Emerging market currencies were stronger against the US dollar, as they trended developments around major world currencies. The South African rand, Botswana pula and Chinese yuan appreciated by about 10%, 8% and 5%, respectively, against the US dollar in line with most advanced countries' currencies.

195. The South African rand remained the most volatile emerging currency as domestic political developments took center stage in 2017. The movement in USD/ZAR, USD/BWP and USD/CNY are shown in Figure 31.

Figure 29: Emerging Markets Rates – USD vs ZAR, BWP & CNY



Source: Reuters, 2017

NATIONAL PAYMENT SYSTEMS

196. Recognizing the significant advances in the digital financial services for the economy, the Bank works with a clear agenda of ensuring that all payment, clearing, securities and settlement systems operating in the country are authorised, safe, secure, sound, efficient and accessible.
197. Consistent with the above, the Bank took several measures during 2017 to improve the efficiency of existing systems. It also promoted the use of electronic means of payment systems and also enforced compliance and stimulated new initiatives.
198. During 2017, the country witnessed a quantum leap in the use of electronic means of payment with one billion transactions valued at US\$93.9 billion. These represented volume and value increases of 169% and 52%, respectively from 2016.

Promotion of Electronic Means of Payment Policy

199. The promotion of electronic means of payment policy aims at developing the country's digital economy through the payment systems infrastructure which is comprehensive, integrated and sustainable.
200. The policy also envisages payment systems that cater for various financial transactions and economic activities by providing convenience and timeliness while at the same time strengthening the competitiveness of businesses.
201. The Bank worked closely with all key stakeholders to ensure smooth implementation of electronic means of payment infrastructure across the country. An example is include the ZINARA tollgate ticketing system.
202. In order to support its calls for increased use of electronic means of payments, the Bank continued to allocate foreign currency for the acquisition of payment system infrastructure such as POS machines.
203. The Bank also undertook educational and awareness campaigns to various stakeholders to promote the use of electronic and other non-cash payment methods.

Development of Innovative Payment Services

204. During the year under review, the Bank encouraged and approved the development of innovative payment services as well as infrastructure with key stakeholders. These included the electronic funds transfer (EFT), Quick Response (QR) Code and near field communication

(NFC) among others. The real time EFT product bridged the gap between large value and other small payment streams.

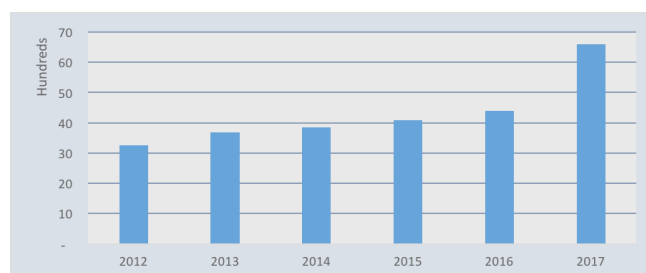
Systems Up Time

205. The systems for Large Value Payments, Clearing and Settlement Systems (RTGS and CSD) that provide interbank settlement services had an uptime of 99% in 2017.
206. Retail payment streams achieved an average up time of 81%, a marginal increase of 5% from 2016. The 19% gap was largely attributed to system interruptions related to upgrades and capacity constraints, which should generally improve in view of the increased investments taking place.

Payment Systems Indicators

207. Annual national payment systems indicators measured against the GDP and population reflected an upward trajectory for the RTGS, mobile, and POS streams during the past six years as shown in Figure 30.

Figure 30: Transaction Value Per Capita –USD (Unit) 2012-2017



Source: Reserve Bank of Zimbabwe, 2017

208. The aggregate turnover to GDP increased to 6.5 times in 2017, compared to 4.4 times in the previous year as shown in Figure 31.

Figure 31: Turnover Value to GDP –USD (2012-2017)



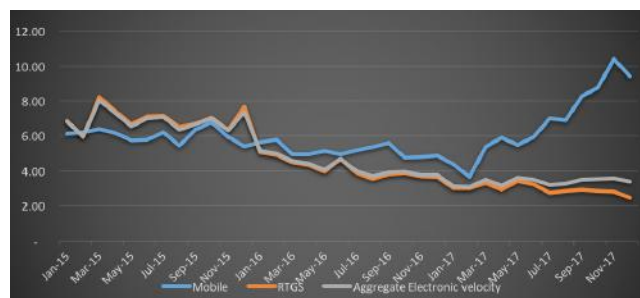
Source: Reserve Bank of Zimbabwe, 2017

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

Velocity of Circulation

210. The Mobile payment stream recorded the highest increase of 93% in velocity of circulation to 9.40, whilst the velocity for the aggregate electronic payments was 3.37 in December 2017, as shown in Figure 32. The trend was in line with the general expectations given that mobile payment is mainly used for small value and high volume payment activities.

Figure 32: Payment streams velocity of circulation 2015-17



Source: Reserve Bank of Zimbabwe, 2017

Financial Market Infrastructures (FMIS) Overview

211. The national payment system is largely characterised by international, regional and local payment services providers, with the latter accounting for more than 80% of the total FMIs.

212. As at 31st December 2017, there were 13 local financial market infrastructures and 21 participating banking institutions as shown in the Table 13.

Table 13: FMI Architecture

Large Value Payment Streams	Number of Providers	Number of Participants in 2017
RTGS System -multi-currency system	1	23
SADC Integrated Regional Settlement System (SIRESS)	1	14*
SECURITIES SETTLEMENT SYSTEMS (SSS)		
Central Securities Depository System (CSD) for Government Securities	1	18
Central Securities Depository System (Equities)	1	5
RETAIL PAYMENT STREAMS		
Switches	4	19
Mobile Payment System Providers	5	11
Internet and Mobile Banking	Various ***	19
Electronic Financial Transfer (EFT)	2	21
Cheque	1	14

Source: Reserve Bank of Zimbabwe, 2017

*Zimbabwean banks

*** Each bank has an approved internet and mobile banking platform which are branded according to the individual institution's preferences



Legal and Policy Issues

213. The Bank continued to make timely initiatives to ensure that the regulatory framework for the payment system keeps in line with technological changes.

stability of payment systems infrastructure, which are important in view of the ever-increasing complexity and diversity of products offered to the market through traditional and digital channels.

214. During 2017, the Bank issued the Retail Payment Systems and Instruments Guidelines, which sets out the minimum standards for the establishment and management of electronic payment infrastructure. The guideline covers issues of governance, capacity and

215. The new Guidelines and the already issued Oversight Framework and Recognition Criteria are intended to foster the design, development and implementation of electronic retail payment systems leveraging on the available technology.

216. The new Guidelines are also expected to go a long way in promoting the usage of electronic means of payments in a prudent, inclusive and customer focused manner.

Oversight Activities

217. The broader objective of the Bank in the financial market infrastructures, is to preserve the integrity and stability of the payment, clearing and settlement systems through its oversight responsibility.

218. The soundness and resilience of the electronic payment systems is underpinned by the continuous enhancement of oversight methodologies, adoption of sound risk management and appropriate corporate governance practices by the institutions.

219. The National Payment Systems Department assumed the responsibility of supervising all FMIs on AML/CFT as designated by the Financial Intelligence Unit (FIU).

220. The oversight activities focused on developing the risk-based approach with a particular emphasis on anti-money laundering and counter financing of terrorism (AML/CFT) activities in line with the Financial Action Task Force (FATF) Recommendations. The quarterly AML/CFT self-assessments indicate an acceptable level of compliance by FMIs.

Consumer Protection

221. The increased wider choices of electronic means of payment have ushered in new consumer protection challenges. In an effort to address the challenges, payment systems providers were directed to continue to embrace the basic rights of consumers.

222. Payment system providers are expected to inform customers of all charges, fees, penalties and any other financial liability or obligations arising from the use of their platforms or services.

223. The Bank continues to implore providers of payments streams to continuously reduce charges and fees and aim to push more volumes of transactions.

Payment Systems Risk Management

224. The Bank ensured that all banks implemented the SWIFT Customer Security Programme (CSP) whose deadline was 31st December 2017. CSP aims to improve information sharing throughout the community, enhance SWIFT-related tools and provide security control framework for customers.

225. It has become imperative that banks and payment systems providers rapidly deploy, collaborate and maintain minimum cyber hygiene tools and security controls for all their systems.

226. The Bank approved the setting up of the Electronic Banking Fraud Forum to counter fraud and other related issues. This initiative was supported by key stakeholders such as VISA and MasterCard who provided initial training, leveraging on their global experiences on cybercrime.

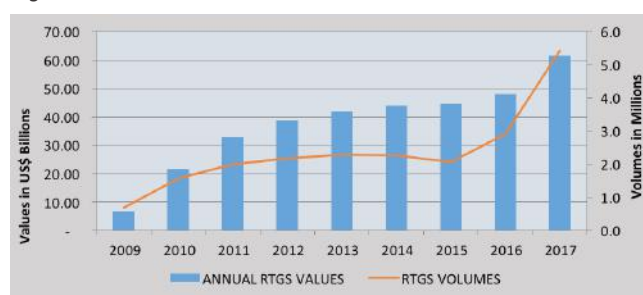
Large Value Payments

Real Time Gross Settlement (RTGS) System

227. A cumulative total of 5.4 million transactions valued at US\$61.6 billion, ZAR739.9 million, GBP1 million and EUR24.5 were processed through the RTGS system in 2017.

228. The total volumes and values increased by 87% and 28% respectively, compared to the same period of 2016. Figure 33 illustrates RTGS activities over the past nine years.

Figure 33: Total RTGS Transactional Activities from 2009 to 2017



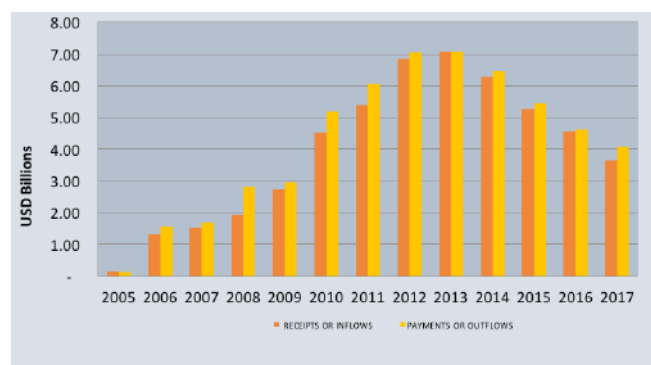
Source: Reserve Bank of Zimbabwe, 2017

Swift Foreign Transactions

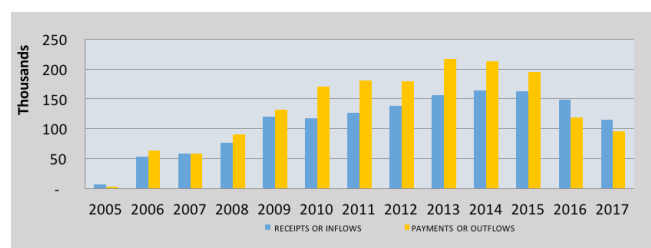
229. SWIFT based volumes for foreign currency receipts decreased by 23%, to 115,161 in 2017, from 148,645 in 2016. Foreign currency payment volumes decreased by 20%, to 95,384 in 2017 from 118,988 in 2016.

230. Foreign currency receipts and payments values decreased to US\$3.66 billion and US\$4.08 billion, from US\$4.57 billion and US\$4.61 billion, respectively. This was in line with the foreign exchange challenges which the country experienced during the year under review.

231. Figures 34 and 35 show trends in swift foreign currency transactions since 2005.

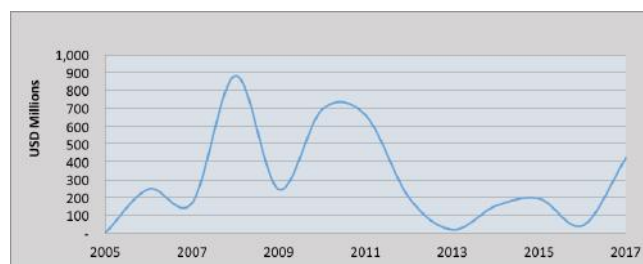
Figure 34: Swift Foreign Currency Transaction Values


Source: Reserve Bank of Zimbabwe, 2017

Figure 35: Swift Foreign Currency Transaction Volumes


Source: Reserve Bank of Zimbabwe, 2017

232. Net foreign currency outflows through the SWIFT infrastructure amounted to US\$422 million as shown in Figure 36.

Figure 36: Swift Annual Net Outflows (million)


Source: Reserve Bank of Zimbabwe, 2017

Retail Payment Streams

233. During the period under review, retail payment streams continued on upward trajectory growth path except for cheques and ATM transactions.

234. Aggregate values and volumes went up by 126% and 169%, respectively with mobile transactions constituting the largest proportions as shown in Table 14.

Table 14: Retail Payment Transactional Activities for 2016 and 2017

PAYMENT STREAMS	2016	2017	Proportion of Total 2017	% Change
	Values			
CHEQUE	113,083,273.59	69,437,643.79	0.28%	-39%
POS	2,898,437,870.85	6,635,840,710.92	26.36%	129%
ATMS	2,283,533,146.98	427,973,605.99	1.70%	-81%
MOBILE	5,815,862,225.76	18,020,733,457.33	71.66%	210%
TOTAL VALUE	11,110,916,517.18	25,153,985,418.03	100.00%	126.3%
	Volumes			
CHEQUE	347,735	320,341	0.03%	-8%
POS	52,407,464	214,857,784	21.97%	310%
ATMs	12,332,547	8,098,497	0.83%	-34%
MOBILE	298,586,190	754,742,123	77.17%	153%
TOTAL	363,673,936	978,018,745	100%	169%

Source: Reserve Bank of Zimbabwe, 2017

235. The growth in the transactional activities was largely due to the market responding to policy pronouncements on the promotion of plastic money in the economy. There was also a corresponding increase in the devices and access points.

236. Point of sale (POS) devices increased by 84%, to 59,939 in 2017 from 32 629 in 2016. At the same time the market embraced mobile point of sale (mPos) as part of the payments stream. All access points recorded positive growth during 2017 except for ATMs as shown in Table 15.

Table 15: Payment Access Points and Devices for 2016 and 2017

	2016	2017		% Change
			Difference	
Mobile Money Agents	40,590	44,793	4,203	10%
ATMs	569	563	-6	-1%
POS	32,629	59,939	27,310	84%
NFC	-	6,063		
QR Code	1065	7,075	6,010	564%
PAYMENT SYSTEMS ACCESS DEVICES				
Debit Cards	3,127,153	4,281,683	1,154,530	37%
Credit Cards	16,030	17,411	1,381	9%
Prepaid Cards	43,288	63,987	20,699	48%
Mobile Payment Subscribers	3,279,049	4,611,608	1,332,559	41%
Internet Banking Subscribers	168,339	277,674	109,335	65%

Source: Reserve Bank of Zimbabwe, 2017

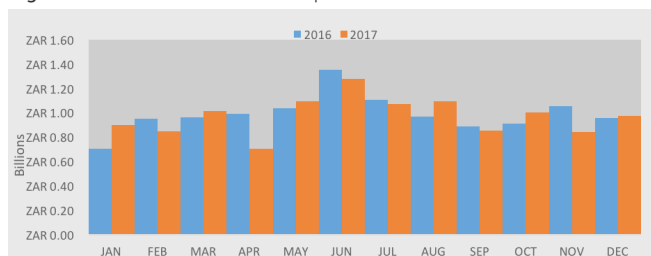
237. The value of Mobile Financial Services (MFS) transactions for the year stood at US\$18 billion, an increase of 210% from the US\$5.8 billion recorded in 2016. MFS transaction volumes also increased by 153% to 754.7 million in 2017, from 298.6 million in 2016.

238. The increase in non-cash retail payment streams during the period under review was a positive development as the country moves to become a cash-lite economy.

Regional Developments

239. The Central Bank is committed to regional payment system initiatives and continues to encourage banks and other payment service providers to utilise the SADC Integrated Regional Electronic Settlement System (SIRESS) platforms to settle regional cross-border transactions.

240. Since the implementation of SIRESS in July 2013, the number of local banks participating on SIRESS has risen to 14, whilst transaction values have also risen as shown in Figure 37.

Figure 37: Month on Month Comparison values -2016 and 2017

Source: Reserve Bank of Zimbabwe, 2017

Remittances

241. The inaugural 2017 Remittances Survey Report for Zimbabwe by the World Bank revealed the need to enhance the remittances infrastructure and reduce the transaction costs especially for cross border activities within the SADC region.

EXCHANGE CONTROL POLICY DEVELOPMENTS



Operational guidance and efficient payments to tobacco and cotton growers

242. In terms of the Exchange Control Tobacco Finance Order of 2004, and Exchange Control Cotton Finance of 2008, green leaf tobacco and seed cotton respectively, continued to be purchased using funds drawn-down from offshore sources.

243. Consistent with the need to spread financial liquidity arising from the tobacco financing arrangements to

the rest of the economy, for all funds drawn down for the purpose of purchasing green leaf tobacco, 80% was transferred to the RBZ Nostro. The Bank transferred the equivalent value to the Authorised Dealer's RTGS Account for the account of the tobacco merchant. The remaining 20% was retained by commercial banks to finance foreign payments requirements for the rest of their clients.

244. Tobacco farmers continued to be paid through bank accounts and/or electronic platforms.

245. The Reserve Bank paid the 5% export incentive for tobacco growers by the end of each calendar month. To facilitate these payments, the Tobacco Industry and Marketing Board (TIMB) submitted to the Bank, fully authenticated information relating to sales by tobacco growers for the period under consideration.

Enhanced Gold Support Facility for Artisanal Miners

246. In order to mobilise more gold from small and medium scale gold producers, the Bank increased the gold support facility from US\$20 million to US\$40 million.

247. The facility was administered by Fidelity Printers and Refiners in relation to the amount of gold delivered by each artisanal miner.

Establishment of the Zimbabwe Portfolio Investment Fund

248. In order to maintain investor confidence, promote foreign investment inflows, and aid the well-functioning of the stock market, with effect from 1st September 2017, the Bank established the Zimbabwe Portfolio Investment Fund.

249. The Fund is housed at identified local commercial banks, who are responsible for the receipt and payment of all portfolio investment proceeds and dividends into and out of the country by portfolio foreign investors.

Management of foreign exchange receipts for PGMs and Chrome

250. In order to ensure effective administration of foreign exchange, as well as spread liquidity and guarantee equity in the foreign exchange market, 80% of all foreign exchange receipts from the Platinum Group of Metals (PGMs) and Chrome were transferred to the Reserve Bank Nostro Account on receipt. The Reserve Bank transferred an equivalent amount through RTGS to the commercial banks for the account of the exporter.

Standby facility to support export competitiveness

251. In order to build on the success of the Export Incentive Scheme that was introduced in May 2016, the Reserve Bank extended by a further US\$300 million under a standby liquidity support from Afreximbank. This facility, which aimed at improving and enhancing production of goods and services for export, was administered similarly to the existing US\$200 million facility.

Export of Cash by Individuals

252. In an effort to bring convenience to the travelling public, the limit of foreign currency cash that can be carried on person or baggage per exit without Exchange Control approval was increased from US\$1000 to an equivalent of US\$2,000.

Reduction of Licencing Fees for Authorised Dealers with Limited Authority and Bureaux de Change

253. In an effort to enhance the ease of doing business and increase competition in the remittances market, the licence fees for Authorised Dealers with Limited Authority (ADLAs) and Bureaux de Change were reviewed downwards by about 50%.

Supply and Demand of Foreign Currency

254. Global foreign currency receipts for the period 1st January – 31st December 2017 amounted to US\$5.52 billion, compared to US\$5.37 billion received during the same period in 2016. This represented a 2.9% increase.

255. Export receipts constituted 64% of the total foreign currency receipts, followed by international remittances 25%, loan proceeds 10%, income receipts with a modest 1%.

256. Global foreign payments decreased by 6% to US\$4.81 in 2017, from US\$5.14 billion recorded in 2016.

257. A foreign currency net position of US\$714.9 million was achieved during the period under review, compared to US\$229.8 million for the same period in 2016.



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Table 1: Depository Corporation Survey

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Net Foreign Assets	-94,626.89	-86,042.14	-239,224.67	-374,368.83	-728,596.76	-691,268.72	-643,665.14	-556,149.85	-963,774.49
Central Bank	-644,659.48	-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
Other Depository Corporations	550,032.59	528,938.78	441,443.94	265,571.67	1,490.63	-61,645.96	-4,167.43	18,101.16	162,486.37
Net Domestic Assets (NDA)	1,475,076.92	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	9,071,999.06
Domestic Claims	1,595,748.34	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	10,699,362.07
Claims on Central Government(net)	865,901.02	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
Claims on Central Government	888,183.84	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
Less Liabilities to Central Government	22,282.81	136,744.65	212,466.94	206,387.11	92,077.58	97,809.67	109,823.09	160,773.86	134,978.34
Claims on Other Sectors	729,847.31	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	4,421,894.49
Other Financial Corporations	12,035.70	35,485.70	44,912.44	76,815.35	38,903.84	24,193.92	81,997.26	82,282.79	64,990.53
State and Local Government	183.10	17,507.84	16,123.28	20,810.52	18,619.20	12,198.23	45,257.57	34,237.41	46,177.22
Public Non Financial Corporations	25,643.99	22,923.34	64,424.45	71,216.88	80,528.68	86,261.61	172,204.57	253,405.61	591,300.63
Private Sector	691,984.52	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
Other Items(Net)	120,671.41	225,819.52	538,937.98	722,480.23	589,004.85	354,583.34	950,145.92	1,286,987.02	1,627,363.01
Broad Money-M3	1,380,450.04	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	8,108,224.57
Securities Other than Shares Included in Broad Money	516.32	55,848.18	57,954.25	55,930.97	82,609.89	119,858.96	44,656.65	62,894.35	68,638.47
Broad Money-M2	1,379,933.72	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	8,039,586.10
Other Deposits	207,232.62	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
Narrow Money-M1	1,172,701.10	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	6,637,861.06
Transferable Deposits	1,172,701.10	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	6,305,923.18
Currency Outside Depository Corporations	0.00	0.00	0.00	0.00	0.00	298.65	7,126.98	70,170.81	331,937.88

Source: Reserve Bank of Zimbabwe, 2017

Table 2: Institutional Asset Base and Market Share

	2011	2012	2013	2014	2015	2016	2017	Market Share (%)
Commercial Banks	3,829,719,206	4,604,687,298	4,904,957,639	5,633,320,582	6,260,377,926	7,066,935,424	9,279,145,363	82.51%
Merchant Banks	713,488,952	402,288,508	158,588,381	99,998,770	91,564,731	**	**	**
Building Societies	505,088,407	717,144,950	921,033,146	1,234,855,548	1,408,846,687	1,497,005,608	1,740,131,986	15.47%
P.O.S.B	64,988,910	80,599,023	91,188,954	105,153,436	143,480,509	164,329,313	226,694,598	2.02%
GRAND TOTAL	5,113,285,475	5,804,719,779	6,075,768,120	7,073,328,336	7,904,269,853	8,728,270,345	11,245,971,948	100.00%

Source: Reserve Bank of Zimbabwe, 2017

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

NON-FOOD INFLATION													FOOD INFLATION	ALL ITEMS
	ALCOHOLIC BEVERAGES & TOBACCO	CLOTHING FOOTWEAR	HSING, WATER, ELECTRICITY, 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	4.38	6.05	17.74	9.91	2.16	9.76	3.41	2.1	5.67	1.38	3.91	66.47	33.53	100
2017														
January	-0.47	-1.52	-2.16	-0.62	-0.68	-1.76	-1.44	0.20	3.49	-0.02	-0.62	-0.82	-0.30	-0.65
February	-0.42	-1.66	-1.91	0.26	-0.53	-1.29	-1.31	0.18	3.49	0.24	-0.05	-0.51	1.29	0.06
March	-0.13	-1.45	-0.95	1.64	-0.30	-0.79	-1.74	0.40	0.12	0.87	0.92	-0.25	1.21	0.21
April	-0.26	-1.29	-0.89	2.03	-0.33	-0.86	-1.61	0.44	2.16	1.30	1.21	0.08	1.35	0.48
May	0.15	-0.98	-1.01	2.16	-0.01	-0.71	0.00	0.17	2.16	0.88	1.46	0.21	1.92	0.75
June	0.29	-0.74	-2.39	2.52	-0.19	-0.81	0.00	0.59	-0.48	0.86	1.70	-0.37	1.82	0.31
July	0.47	-0.58	-2.43	2.41	-0.03	-1.01	0.29	0.55	-3.28	1.93	2.12	-0.67	1.92	0.14
August	0.35	-0.26	-2.37	2.50	0.02	-0.88	0.33	0.78	-3.28	1.92	2.05	-0.60	1.76	0.14
September	0.27	0.22	-1.05	3.91	0.12	-1.11	0.57	1.69	-3.28	1.97	2.07	-0.01	2.49	0.78
October	0.95	1.91	-0.68	7.47	1.22	0.02	0.94	4.84	-3.28	2.49	4.61	1.25	4.40	2.24
November	1.17	2.62	-0.62	8.78	1.67	-0.02	0.89	5.83	-2.25	1.76	5.62	1.74	5.65	2.97
December	1.51	3.27	-0.45	8.77	1.57	0.55	0.89	6.35	-2.26	2.09	6.04	2.00	6.60	3.46

Source: ZIMSTAT, 2017

Table 4: Central Government Operations- US\$ Millions

	2011	2012	2013	2014	2015	2016	2017
Total revenue and grants	2,922.5	3,495.8	3,741.0	3,727.2	3,737.1	3,501.9	3,870.0
Total expenditure and net lending	3,051.3	3,587.9	3,981.3	3,916.6	3,923.6	4,705.5	6568.1
Deficit	-128.9	-92.1	-240.3	-189.4	-186.5	-1,203.6	-2,698.1
Financing	67.6	75.4	240.7	189.4	129.0	1,425.1	2,698.1
of which : Foreign (net)	95.1	-41.1	7.6	-49.9	-63.4	184.5	-72.4
Domestic (net)	-27.5	116.5	233.1	239.3	192.4	1,240.6	2770.5

Source: Ministry of Finance and Economic Development, 2017

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

Period	Agriculture Hunting and Fishing	Mining and Quarrying	Manufacturing	Electricity and Water	Construction	Finance and Insurance	Real Estate	Distribution Hotels and Restaurants	Transport and Communication	Public Administration	Education	Health	Other Services	Total
2011	1129	958	1238	354	258	639	172	1370	1131	823	912	205	437	9625
2012	1217	1034	1304	355	318	953	274	1429	1207	1150	1214	274	391	11115
2013	1186	1156	1296	373	331	1088	276	1485	1291	1157	1381	300	372	11682
2014	1459	1116	1230	393	353	849	289	1522	1306	1262	1454	333	360	11915
2015	1383	1121	1233	371	367	896	321	1580	1370	1278	1372	372	343	11990
2016	1333	1213	1184	284	385	988	331	1701	1326	1373	1384	394	391	12266

Source: ZIMSTAT, 2017

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	Per capita	Gross Domestic Product**
2011	12,098.5	-2,000.3	10,098.1	11,205.5	9,129.6	971.0	
2012	14242.5	-2,213.6	12,028.9	12,861.6	10,860.3	1,090.4	
2013	15,451.0	-1,877.6	13,574.2	13,572.8	11,902.6	1,155.8	
2014	15,891.0	-1,852.2	14,038.8	13,861.5	12,210.3	1,164.0	
2015	16,304.7	-1,982.4	14,322.3	14,095.7	12,284.8	1,169.4	
2016	16,620.0	-1,775.7	14,844.2	14,182.5	12,534.6	1,165.3	

Source: ZIMSTAT, 2017

**Calculated using GDP at constant prices

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

Income Approach										
Item / year	Compensation of employees	Gross Operating Surplus	Mixed Income	Taxes on production	GDP at basic Prices	Net taxes on products	Taxes on products	GDP at market prices	Net primary income from abroad	Gross National Income
2011	5226.73	3089.44	2079.56	151.47	10547.20	1551.25	1551.14	12098.45	-2000.31	10098.15
2012	6387.67	3387.40	2541.47	171.33	12487.87	1754.62	1754.62	14242.49	-2213.58	12028.91
2013	7091.13	3414.24	2821.35	185.20	13511.93	1939.84	1939.84	15451.77	-1877.60	13574.17
2014	7043.89	4019.79	2802.56	184.07	14050.31	1840.74	1840.74	15891.05	-1852.24	14038.81
2015	7285.60	4058.04	2730.72	186.00	14260.36	2044.31	2044.31	16304.67	-1982.35	14322.32

Source: ZIMSTAT, 2017

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

Period	Private consumption	Net Government current expenditure	Gross fixed capital formation	Increase in stocks	Statistical discrepancy	Total domestic expenditure	Net export of goods and services	Expenditure on gross domestic product
2011	8,828.4	2,647.5	2,063.8	389.6	0.0	14,899.8	-2,986.0	12,098.5
2012	12,172.5	3,424.0	2,079.2	-392.2	0.0	18,322.0	-2,706.3	14,242.5
2013	12,114.6	3,520.1	1,752.8	5.4	0.0	18,254.5	-2,947.1	15,451.8
2014	18,887.6	3,813.4	1,873.4	5.8	0.0	18,388.7	-2,589.1	15,891.0
2015	13,342.2	3,768.5	1,995.4	8.0	0.0	19,983.6	-2,448.1	16,304.7
2016	11,371.2	4,131.1	2,015.4	11.0	0.0	18,948.5	-2,328.6	16,620

Source: ZIMSTAT, 2017

Table 9: Balance of Payments – US\$ Millions

	2011	2012	2013	2014	2015	2016	2017
Trade balance	-3145.7	-2902	-3114.6	-2748	-2448.1	-1500.0	-1287.4
Current Account Balance (excluding official transfers)	-3385.6	-3042.4	-3432.2	-3065.3	-1519.4	-591.3	-266.2
Capital Account Balance (including official transfers)	1633.4	1721.8	2723.4	2914.7	1632.3	242.3	285.7
Net Errors and Omissions	969.7	885.3	316.5	110.4	-138.6	-93.8	-160.7
Gross Foreign Reserves (US \$m)	427.2	425	331.4	349.5	352.3	421.3	308.2
Import Cover (months) at 100% (Goods & Services)	0.6	0.7	0.6	0.6	0.7	1.0	0.7
Exchange Rate:							
US\$/ZAR	8.17	8.48	9.65	10.85	12.76	14.66	13.27
GBP/US\$	1.54	1.62	1.7	1.65	1.54	1.2	1.29

Source: Reserve Bank of Zimbabwe, 2017

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	93.8	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

Source: Reserve Bank of Zimbabwe, 2017



Table 11: Stock Exchange

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	4,036.80
2017	333.02	142.40	9,580.66

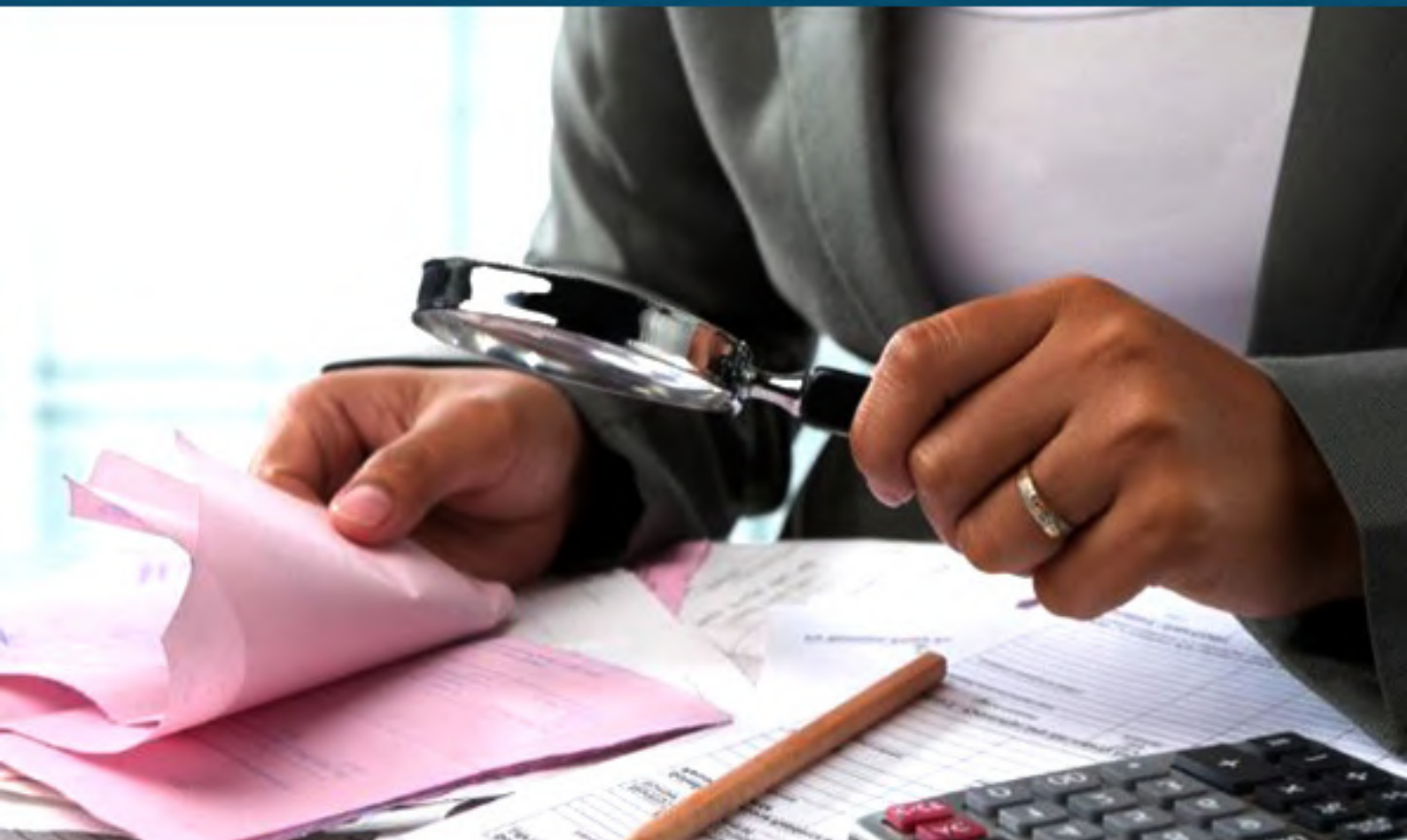
Source: Zimbabwe Stock Exchange, 2017

Table 12: Selected Economic Indicators

	2010	2011	2012	2013	2014	2015	2016	2017
ANNUAL MONEY SUPPLY GROWTH RATE								
M1 % change	33	35	23	-6.2	10.1	12.5	34.2	
M2 % change	64	32	21	-3.5	11.0	8.9	18.8	
M3 % change	69	33	26	1.2	12.0	8.2	19.1	
REAL SECTOR /1								
Real GDP: Factor Cost (US\$m)	7673.1	8586.6	9493.8	9854.4	10240.3	13972.4		
Real GDP Growth rate (%)	11.4	11.9	10.6	4.5	3.8	1.4		
EXTERNAL DEBT								
Total External Debt	7,050	7,382	7,498	8,934	10,838	10,684	10,684	11,260
Public and publicly Guaranteed External Debt	6,454	6,479	6,772	6,982	6,770	7,100	7,308	7,508
o/w Central Government external debt	3,493	4,638	4,929	5,012	4,522	5,293	5,365	5,595
Publicly Enterprises & Local Government	2,961	1,841	1,843	1,970	2,248	1,807	1,943	1,406
Private Sector External Debt	596	904	726	1,952	4,069	3,584	3,652	3,752
Domestic debt (Central Government)								
RATE OF INFLATION								
End of period	3.20%	4.90%	2.90%	0.30%	-0.80%	-2.50%	-0.93%	3.46%
Period Average	3.10%	3.50%	3.73%	1.60%	-0.20%	-2.40%	-1.56%	0.90%

Source: Reserve Bank of Zimbabwe, 2017; ZIMSTAT, 2017

2017 AUDITED FINANCIAL STATEMENTS



FINANCIAL STATEMENTS

For the year ended 31 December 2017



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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).



The Directors of the Reserve Bank of Zimbabwe ("the Bank", "RBZ") have pleasure in submitting their report for the financial year ended 31 December 2017.

1. NATURE OF BUSINESS

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

As required by the Reserve Bank Act [Chapter 22:15] the functions of the Bank are as follows:

- a) to regulate Zimbabwe's monetary system;
- b) to achieve and maintain the stability of the Zimbabwe dollar;
- c) to foster the liquidity, solvency, stability and proper functions of Zimbabwe's financial system;
- d) to supervise banking institutions and to promote the smooth 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.

DIRECTORS' REPORT

For the year ended 31 December 2017

1.2 The subsidiaries and joint ventures 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 transfers services, promoting and marketing investments and espousing development of housing schemes for Zimbabwean's living abroad.
- 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. Please 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 with 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.

DIRECTORS' REPORT

For the year ended 31 December 2017

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. 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 led by the Governor as the 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 Reserve Bank of Zimbabwe Board was fully constituted during the year 2017 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. C.L. Dhlwayo	Deputy Governor (Executive)*
Dr. J.T. Chipika	Deputy Governor (Executive)*
Mrs. P. Chapendama	Independent Non - Executive Director
Mr. Z.R. Churu	Non-Executive Director
Ambassador A. Maboyi	Independent 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

* Dr. C.L. Dhlwayo retired on the 31st of March 2017 after serving two full five year terms as Deputy Governor and on the Board. She was replaced by Dr. J.T. Chipika as deputy Governor on the 1st of April 2017.

** Ambassador A. Maboyi resigned from the Board on the 11th of October 2017 after his appointment as Minister of State for Matabeleland South.

DIRECTORS' REPORT

For the year ended 31 December 2017

**3.2 BOARD COMMITTEES**

The Board has three committees which helps it to discharge its mandate. The committees have clearly defined terms of reference setting out their roles, responsibilities and reporting procedures. The committees are as follows:

- a) Audit and Oversight Committee,
- b) Human Resources Committee and
- c) Banking Sector Stability Committee.

3.2.1 AUDIT AND OVERSIGHT COMMITTEE

This committee assists the Board of Directors in fulfilling its 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. The internal and external auditors have unrestricted access to the Audit and Oversight Committee.

During 2017, the Audit and Oversight committee met five times. The table below shows the composition and meeting attendance of its members during the year under review:

Audit and Oversight Meetings - 2017

Name	No. of Meetings Attended	No. of Meetings Eligible to Attend
Mrs. R. Likukuma (Chairman)	5	5
Mrs. P. Chapendama	5	5
Mr. C.R. Maradza	5	5
Mr. L. Murahwa	5	5
Mr. Z .R. Churu	4	5

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. The table below shows the composition and meeting attendance of members of the Human Resource Committee during the year.

Human Resources Meetings - 2017

Name	No. of Meetings Attended	No. of Meetings Eligible to Attend
Mrs. V. Mudimu (Chairman)	4	4
Mr. J. Mutizwa	4	4
Dr. K. Mlambo	4	4
Ambassador A. Maboyi	3	3

3.2.3 BANKING SECTOR STABILITY COMMITTEE

The purpose of this committee is to provide guidance to the Board in carrying out its mandate of promoting financial stability. The table below shows the composition and meeting attendance of members during the year.



DIRECTORS' REPORT

For the year ended 31 December 2017

Banking Sector Stability Meetings - 2017

Name	No. of Meetings Attended	No. of Meetings Eligible to Attend
Mr. J. Mutizwa (Chairman)	4	4
Dr. J.T. Chipika	3	3
Mr. Z .R. Churu	4	4
Dr. K. Mlambo	4	4
Mr. O.J. Mukumba	4	4
Mr. M .Z. Nyabadza	3	4
Dr. C.L Dhlwayo	-	1

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 recognized a surplus of **US\$160,264,135** (2016 surplus: **US\$555,552,228**). The surplus was a result of the Bank's operations and reversal of impairment of financial assets as indicated below.

	2017 US\$	2016 US\$
Surplus for the year before reversal of impairment of financial assets	77,602,542	118,415,995
Financial assets impairment reversal	82,661,593	437,136,233
Surplus after reversal of impairment of financial assets	160,264,135	555,552,228

Surplus for the year was mainly due to interests and commissions earned, Government grant and liability derecognition. The Bank realised an impairment reversal of US\$83 million (2016: US\$311 million) from RBZ legacy debt Treasury Bills issued during the period. All legacy debts payments (Government debts in RBZ's books) are treated as Government repayments of RBZ amounts due from Government which had been impaired, in prior years. The Bank appreciates the Government's continued support.

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). This provides for surplus banks and deficit banks to lend and borrow from each other, respectively, in a controlled environment. This facility has assisted the Bank to resume its role, of lender of last resort to a greater extent. The facility which matured in February 2017 was rolled over to February 2019.

7. EXPORT INCENTIVES AND BOND NOTES

The Bank continued to administer the Export Incentive Scheme which was introduced in May 2016 to enhance export competitiveness. As a result of this intervention, exports significantly grew by 36% in 2017. As at 31 December 2017, US\$290 million export incentives had been cumulatively paid to exporters in the form of bond notes.

DIRECTORS' REPORT

For the year ended 31 December 2017

8. SAVINGS BONDS

The Bank introduced 7% tax-free Savings Bonds in September 2017 to mop up excess liquidity in the market. The market embraced the facility such that as at 31 December 2017, a total of US\$165 million had been raised through Savings Bonds.

9. FINANCIAL INCLUSION AND SUSTAINABLE ECONOMIC DEVELOPMENT FACILITIES

During the year under review, the Bank introduced various facilities earmarked for promoting production, business linkages and empowerment. The following is a list of the facilities which were in operation in 2017:

- i) Export Finance Facility;
- ii) Gold Support Facility;
- iii) Tourism Support Facility;
- iv) Horticulture Facility;
- v) Women Empowerment Fund;
- vi) Cross Border Facility;
- vii) People with Disabilities Fund;
- viii) Youth Empowerment Fund;
- ix) Business Linkages Facility; and
- x) University Education Support Facility

These facilities have ensured access to formal financial services by marginalised groups in support of the National Financial Inclusion Strategy.

10. GOVERNMENT FACILITIES

The Bank continued to seek and negotiate facilities from offshore on behalf of the Government of Zimbabwe. As at 31 December 2017, the Bank received a cumulative US\$1.1 billion in facilities from regional and international lenders. The facilities run for periods of between one and five years and were utilized for the importation of petroleum products, electricity, crude oil for cooking oil, medicals, fertilizer, agro chemicals and raw materials for use by industry etc. The Bank is leveraging on the export of minerals for the repayment of these facilities.

11. LOANS AND ADVANCES TO GOVERNMENT AND TO STATUTORY BODIES

As at 31 December 2017, legacy loans and advances to Government and to Statutory Bodies were US\$0.2 billion (2016: US\$0.3 billion) before impairment. The Bank has 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. Pursuant to the enactment of the Reserve Bank of Zimbabwe Debt Assumption Act 2015, the Government of Zimbabwe issued Treasury Bills (TBs) worth US\$83 million (2016: US\$311 million) towards the clearance of the Reserve Bank of Zimbabwe legacy debt during the year. Accordingly, these Treasury Bills issued by Government were credited to amounts due from Government that resulted in impairment reversals in subsequent periods. Also, the facilities in 'note 10' above are accounted for in the Bank's books as loans to Government. The balance as at 31 December 2017 was US\$679 million (2016: US\$355 million). Additionally, the Bank made other advances to Government during the year for fiscal support.

12. CHANGE IN LEGISLATION

The Reserve Bank of Zimbabwe Amendment Act No 1 of 2017 was gazetted on the 24th of March 2017. The Amendment Act empowers the Bank to issue bond notes and coins at par with the US\$.

DIRECTORS' REPORT

For the year ended 31 December 2017



The Exchange Control (General) (Amendment) Order, Statutory Instrument 93 of 2017 was gazetted on the 18th of August 2017 to amend Section 14 of the Exchange Control General Order of 1996. Section 14 of the principal order was repealed and substituted with a new clause allowing persons "departing from the country to possess, without authorization a total of up to two thousand United States dollars, or its equivalent in any currency or combination of currencies or in bond notes or coins".

The Exchange Control (Amendment) Regulations, Statutory Instrument 122A of 2017 was promulgated and its main effect was to expand the definition of "currency" to include bond notes and coins and also to expand the list of acts or omissions that constituted unlawful dealing in currency.

On the 5th December 2017, the Presidential Powers (Temporary Measures) (Amendment of Exchange Control Act), Statutory Instrument 145 of 2017 was published in the Government Gazette. The Statutory Instrument amended the Exchange Control Act to offer three months amnesty to those who had externalized property. The amendment gave an opportunity to those affected to return expatriated property into the country without fear of prosecution.

13. INFORMATION COMMUNICATION TECHNOLOGY (ICT) PROJECTS

Due to the high rate of non-performing loans in the market, the Bank decided to invest in a Credit Registry which houses credit history. The Credit Registry System went live in the first quarter of 2017. As at year end, there were 108 subscribers in the Credit Registry system comprising of banks, microfinance institutions and other non-bank subscribers. Currently there are 19 data providers (all banking institutions) who submit reports on existing and new loan facilities and their repayments to the Credit Registry on a regular basis. The subscribers have access to reports from the system as and when required and pay a small fee for their access to the system according to the approved pricing policy.

African Development Bank assisted the Bank by significantly financing two ICT projects during the year. The core banking system upgrading project which started in 2016 was completed during the year and went live on the 26th of June 2017. The Document Management System (DMS) project was started and completed during the year. The system has initially been deployed in Exchange Control division with future plans to roll it throughout the Bank. The DMS allows authorized dealers to submit applications electronically to the Exchange Control division on behalf of exporters and importers. It has greatly improved the operating efficiency of the Exchange Control division through easing of the processing, storage and retrieval of documents.

The Bank also upgraded the Paynet system which connects the Bank's retail banking section and its customers allowing for efficient communication. Also, the Bank embarked on a project to upgrade its security systems to match current security threats. As at the reporting date, the project was at an advanced stage.

14. BASIS OF FUNDING

The Bank has made great strides towards self-sustenance which resulted in Government grant being reduced by 50% in 2018. 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.



RESERVE BANK OF ZIMBABWE
DIRECTORS' REPORT
For the year ended 31 December 2017



15. APPROVAL OF FINANCIAL STATEMENTS

The financial statements which appear on pages **64 -112** were approved by the Board of Directors on 28 March 2018. 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. K. Mlambo
Deputy Governor

Dr. J.T. Chipika
Deputy Governor

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

Date: 28 March 2018





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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of Annual Financial Statements

Opinion

We have audited the financial statements of the Reserve Bank of Zimbabwe (the "Bank") set out on pages **64 to 112**, which comprise the statement of financial position as at 31 December 2017, 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, the accompanying financial statements of the Reserve Bank of Zimbabwe for the year ended 31 December 2017 are prepared, in all material respects in accordance with the Reserve Bank of Zimbabwe Act (Chapter 22:15).

Basis for Opinion

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 (the "IESBA Code") and other independence requirements applicable to performing audits of financial statements in Zimbabwe. 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 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. Our opinion is not modified in this respect.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each 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>Valuation of properties</p> <p>The Bank's properties disclosed in the statement of financial position under investment property and property and equipment were revalued in the current year in accordance with the Bank's accounting policies.</p> <p>Management engaged an independent expert who revalued the properties based on the open market valuation method. The valuations were assessed as significant to our audit because they involve use of significant assumptions and judgements in coming up with the open market values.</p> <p>One of the key assumptions is determination of market factors such as market rentals and capitalisation rates. Given the continued inactive market and absence of observable data, determining a market value in line with the requirements of IFRS13 "Fair Value Measurement", requires significant judgement.</p>	<p>We performed the following audit procedures among others:-</p> <ul style="list-style-type: none"> Assessed the key assumptions and methodologies used in the valuation models by the experts in determining the fair values of these properties for reasonableness. Included in our team, valuation experts to assist us with the review of assumptions and methodologies based on available market information. Performed procedures to enable us to rely on the work performed by the management experts in line with the guidance provided by the relevant auditing standards. Assessed the competency and objectivity of the valuation experts. <p>We assessed the adequacy of the Bank's disclosures included in Notes 5.1, 5.2, 17, 18 and 37 to the financial statements.</p>
Key audit matter	How the matter was addressed in the audit
<p>Valuation of investments in unquoted equities</p> <p>We assessed the valuation of unquoted equity investments as significant for our audit in the current year as the process involves significant judgement given that in the local and regional markets, it is difficult to find comparable listed investments against which these investments can be compared.</p> <p>Management engaged independent experts to determine the appropriate values. The experts used three different valuation methods and weighted these to arrive at the fair value of the foreign investment. For the local investment, the expert used the net asset value.</p> <p>The valuation process involved certain key assumptions such as:</p> <ul style="list-style-type: none"> Determining a discount rate to use in the discounted cashflow in calculating the net present value (taking into account country risk factors) ; Determination of appropriate cashflow projections; Determining the cost of equity to be used in the dividend valuation model appropriate for each investment ; Determining the return on equity and growth rates based on current performance and future projections. <p>The assumptions noted above involve use of judgement in particular, the allocating of weights for the different valuation models used. In addition, identification of an appropriate discount rate used in calculating discounted cashflows, is difficult given the lack of liquidity in the local bond market and the perceived country risk.</p>	<p>We performed the following audit procedures among others:-</p> <ul style="list-style-type: none"> Assessed the key assumptions and methodologies used in the valuation models by the experts in determining the fair values of these investments for reasonableness. Included in our team, valuation experts to assist us with the review of these assumptions and methodologies based on available market information. Performed procedures to enable us to rely on the work performed by the management experts in line with the guidance provided by the relevant auditing standards. Assessed the competency and objectivity of the experts. Recomputed the valuations and weights used. <p>We assessed the adequacy of the Bank's disclosures included in Notes 9 and 14 to the financial statements in relation to those assumptions to which the outcome of the valuation is most sensitive.</p>

Key audit matter	How the matter was addressed in the audit
<p>Loans and advances to the Government</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.'</p> <p>As at year end, the loans and advances to the Government had exceeded the statutory limit stated above by a significant amount. We have assessed this matter as significant for our audit in the current year as the balance of loans and advances to the Government constitute a significant portion of the Bank's total assets.</p>	<p>We performed the following audit procedures among others:-</p> <ul style="list-style-type: none"> • Requested for confirmation of balances from the different Government ministries including the Ministry of Finance and Economic Development. • For selected material payments on behalf of the Government, we reviewed correspondence with the Government and the relevant supporting documentation with the approvals for disbursements of funds. <p>We assessed the adequacy of the Bank's disclosures included in section 11 of the director's report and Note 12 to the financial statements in relation to the 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 on the Other Information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

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.

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:

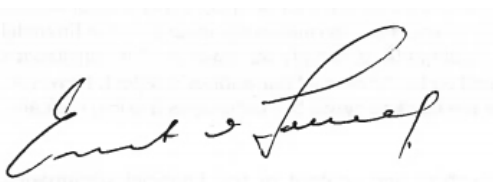
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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.

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

3 April 2018

STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Notes	2017 US\$	2016 US\$
Interest and commission income	6.1	161,225,114	98,698,406
Interest and commission expense	6.2	(65,500,210)	(50,502,675)
Net interest and commission income		95,724,904	48,195,731
Other income	6.3	65,901,012	133,965,571
Net interest and commission income after other income		161,625,916	182,161,302
Operating costs	6.4	(84,023,374)	(63,745,307)
Surplus for the year before reversal of impairment of financial assets		77,602,542	118,415,995
Reversal of financial assets impairment	7	82,661,593	437,136,233
Surplus for the year		160,264,135	555,552,228
Other comprehensive income (OCI)			
Other comprehensive income to be reclassified to Profit or loss in subsequent periods			
Fair value (loss)/gain on other foreign investment		(6,584,291)	27,492
Fair value gain on buildings		3,114,377	-
Net gain in other comprehensive income to be reclassified to profit or loss in subsequent periods		(3,469,914)	27,492
Other comprehensive income not to be reclassified to Profit or loss in subsequent period		-	-
Net gain after other comprehensive income not to be classified to profit or loss in subsequent periods		(3,469,914)	27,492
Total other comprehensive income for the year		(3,469,914)	27,492
Total comprehensive income for the year		156,794,221	555,579,720

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017



	Notes	2017 US\$	2016 US\$
Assets			
Cash and bank balances	8	292,018,509	308,970,377
Gold and foreign assets	9	93,920,523	97,312,432
Financial securities	10	1,478,745,936	566,328,080
Other receivables	11	797,111,217	519,840,250
Loans and advances to Government and Statutory Bodies	12	1,863,548,635	1,297,728,732
Other loans and advances	13	628,694,936	281,449,805
Other investments	14	4,494,689	4,734,359
Investments in subsidiaries	15	48,767,035	40,104,252
Non-current assets held for sale	16	750,000	760,000
Investment property	17	13,600,000	8,365,000
Property and equipment	18	79,929,480	62,457,879
Total Assets		5,301,580,960	3,188,051,166
Equity and Liabilities			
Capital and reserves			
Share capital	19	2,000,000	2,000,000
Share premium	19	98,000,000	98,000,000
Revaluation reserve	20	7,112,039	3,997,662
Mark to market	21	40,410,536	46,994,827
Non distributable reserve	22	-	-
General reserve fund	23	-	-
Accumulated surplus / (deficit)	24	153,579,489	(6,684,645)
Surplus attributable to equity Shareholders		301,102,064	144,307,844
Liabilities			
Other deposits payable	25	51,448,436	51,976,707
Bond notes and coins in circulation	26	344,082,242	85,999,281
International Monetary Fund facilities	27	482,258,657	454,965,773
Foreign liabilities	28	833,360,899	514,729,678
Domestic loans	29	-	57,262,950
Deposit accounts	30	3,200,190,165	1,783,204,029
Payables	31	89,138,497	95,604,904
Total liabilities		5,000,478,896	3,043,743,322
Total equity and liabilities		5,301,580,960	3,188,051,166

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017



Dr. J.P. Mangudya
Governor,
Board Chairman

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

Dr. K. Mlambo
Deputy Governor

Dr. J.T. Chipika
Deputy Governor

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

Date: 28 March 2018



STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Share capital US\$	Share premium US\$	General reserve US\$	Mark to Market reserve US\$	Non - distributable reserve US\$	Revaluation reserve US\$	Accumulated (Deficit)/Surplus US\$	Total US\$
Balance at 1 January 2016	2,000,000	98,000,000	-	46,967,335	(903,715,388)	3,997,662	341,478,514	(411,271,877)
Surplus for the year	-	-	-	-	-	-	555,552,228	555,552,228
Other comprehensive income	-	-	-	27,492	-	-	-	27,492
Transfer to accumulated Surplus for the year (NDR)	-	-	-	-	903,715,388	-	(903,715,388)	-
Balance at 31 December 2016	2,000,000	98,000,000	-	46,994,827	-	3,997,662	(6,684,646)	144,307,843
Surplus for the year	-	-	-	-	-	-	160,264,135	160,264,135
Other comprehensive income	-	-	-	(6,584,291)	-	3,114,377	-	(3,469,914)
Balance at 31 December 2017	2,000,000	98,000,000	-	40,410,536	-	7,112,039	153,579,489	301,102,064

STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating cash flows		
Surplus for the year	160,264,135	555,552,228
Adjustment for items not affecting cash flows		
-Government grant treasury bills	-	(8,502,647)
-Depreciation	3,443,316	3,056,957
-Fair value (gain)/loss on investment property	(5,235,000)	2,585,000
-Fair value gain on property & equipment	(13,425,949)	-
-Impairment of unquoted shares	327,281	305,515
-Bad debts	48,000	1,022,571
-Profit on disposal of property and equipment	(73,908)	(68,438)
-Reversal of financial assets impairment	(82,661,593)	(437,136,233)
-Other accrued interest receivable	(135,962,495)	(78,098,210)
-Interest expense	65,500,210	50,502,675
-Derecognition of liabilities & other	(7,023,184)	(49,479,323)
Operating cash flows before movements in working capital	(14,799,187)	39,740,095
Interest and commission paid		
-Interest and commission paid	(4,930,618)	(2,227,210)
	(19,729,805)	37,512,885
Movements in working capital		
Decrease in other receivables	(121,759,115)	(50,919,600)
Increase / (decrease) in Special Drawing Rights (SDR) holdings	4,543,808	(20,765,770)
Increase in deposit accounts.	1,871,514,792	1,105,368,800
Decrease/ (increase) in payables	3,243,076	(101,080,404)
Increase in advances	(1,652,363,008)	(701,016,062)
Net working capital movements	105,179,553	231,586,964
Net cash inflow from operating activities	85,449,748	269,099,849

STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
CASH FLOWS FROM INVESTING ACTIVITIES		
Investing Activities		
Purchase of shares and financial securities	(93,609,693)	(282,191,506)
Proceeds from disposal of property and equipment	85,677	728,081
Purchase of property and equipment (refer to note 39)	(9,472,195)	(1,107,500)
Net cash from Investing Activities	(102,996,211)	(282,570,925)
CASH FLOWS FROM FINANCING ACTIVITIES		
Transfers to reduce overdraft balance, South African Reserve Bank	(465,633)	(409,491)
Net cash from Financing Activities	(465,633)	(409,491)
Increase\ (Decrease) in cash and cash equivalents due to revaluation	1,060,228	(240,919)
DECREASE IN CASH AND CASH EQUIVALENTS	(16,951,868)	(14,121,486)
Cash and cash equivalents at beginning of the year	308,970,377	323,091,863
-Balances with foreign banks	295,358,981	294,831,736
-Foreign currency	13,511,396	28,160,127
-Committed funds	100,000	100,000
Cash and cash equivalents at end of the year	292,018,509	308,970,377
Balances with foreign banks	286,804,876	295,358,981
- Foreign currency	4,113,633	13,511,396
-Committed funds	1,100,000	100,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017



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 and 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 provision 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



NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017



statements are described in 'note 5' to the financial statements.

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 and commission income

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

3.3 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,



NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017



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.

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017



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

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 and financial liabilities

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.

3.7.2 Financial assets

Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss' (FVTPL), 'financial securities', 'available for sale' (AFS) financial assets and 'loans and receivables'. 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, available for sale investments and other receivables.

3.7.3 Loans and receivables

Receivables, loans and advances to Government and to Statutory Bodies, other loans and advances that are not quoted on an active market are classified as loans and receivables. These include loans to subsidiaries as well as amounts due from the Government of Zimbabwe and Statutory Bodies. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method less impairment. 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.

3.7.4 Gold and foreign assets

Gold and foreign assets are recognised at the rate of exchange ruling when they are acquired and subsequently restated using the spot exchange rate at 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].

3.7.5 Available for sale (AFS) financial assets

AFS financial assets include equity investments and



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For the year ended 31 December 2017



debt securities. Equity investments classified as AFS are those neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, AFS 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. 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 AFS financial assets is reported as dividend income.

3.7.6 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.

3.8 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.

3.8.1 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 IAS 39 is met. The Bank has not designated any financial liability as fair value through profit or loss.

3.8.2 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.



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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.

- d) Deterioration of borrowers' competitive position.
- e) Deterioration in the value of collateral.
- f) Renegotiation of loans to be on terms that the Bank would not otherwise consider.

3.9 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.

The Bank first assesses whether there is objective evidence of impairment for financial assets that are individually significant, and individually or collectively for financial assets that are not significant. Loans and advances are analysed on a case by case basis taking into account breaches of key loan conditions in accordance with the Banking Regulations SI 205 of 2000. Impairment allowances on individually assessed accounts are determined by an evaluation of the impairment at reporting date on a case by case basis, and are applied to all significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that account.

3.9.1 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.

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

3.9.2 Impairment and provisioning policies

At each reporting date, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that loss event had a negative effect on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably.

The Bank considers objective evidence of impairment as:

- a) Insolvency/financial difficulties on the part of a debtor.
- b) Delinquency by counterparty.
- c) Breach of loan covenants or conditions.

3.9.3 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.

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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.

3.10 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.

3.11 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.

3.12 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.

3.13 Non-current assets held for sale

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

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
- an active programme to locate a buyer has been initiated;
- the asset is being marketed at a reasonable price in relation to its fair value; and
- 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:

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

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

3.14 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



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the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- 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:

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

At the date of authorisation of these financial state-

ments the following standards, amendments to existing standards and interpretations were in issue, but not yet effective up to the date of issuance of the Bank's financial statements. The Bank intends to adopt these standards if applicable when they become effective.

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 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. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. 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.

The core principle of the new Standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services.

The new Standard will also result in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The Bank does not expect the standard to have material financial impact in future financial statements.



NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017



4.2 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.

4.3 IFRS 9 "Financial Instruments" (effective for annual periods beginning 1 January 2018)

The standard issued on 24 July 2014, and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. Retrospective application is required but providing comparative information is not required.

The Reserve Bank of Zimbabwe will be adopting IFRS 9: Financial instruments as issued by the IASB in July 2014 with a date of transition of 1 January 2018. The adoption of the new standard will result in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Reserve Bank of Zimbabwe did not early-adopt IFRS 9 in the financial periods prior to 1 January 2018.

As permitted by the transitional provisions of IFRS 9, the Reserve Bank of Zimbabwe will not restate

comparative figures at the initial adoption of IFRS 9.

Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition will be recognised in the opening retained earnings and other reserves of the period beginning 1 January 2018.

The adoption of IFRS 9 will result in changes in the Bank's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments, such as IFRS 7 Financial Instruments: Disclosures.

The Reserve Bank of Zimbabwe is currently in the process of performing an analysis to ascertain the extent of the changes from IAS 39 to IFRS 9. Set out below are some of the disclosures relating to the likely impact of the adoption of IFRS 9 on the classification of the Reserve Bank of Zimbabwe's financial instruments. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Bank in 2018 when the Bank will adopt IFRS 9.



NOTES TO THE FINANCIAL STATEMENTS
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(a) Classification and measurement of financial instruments

The classification and measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 as at 1 January 2018 are compared as follows:

	IAS 39 Classification and measurement	IFRS 9 Classification and measurement
Financial Assets		
Cash and bank balances	Amortised cost (loans and receivables)	Amortised cost
Gold holdings	FVPL	FVPL
Investments in SWIFT	FVOCI (available for sale)	FVOCI
Investments in Afreximbank	FVOCI (available for sale)	FVOCI
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	FVOCI (available for sale)	FVOCI
Investments in subsidiaries	FVOCI (available for sale)	FVOCI
Financial Liabilities		
Other deposits payable	Amortised cost	Amortised cost
Bond notes and coins in circulation	Amortised cost	Amortised cost
International monetary fund facilities	Amortised cost	Amortised cost
Foreign Liabilities	Amortised cost	Amortised cost
Domestic loans	Amortised cost	Amortised cost
Deposit accounts	Amortised cost	Amortised cost
Payables	Amortised cost	Amortised cost



NOTES TO THE FINANCIAL STATEMENTS
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(b) Impact on impairment

IFRS 9 will introduce new impairment considerations that are expected to have a significant impact on the impairment recognised. Impairment is likely to increase as a result of a requirement to recognise impairment using an expected credit loss model, which is a probability-weighted outcome that takes into account forward-looking information, amongst other variables. Currently, IAS 39 requires the recognition of impairment using an incurred loss model, which requires an estimation of losses already incurred. IFRS 9 will result in impairment being recognised on performing assets based on a 12-month probability of default whilst impairment will be recognised on assets that have suffered significant credit deterioration using a lifetime probability of default.

IFRS 9 will require impairment considerations to be made for exposures that were previously not subject to impairment. The Reserve Bank of Zimbabwe has assessed its exposures and observed that the following exposures, which were previously not subject to impairment, will be subject to impairment under IFRS 9.

Exposure Type	Exposure as at 31 December 2017
Undrawn portion of loan commitments	US\$241m

At year-end, the Reserve Bank of Zimbabwe was still in the process of developing forward-looking models for the determination of expected credit losses on its financial instruments. The likely impact on impairment is yet to be quantified.

5. 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.

5.1 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. The valuations resulted in a fair value increase of US\$10.5 million across the class.

The Directors reviewed the results of the independent valuation for reasonableness and they believe the buildings have been fairly valued. In performing the valuation, the valuers considered the following key inputs:

- The properties are highly maintained and remain in good state of repair and maintenance.
- Each property is not contaminated and is not adversely affected by any existing or proposed environmental law.
- 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 defects.
- 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"

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017



5.2 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 increase of US\$5 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:

- The properties have no significant structural defects and that any defects would not require more than the normal level of maintenance and expenditure
- Each property is not contaminated and is not adversely affected by any existing or proposed environmental law.
- 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.
- 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'.

5.3 Impairment of loans and advances

At each reporting date, the Bank reviews the carrying

amount of its loans and advances against estimations of the recoverable amount. The Bank has estimated impairment for loans and advances in accordance with the Banking Regulations SI 205 of 2000, as set out in 'note 12'.

5.4 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 15'.

The Bank's investments in unquoted shares are in IDBZ and Afreximbank. The Bank engaged services of professional consultants for the independent fair valuation of its investments in Infrastructural Development Bank of Zimbabwe (IDBZ) and African Import Export Bank (Afreximbank). 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 9' and 'note 14' respectively.

5.5 Provision for legal disputes

The Bank is in the process of defending a number of legal cases. 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
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6. INCOME AND EXPENDITURE

6.1 Interest and commission income comprise:

Interest income

- Interest on Treasury Bills (foreign and local Treasury Bills)
 - Interest on Local and foreign bank balances
 - Interest on Government loans & advances
 - Interest on advances to financial institutions
- Commission earned (RTGS)

2017
US\$

2016
US\$

42,842,695
544,379
87,475,127
20,812,154
9,550,759

19,811,547
1,000,465
44,788,809
24,696,771
8,400,814

161,225,114

98,698,406

Interest earning assets as at 31 December 2017 were US\$3.9 billion (2016: US\$2.153 billion). (See note 35.3) The average interest rate on assets was 6.1 % per annum (2016: 4.2%).

6.2 Interest and commission expense comprises:

- interest expense on loans and advances
- interest on interbank facilities

40,095,479
25,404,731

34,336,111
16,166,564

65,500,210

50,502,675

Interest expense consists mainly of interest on interbank advances, loans and borrowings. Interest bearing liabilities as at 31 December 2017 were US\$1.4 billion (2016: US\$813 million). The average interest rate charged on liabilities was 6.5% per annum (2016: 6.2%).

6.3 Other income comprises:

- Dividends from shares (local and foreign)
- Government grant (budgetary support)
- Government grant (ZIMRA Debt Payments)
- Government Grant Treasury Bills
- Licensing fees, customs declaration (CD) forms
- Mark to market revaluation on investment property
- Reversal of devaluation - buildings
- Other income (derecognition of liabilities)
- Profit on disposal of property and equipment
- Rent receivable
- Mark to market gain-Cairns Holdings

2,766,801
24,000,000
-
-
13,677,966
5,235,000
13,425,949
5,910,844
73,908
810,544
-

2,331,349
24,000,000
37,651,517
8,502,647
9,823,898
-
-
49,499,278
68,438
817,044
1,271,400

65,901,012

133,965,571

NOTES TO THE FINANCIAL STATEMENTS
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	2017 US\$	2016 US\$
6. INCOME AND EXPENDITURE (continued)		
6.4 Operating expenses	84,023,374	63,745,307
Included in operating expenses are:		
Auditors' remuneration	209,457	274,850
Advertising Expenses	411,897	4,146,415
Bond notes & coins printing	17,216,754	3,625,574
Computer software licences	2,267,539	1,872,137
Depreciation of property and equipment	3,443,316	3,056,961
Impairment of unquoted investments	327,281	305,515
Impairment of investment property	-	2,585,000
Repairs, maintenance and Bank vehicle expenses	965,920	899,138
Retrenchment costs	1,299,685	381,617
Utility bills and telecommunication	1,683,910	1,756,449
Employee benefits	41,419,836	30,843,128
-salaries	23,914,493	22,220,160
-staff bonuses	1,448,988	1,256,447
-medical expenses	1,594,906	1,538,332
-Pension & NSSA contributions	10,610,114	2,397,471
-other expenses	3,851,335	3,430,718
Directors' fees	384,702	379,664
 The Bank made a once off payment of US\$8.5 million to the Bank's pension fund to regularise prior years' contribution waivers which led to some pensioners getting low monthly pay-outs.		
7. REVERSAL OF FINANCIAL ASSETS IMPAIRMENT		
Movements in provision for doubtful debts comprise:		
Change in provision for doubtful debts (Gvt) (see note 12.1)	82,661,593	437,094,248
Change in provision for doubtful debts (other) (see note 13)	-	41,985
	82,661,593	437,136,233
 8. CASH AND BANK BALANCES		
Nostro accounts balances	286,804,876	295,358,981
Bank balances/cash at hand	4,113,633	13,511,396
Committed Funds	1,100,000	100,000
	292,018,509	308,970,377

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
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	2017 US\$	2016 US\$
9. GOLD AND FOREIGN ASSETS		
Gold	523,182	, 461,401
Foreign investments	86,792,216	90,831,655
	87,315,398	91,293,056
Committed Funds	6,605,125	6,019,376
South African Treasury Bills (Financial securities)	6,605,125	6,019,376
	93,920,523	97,312,432
Foreign investments reconciliation		
Opening balance	90,831,655	89,414,248
Additions - Afreximbank shares	2,526,645	1,394,015
Exchange rate gains/(losses) SWIFT	18,208	(4,100)
Fair value adjustment	(6,584,292)	27,492
Balance at year end	86,792,216	90,831,655

The gold balance is made up of gold coins in the Bank's vaults. Foreign investments are shares in African Export-Import Bank (Afreximbank) and SWIFT. The Bank ceded its 2016 dividend for 147 additional shares in Afreximbank.

Management performed valuation of Afreximbank investments with the assistance of professional consultants. The following valuation methods were used to calculate the value of the investee.

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 investments, 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
10. FINANCIAL SECURITIES		
Zimbabwe Treasury Bills	1,478,745,936	566,328,080
Financial securities are local investments in Zimbabwe Treasury Bills. During the reporting period, the Bank received Treasury Bills worth US\$912 million from the Government of Zimbabwe in payment for maize procured under the Grain Procurement program to alleviate the severe effects of 2016/17 El nino induced drought and other Government obligations.		
11. OTHER RECEIVABLES		
Receivables	69,688,341	30,261,425
Prepayments	7,934,409	4,071,386
Impairment loss (note 11.1)	(1,092,462)	(1,092,462)
	76,530,288	33,240,349
Export Incentives	332,451,258	100,493,565
Government IMF drawdowns	383,859,879	383,878,748
IMF interest and charges	4,269,792	2,227,588
Balance at year end	797,111,217	519,840,250

The Bank pays incentives to exporters in bond notes. Export incentives are receivable from Government in the Bank's books and will be received in future at the time of demonetisation of bond notes. Additionally, under receivables is accrued interest on other advances.

Government IMF drawdown is made up of SDR258 million (2016:SDR258 million) withdrawn by the Government from its IMF SDR allocation. These balances are measured at historic cost and are not yet due.

NOTES TO THE FINANCIAL STATEMENTS
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11. OTHER RECEIVABLES

11.1 Impairment allowance reconciliation

Opening Balance

Impairment allowance

Balance at year end

12. LOANS AND ADVANCES TO GOVERNMENT AND STATUTORY BODIES

12.1 Loans and advances

Loans and advances (legacy debt)

Government advances

Government loans

Impairment loss

Movement of impairment

Balance at the beginning of the year

Movement for the year

Balance at the end of the year

	2017 US\$	2016 US\$
Opening Balance	(1,092,462)	(870,970)
Impairment allowance	-	(221,492)
Balance at year end	<u>(1,092,462)</u>	<u>(1,092,462)</u>
Loans and advances (legacy debt)	166,988,801	249,650,394
Government advances	1,184,227,304	941,815,036
Government loans	679,321,331	355,913,696
Impairment loss	(166,988,801)	(249,650,394)
	<u>1,863,548,635</u>	<u>1,297,728,732</u>
Balance at the beginning of the year	(249,650,394)	(686,744,642)
Movement for the year	82,661,593	437,094,248
Balance at the end of the year	<u>(166,988,801)</u>	<u>(249,650,394)</u>

Government advances are mostly payments on behalf of Government on matured Treasury Bills and other fiscal support. The movement in loans and advances (legacy debt) was a result of Government debt takeover of the Bank's liabilities through issuance of Treasury Bills. Government loans comprise of PTA Bank, Afreximbank and Trafigura facilities.

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
13. OTHER LOANS AND ADVANCES		
Advances		
-Interbank advances	118,799,293	136,299,293
-Loans to subsidiaries	231,672,843	112,350,691
 -Finance Lease	 1,500,000	 3,500,000
 Private sector loans		
-Advances	277,523,094	30,098,428
-Swift charges paid on behalf of banks	785	2,472
-Fertilizer debtors	748,415	748,415
	<hr/> 630,244,430	<hr/> 282,999,299
Impairment of other loans and advances	(1,549,494)	(1,549,494)
	<hr/> <u>628,694,936</u>	<hr/> <u>281,449,805</u>
 Movement in impairment of other loans and advances		
Balance at the beginning of the year	(1,549,494)	(790,401)
Movement	-	(801,078)
Amounts provided for that have been recovered	-	41,985
	<hr/> <u>(1,549,494)</u>	<hr/> <u>(1,549,494)</u>

Loans to subsidiaries

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

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS
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13. OTHER LOANS AND ADVANCES (continued)

Interbank and other advances

The Government of Zimbabwe, the Bank and Afreximbank tripartite interbank facility known as the African Export Import Bank (Afreximbank) trade debt backed securities (AFTRADES) facility continued throughout the year and was extended by a further two years to February 2019. The Interbank advances relate to advances made to deficit banks by surplus banks and are guaranteed by Afreximbank. The Bank acts as an intermediary and an agent of Afreximbank. AFTRADES facility has thus assisted the Bank to resume its role as a lender of last resort to a great extent. This has assisted to stabilise the financial sector.

Loans to private sector

Private sector loans are advances made by the Bank to strategic institutions during the reporting period. Some of these loans are being managed by local financial institutions on behalf of the Bank.

13.1 Finance Lease

The Bank extended a finance lease to a quasi-Government company for the purchase of machinery valued at US\$5 million in 2015. The Lease was for a three year term at 9.5% interest rate using the diminishing balance method with a guaranteed residual value of US\$1. The lease is being managed by a local financial institution on behalf of the Bank.

	2017 US\$	2016 US\$
Gross investment	1,571,250	3,823,500
Unearned finance income	(71,250)	(332,500)
	<hr/>	<hr/>
Present value	1,500,000	3,500,000
	<hr/> <hr/>	<hr/> <hr/>
14. OTHER INVESTMENTS - IDBZ		
Opening balance	4,734,359	2,181,048
Additional Investment	87,611	2,858,826
Fair value (loss)	(327,281)	(305,515)
	<hr/>	<hr/>
Total	4,494,689	4,734,359
	<hr/> <hr/>	<hr/> <hr/>

The investments in unquoted local shares are classified as available for sale through other comprehensive income. The Bank's unquoted local shares refer to 12.56% shareholding in IDBZ. During 2017, the Bank purchased an additional 8,001 shares from an exiting shareholder. 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 2017

			2017 US\$	2016 US\$
15	INVESTMENT IN SUBSIDIARIES			
15.1	Investment in subsidiaries at cost less impairment losses			
		Shareholding		
	Fidelity Printers & Refiners (Private) Limited	100%	16,647,587	16,647,587
	Aurex (Private) Limited (note 15.2)	100%	4,300,000	4,300,000
	Homelink (Private) Limited	100%	10,678,751	9,098,022
	Export Credit Guarantee Corporation (ECGC)	100%	1,970,393	1,623,460
	Zimbabwe Asset Management Corporation (ZAMCO)	100%	287,521	287,521
	Tuli Coal (Private) Limited	100%	11,570,766	8,147,662
	Reszim Investments (Private) Limited	100%	-	-
	Finance Trust of Zimbabwe (Private) Limited	100%	-	-
	Carslone (Private) Limited	100%	3,312,017	-
	Fiscorp (Private) Limited	100%	-	-
	Transload (Private) Limited	50%	-	-
	Venture Capital Company of Zimbabwe (Pvt) Ltd	100%	-	-
			48,767,035	40,104,252

Investments in subsidiaries are carried at cost less impairment losses. All of the above subsidiaries are incorporated in Zimbabwe. During the year, the Bank continued its efforts of recapitalising all active subsidiaries through working capital provision.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

16. NON-CURRENT ASSETS HELD FOR SALE

	2017 US\$	2016 US\$
Buildings	760,000	760,000
Devaluation	(10,000)	-
Balance at the end of the year	750,000	760,000

The Bank expects to conclude the transactions in the ordinary course of business.

17. INVESTMENT PROPERTY

	2017 US\$	2016 US\$
Opening balance	8,365,000	10,950,000
Fair value adjustment	5,235,000	(2,585,000)
Closing balance	13,600,00	8,365,000

The Bank's investment property was revalued at 31 December 2017 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. Please refer to "note 5.2" for the key valuation assumptions.

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

	2017 US\$	2016 US\$
Rental income	810,544	817,044
Direct operating expenses from property that generated rental income	(87,446)	(55,584)
	723,098	761,460

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 2017.

Up to 1 Year	2 to 5 Years	More than 5 Years
US\$ 721,697	-	-

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

18. PROPERTY AND EQUIPMENT (2017)

	Land US\$	Buildings US\$	Furniture, equipment and machinery US\$	Motor vehicles US\$	Total US\$
Cost					
At 1 January 2016	242,000	63,818,498	6,726,540	5,447,162	76,234,200
Additions	-	-	1,797,719	162,155	1,959,874
Disposals	-	(740,000)	(230,574)	(391,000)	(1,361,574)
Adjustment (NCAHS)*	-	6,500	-	-	6,500
At 31 December 2016	242,000	63,084,998	8,293,685	5,218,317	76,839,000
Additions	-	-	3,359,823	1,016,536	4,376,359
Donations / Disposals	-	-	(85,656)	(449,500)	(535,156)
Revaluation	(32,000)	10,575,000	-	-	10,543,000
At 31 December 2017	210,000	73,659,998	11,567,852	5,785,354	91,223,203
Accumulated Depreciation					
At 1 January 2016	-	3,164,252	4,305,328	4,556,511	12,026,091
Charge for the year	-	1,544,617	1,220,760	291,584	3,056,961
Disposals	-	(80,357)	(230,574)	(391,000)	(701,931)
At 31 December 2016	-	4,628,512	5,295,514	4,457,095	14,381,121
Charge for the year	-	1,517,832	1,605,498	319,986	3,443,316
Disposals	-	-	(73,887)	(449,500)	(523,387)
Depreciation Adjustment	-	(6,007,327)	-	-	(6,007,327)
At 31 December 2017	-	139,017	6,827,125	4,327,581	11,293,723
Net Book Values					
At 31 December 2017	210,000	73,520,981	4,740,727	1,457,773	79,929,480
At 31 December 2016	242,000	58,456,486	2,998,171	761,222	62,457,879

Had the land and buildings been carried at the historical cost, the carrying amount would have been US\$39,946,491 (2016: US\$41,464,323).

*NCAHS - Non Current Assets Held for Sale

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

19. SHARE CAPITAL

Authorised

2 million shares of \$1 each

2017
US\$

2,000,000

2016
US\$

2,000,000

Issued

2 million shares of \$1 each

2,000,000

2,000,000

Reserves

Share premium

98,000,000

98,000,000

The Bank's authorised capital is US\$2 million wholly issued to the Government of Zimbabwe as per Section 31 of the Reserve Bank of Zimbabwe Act [Chapter 22:15]. In December 2015, the Government of Zimbabwe issued \$100 million eight year debt instruments to the Bank as capitalisation.

20. REVALUATION RESERVE

Opening Balance

3,997,662

3,997,662

Fair value gain on buildings

3,114,377

-

Closing balance

7,112,039

3,997,662

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
21. MARK TO MARKET RESERVE		
Opening balance	46,994,827	46,967,335
Fair value gain on other foreign investments	(6,584,291)	27,492
Closing balance	<u>40,410,536</u>	<u>46,994,827</u>
22. NON DISTRIBUTABLE RESERVE		
Arising from restatement process	-	(903,715,388)
Transfer to accumulated surplus (refer to note 24)	-	903,715,388
	<u>-</u>	<u>-</u>
<p>This amount was the overall net effect of the restatement process on the translation from Zimbabwe dollar statement of financial position that gave rise to United States dollar denominated statement of financial position as at 1 January 2009. The Non-Distributable Reserve was transferred to accumulated surplus as at 31 December 2016.</p>		
23. GENERAL RESERVE FUND		
Balance at the end of the year	<u>-</u>	<u>-</u>

In terms of section 32 of the Reserve Bank of Zimbabwe Act [Chapter 22:15], the Bank is required to maintain a general reserve fund. Once the balance of the fund exceeds three times the issued share capital of the Bank, any operating surplus, after providing for bad and doubtful debts, depreciation, staff costs and any such items as are usually provided by financial institutions, shall ultimately be paid to the Government of Zimbabwe.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
24. ACCUMULATED SURPLUS/ (DEFICIT)		
Opening Balance	(6,684,645)	341,478,514
Movement	160,264,134	555,552,228
Transfer from NDR (refer to note 22)	-	(903,715,388)
Closing balance	<u>153,579,489</u>	<u>(6,684,645)</u>
25. OTHER DEPOSITS PAYABLE		
Interest due and unpaid	21,016,495	20,613,791
Loans from regional banks	25,000,000	25,000,000
Zep-Re PTA Investments	5,431,941	6,362,916
Closing balance	<u>51,448,436</u>	<u>51,976,707</u>
26. BOND NOTES AND COINS IN CIRCULATION		
Bond Notes	289,827,726	72,950,552
Bond Coins	54,254,516	13,048,729
	<u>344,082,242</u>	<u>85,999,281</u>

Bond notes and coins are at par with the US\$. Bond notes are a reflection of export incentives performance. As at reporting period, export incentives were US\$332 million to US\$290 million in bond notes which were paid out.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
27. INTERNATIONAL MONETARY FUND FACILITIES		
Net cumulative SDR allocations	481,022,082	453,729,065
IMF No.1 and 2	1,236,575	1,236,708
	<u>482,258,657</u>	<u>454,965,773</u>
The Special Drawing Rights (SDR) amounts equivalent owed to IMF SDR allocations and PRGT were as follows:		
	2017 SDR	2016 SDR
Net Cumulative SDR allocations	338,581,039	338,581,039
IMF No 1 and 2	-	-
	<u>338,581,039</u>	<u>338,581,039</u>
The IMF No 1 and 2 accounts are denominated in US\$. The exchange rate applied, USD/SDR 1.420700 (2016, USD/SDR 1.34009)		
28. FOREIGN LIABILITIES		
Aggregated foreign loans	<u>833,360,899</u>	<u>514,729,678</u>
Included in foreign liabilities are facilities from regional and international institutions which the Bank secured on behalf of Government for the importation of critical inputs such as electricity, raw materials for industries and medical supplies.		
Additionally, the foreign loans include the South African Reserve Bank overdraft. The facility is secured by encumbered assets in the form of South African Treasury Bills held at the South African Reserve Bank		
29. DOMESTIC LOANS		
	<u>-</u>	<u>57,262,950</u>

The reduction in the domestic loans is attributable to takeover of these loans by Government through issuance of Treasury Bills as per the RBZ Debt Assumption Act of 2015.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
30. DEPOSIT ACCOUNTS		
Local Financial institutions		
-Bankers RTGS	2,197,179,910	1,352,311,405
-Government (FCAs)	41,469,312	65,818,176
-Corporates (FCAs)	56,490	2,407,805
-Other	94,227,390	36,446,918
	<hr/>	<hr/>
	2,332,933,102	1,456,984,304
Government Accounts	-	78,996,101
Short term deposits	863,210,574	243,369,142
	<hr/>	<hr/>
	3,196,143,676	1,779,349,547
	<hr/>	<hr/>
Foreign		
PTA accounts	4,046,489	3,854,482
	<hr/>	<hr/>
	4,046,489	3,854,482
	<hr/>	<hr/>
Grand total	3,200,190,165	1,783,204,029
	<hr/>	<hr/>
Included in the short term deposits are deposits from surplus banks under the Interbank Afrades facility, 7% savings bonds and other current accounts .		
31. PAYABLES		
Payables	57,722,948	41,167,629
Gold & foreign currency adjustment account	31,415,549	54,437,275
	<hr/>	<hr/>
	89,138,497	95,604,904
	<hr/>	<hr/>
31.1 LEAVE PAY PROVISION RECONCILIATION		
Opening balance 1 January	1,370,159	2,915,688
Net provisions utilised	40,713	(1,545,529)
	<hr/>	<hr/>
Closing balance 31 December	1,410,872	1,370,159
	<hr/>	<hr/>

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

31.2 Gold and Foreign Currency Adjustments (GFCA account)

At reporting date, the Bank had a balance of US\$31 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. CONTINGENT LIABILITIES

At the reporting date, the Bank had contingent liabilities of US\$12,390,728 (2016: US\$24,276,853). The contingent liabilities are comprised of US\$6,297,909 (2016: US\$7,649,277) relating to disputed amounts with various creditors whose debts were taken over by the Government as at 31 December 2013 and the US\$4,834,360 (2016: US\$14,204,134) is the interest charged by other creditors that is still in dispute. The remaining US\$1,258,459 relates to the interest charged by a local bank which is in dispute. The Bank believes the outcome of the negotiations are uncertain.

33. CAPITAL COMMITMENTS

Authorised and contracted:
Authorised and uncontracted:

Total

2017 US\$	2016 US\$
428,000	650,000
-	-
428,000	650,000

The Bank upgraded its security systems in 2017 and the balance above relates to the upgrade. The Temenos T24 system upgrade project which was running as at 31 December 2016 went live in June 2017.

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\$10,277,776 (2016: US\$2,072,475) towards this plan and the cost is included in the staff costs. The 83% (US\$8.5 million) increase in contributions was a once off payment towards pensions. This was done to cover a funding gap caused by waivers (from contributing) that the Bank sought and was granted by the Insurance and Pension Commission between 2009 and 2011 due to working capital challenges. This led to most Bank pensioners getting very low pensions and in the spirit of improving their welfare, the Bank considered it prudent to rectify this anomaly during the period.

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\$332,338 (2016: US\$324,997) towards this plan and the cost is included in the staff costs.

34.3 Recognition of contributions

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

RETIREMENT BENEFIT SCHEMES (continued)

	2017 US\$	2016 US\$
34.4 Contributions recognized as an expense during the year		
Fintrust Pension Fund	10,277,776	2,072,475
National Social Security Authority Scheme	332,338	324,997
	<u>10,610,114</u>	<u>2,397,472</u>

35. RISK MANAGEMENT

The Bank has various policies and procedures to manage its risk. Below is a table on classification of the Bank's financial assets on certain aspects of its risk management specific to its financial instruments.

35.1 Classification of Financial Assets and Liabilities (2017)

	Held to maturity investments US\$	Loans & Borrowings US\$	Available for sale US\$	Investments in subsidiaries US\$	Loans and receivables US\$	Total US\$
Financial Assets						
Investments in subsidiaries at cost	-	-	-	48,767,035	-	48,767,035
Other investments	-	-	4,494,689	-	-	4,494,689
Other loans and advances	-	-	-	-	628,694,936	628,694,936
Government loans and advances	-	-	-	-	1,863,548,635	1,863,548,635
Other receivables	-	-	-	-	797,111,218	797,111,218
Investments in treasury bills	1,478,745,936	-	-	-	-	1,478,745,936
Gold and foreign assets	6,605,125	-	87,315,398	-	-	93,920,523
Cash and Bank balances	-	-	-	-	292,018,509	292,018,509
Total	<u>1,485,351,061</u>	<u>-</u>	<u>91,810,087</u>	<u>48,767,035</u>	<u>3,581,373,297</u>	<u>5,207,301,479</u>
Financial Liabilities						
Other deposits payable	-	51,448,436	-	-	-	51,448,436
Bond notes and coins in circulation	-	344,082,242	-	-	-	344,082,242
International Monetary Fund facilities	-	482,258,657	-	-	-	482,258,657
Foreign Liabilities	-	833,360,899	-	-	-	833,360,899
Deposit accounts	-	3,200,190,165	-	-	-	3,200,190,165
Payables	-	89,138,497	-	-	-	89,138,497
Total	<u>-</u>	<u>5,000,478,896</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000,478,896</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

35.1 Classification of Financial Assets and Liabilities (2016)

	Held to maturity investments US\$	Loans & Borrowings US\$	Available for sale US\$	Investments in subsidiaries US\$	Loans and receivables US\$	Total US\$
Financial Assets						
Investments in subsidiaries at cost	-	-	-	40,104,252	-	40,104,252
Other investments	-	-	4,734,359	-	-	4,734,359
Other loans and advances	-	-	-	-	281,449,805	281,449,805
Government loans and advances	-	-	-	-	1,297,728,732	1,297,728,732
Other receivables	-	-	-	-	519,840,250	519,840,250
Investments in Treasury Bills	566,328,080	-	-	-	-	566,328,080
Gold and foreign assets	6,019,376	-	91,293,056	-	-	97,312,432
Cash and Bank balances	-	-	-	-	308,970,377	308,970,377
Total	572,347,456	-	96,027,415	40,104,252	2,407,989,164	3,116,468,287
Financial Liabilities						
Other deposits payable	-	51,976,707	-	-	-	51,976,707
Bond coins in circulation	-	85,999,281	-	-	-	85,999,281
International Monetary Fund facilities	-	454,965,773	-	-	-	454,965,773
Foreign Liabilities	-	514,729,678	-	-	-	514,729,678
Domestic Loans	-	57,262,950	-	-	-	57,262,950
Deposit accounts	-	1,783,204,029	-	-	-	1,783,204,029
Payables	-	95,604,904	-	-	-	95,604,904
Total	-	3,043,743,322	-	-	-	3,043,743,322

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

35.2 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.

35.3 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.

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

		2017 US\$	2016 US\$
Financial assets	Average Interest		
Foreign Treasury Bills	6%	6,605,125	6,019,376
Advances to Government	5%	1,184,227,304	941,815,033
Zimbabwe Treasury Bills	5%	1,478,745,936	566,328,080
Interbank advances	4%	118,799,293	136,299,293
Government Loans	8%	613,017,658	355,913,698
Loans to subsidiaries	5%	231,672,843	112,350,691
Loans and advances	9%	279,772,216	34,346,844
Total		3,912,840,376	2,153,073,015
Financial Liabilities			
Other deposits payable	7%	30,431,941	31,362,916
Short term loans	6%	769,922,954	569,434,103
Deposits	7%	399,500,000	207,879,819
SARB 1	6%	4,747,592	4,478,550
Savings Bonds	7%	165,174,800	-
Total		1,369,777,287	813,155,388

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

35.4 Equity risk analysis: Afreximbank and Infrastructure Development Bank of Zimbabwe (IDBZ).

The Bank is exposed to equity price risk on its investments classified as available for sale. The fair value of the available for sale investments was estimated using a weighted average equity price based on Dividend valuation model (DVM), Discounted cash flow model (DCF) and Net asset model (NAV).

Below is a sensitivity analysis showing the impact of increases/decreases in the weights assigned and impacts on equity fair value.

Afreximbank (6 481 Shares)	Weight Assigned	Calculated Value US\$000	Reduce DVM by 10%		Increase DVM by 10%		Weighted Value US\$000
			Weighted Value US\$000	Weight Assigned	Weighted Value US\$000	Weight Assigned	
Valuation Method							
Dividend valuation model (DVM)	65%	6,893	4,480	55%	3,791	75%	5,170
Discounted cash flow model (DCF)	20%	32,140	6,428	25%	8,035	15%	4,821
Net asset model (NAV)	15%	16,382	2,427	20%	3,276	10%	1,638
Estimated equity value per share (US\$)		13,366		15,103			11,629
Value of shares (US\$ 000)		86,625		97,883			75,368
IDBZ (560 435 Shares)	Weight Assigned	Calculated Value	Weighted Value	Weight Assigned	Weighted Value	Weight Assigned	Weighted Value
Valuation Method							
Net asset value model	100%	8.02	8.02	100%	8.02	100	8.02
Estimate equity value per share (US\$)			8.02				8.02
Value of shares (US\$ 000)			4,495		4,495		4,495

35.5 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].

35.6 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. 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.

NOTES TO THE FINANCIAL STATEMENTS

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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.

Credit risk measurement

The Bank assesses the probability of default of financial institutions or counterparty using internal rating scale tailored to the various categories of counterparties. The rating scale has been developed internally and combines data analysis with credit officer judgment and is validated, where appropriate, by comparison with externally available information. Clients of the Bank are segmented into seven rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating scale is kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

Bank's Internal Ratings Scale

Bank's rating grade	Description of the rating
1	Low risk
2	Satisfactory risk
3	Fair risk
4	Watch list
5	Sub-Standard risk
6	Doubtful and bad
7	Loss

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

35.6.1 Credit risk Analysis

Credit risk Analysis 2017	Neither Past Due/Nor Impaired US\$	Past Due Not Impaired US\$	Past Due and Impaired US\$	Total US\$
Gold and foreign assets	7,128,306	-	-	7,128,306
Receivables	400,758,159	9,315,850	1,092,462	411,166,471
Other receivables	385,944,747	-	-	385,944,747
Financial securities	1,478,745,936	-	-	1,478,745,936
Government loans and advances	1,863,548,635	-	-	1,863,548,635
Government recoverable	-	-	166,988,801	166,988,801
Advances	628,694,936	-	1,549,494	630,244,429
Total non-derivative assets	4,764,820,718	9,315,850	169,630,758	4,943,767,326
Credit risk Analysis 2016				
Gold and foreign assets	6,480,776	-	-	6,480,776
Receivables	129,664,979	5,161,397	-	134,826,376
Other receivables	385,013,874	-	-	385,013,874
Financial securities	566,328,080	-	-	566,328,080
Government recoverable	-	-	249,650,395	249,650,395
Government loans and advances	1,297,728,732	-	-	1,297,728,732
Advances	281,449,805	-	-	281,449,805
Total non-derivative assets	2,666,666,246	5,161,397	249,650,395	2,921,478,038

35.6.2 Credit risk exposure

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

	2017 US\$	2016 US\$
Gold and foreign assets	7,128,306	6,480,776
Receivables	410,122,009	134,826,376
Government loans and advances	1,863,548,635	1,297,728,732
Financial securities	1,478,745,936	566,328,080
Interbank facility advances	118,799,293	136,299,293
Other facilities	231,672,843	112,350,691
Loans and advances	277,523,094	30,098,429
Total	4,387,540,115	2,284,112,377

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

35.7 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.

35.7.1 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\$
Non-derivative liabilities						
Other deposits payable	-	50,938,751	509,685	-	-	51,448,436
International Monetary Fund facilities	1,236,575	-	-	-	481,022,082	482,258,657
Foreign liabilities	-	77,247,592	258,860,043	497,253,264	-	833,360,899
Deposit accounts	2,800,690,165	-	-	399,500,000	-	3,200,190,165
Payables	89,138,497	-	-	-	-	89,138,497
Bond notes and coins in circulation	344,082,242	-	-	-	-	344,082,242
Total non-derivative liabilities	3,235,147,478	128,186,343	259,369,728	896,753,264	481,022,082	5,000,478,896
Assets held for managing liquidity risk						
Cash and Bank balances	292,018,509	-	-	-	-	292,018,509
Financial securities	-	58,105,120	248,302,361	1,139,125,269	39,818,310	1,485,351,060
Available for sale	523,182	-	86,792,215	-	-	87,315,397
Loans and receivables	-	395,490,810	1,648,698	9,269,402	390,702,307	797,111,218
Other loans and advances	-	-	434,702,425	63,950,611	8,971,080	507,624,116
Interbank advances	-	18,799,293	100,000,000	-	-	118,799,293
Government loans and advances	-	-	1,863,548,635	-	-	1,863,548,635
Total assets held for managing liquidity risk	292,541,691	472,395,223	2,734,994,334	1,212,345,282	439,491,697	5,151,768,227
Net exposure	2,942,605,787	-344,208,880	-2,475,624,605	-315,592,018	41,530,385	-151,289,332

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

35.7.2 Maturity Analysis (2016)

	On demand US\$	Due between 0-3 months US\$	Due between 3-12 months US\$	Due between 1-5 years US\$	Due After 5 years cost US\$	Total carrying amount US\$
Non-derivative liabilities						
Other deposits payable	-	51,190,280	786,427	-	-	51,976,707
International Monetary Fund facilities	1,236,708	-	-	-	453,729,065	454,965,773
Foreign liabilities	85,212,698	388,123,293	41,393,687	-	-	514,729,678
Domestic loans	28,803,735	-	28,459,215	-	-	57,262,950
Deposit accounts	1,575,324,210	207,879,819	-	-	-	1,783,204,029
Payables	95,604,904	-	-	-	-	95,604,904
Bond coins in circulation	85,999,281	-	-	-	-	85,999,281
Total non-derivative liabilities	1,872,181,536	647,193,392	70,639,329	-	453,729,065	3,043,743,322
Assets held for managing liquidity risk						
Cash and Bank balances	308,970,377	-	-	-	-	308,970,377
Financial securities	-	100,442,135	122,178,034	349,727,286	-	572,347,455
Available for sale	461,401	-	90,831,654	-	-	91,293,055
Loans and receivables	-	126,322,646	1,764,571	4,871,613	386,881,420	519,840,250
Interbank	-	136,299,293	-	-	-	136,299,293
Government loans and advances	-	-	1,297,728,732	-	-	1,297,728,732
Total assets held for managing liquidity risk	309,431,778	363,064,074	1,512,502,992	354,598,899	386,881,420	2,926,479,162
Net exposure	1,562,749,758	284,129,318	-1,441,863,663	-354,598,899	66,847,645	117,264,160

35.7.3 Default and breaches disclosure

As at reporting date, the Bank was in default for the loans and payables listed below. The carrying amounts include the principal and interest.

	2017 US\$	2016 US\$
Non-derivative liabilities		
Foreign liabilities	-	85,212,698
Domestic loans	-	28,803,735
Deposit accounts	-	70,936,284
Payables	-	41,167,629
Total non-derivative liabilities	-	226,120,346

The Government of Zimbabwe has taken over most of the RBZ legacy debt through the issuance of Treasury Bills.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

35.7.4 Secured and unsecured Loans and Advances (2017)

	Secured value 2017 US\$	Unsecured value 2017 US\$	Total carrying Amount 2017 US\$
Financial Assets			
Loans and advances to financial institutions	-	797,111,218	797,111,218
Other loans and advances	118,800,000	509,894,936	628,694,936
Government loans and advances	-	1,863,548,635	1,863,548,635
Total	118,800,000	3,170,554,788	3,289,354,788
Secured and Unsecured Financial Liabilities			
Other deposits payable	-	51,448,436	51,448,436
Bond notes and coins in circulation	-	344,082,242	344,082,242
International Monetary Fund facilities	-	482,258,657	482,258,657
Foreign Liabilities	-	833,360,899	833,360,899
Deposit accounts	-	3,200,190,165	3,200,190,165
Payables	-	89,138,497	89,138,497
Total	-	5,000,478,896	5,000,478,896

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 2017

35.7.5 Secured and unsecured Loans and Advances (2016)

	Secured value 2016 US\$	Unsecured value 2016 US\$	Total carrying Amount 2016 US\$
Financial Assets			
Loans and advances to financial institutions	-	519,840,250	519,840,250
Other loans and advances	229,003,312	52,446,493	281,449,805
Government loans and advances		1,297,728,732	1,297,728,732
Total	229,003,312	1,870,015,475	2,099,018,787
Secured and Unsecured Financial Liabilities			
Other deposits payable	-	51,976,707	51,976,707
Bond coins in circulation	-	85,999,281	85,999,281
International Monetary Fund facilities	-	454,965,773	454,965,773
Foreign Liabilities	-	514,729,678	514,729,678
Domestic Loans	-	57,729,678	57,729,678
Deposit accounts	-	1,783,204,029	1,783,204,029
Payables	-	95,604,904	95,604,904
Total	-	3,043,743,322	3,043,743,322

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.

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 liquidity and stability of the economy at large.

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 2016.

	2017 US\$	2016 US\$
Share capital	2,000,000	2,000,000
Share premium	98,000,000	98,000,000
Revaluation reserve	7,112,039	3,997,662
Mark to market	40,410,536	46,994,827
Non distributable reserves	-	-
General reserve fund	-	-
Accumulated Surplus/ (deficit)	153,579,489	(6,684,645)
Total	301,102,064	144,307,845

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

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.

37. Fair Value Measurement

Quantitative disclosures fair value measurement hierarchy for assets as at December 2017 and 2016.

	Date of valuation	Total US\$	Fair Value measurement using		
			Quoted prices in active markets US\$	Significant observable inputs US\$	Significant unobservable inputs US\$
Assets measured at fair value					
Investment properties	31 December 2017	13,600,000	-	-	13,600,000
Available-for-sale financial investments					
Unquoted equity shares	31 December 2017	4,494,689	-	-	4,494,689
Revalued property and equipment					
Land and buildings	31 December 2017	73,730,981	-	-	73,730,981
Other Assets					
Gold and foreign assets	31 December 2017	93,920,523	7,128,307	-	86,792,216
2016					
Assets measured at fair value					
Investment properties	31 December 2016	8,365,000	-	-	8,365,000
Available-for-sale financial investments					
Unquoted equity shares	31 December 2016	4,734,359	-	-	4,734,359
Revalued property and equipment					
Land and buildings	31 December 2016	63,326,998	-	-	63,326,998
Other Assets					
Gold and foreign assets	31 December 2016	97,312,432	461,401	-	96,851,031

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

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

	Valuation Technique	Significant unobservable inputs	Range
Investment properties	Direct Comparison and Income capitalisation.	Capitalisation rate Estimated rental value per sqm per month.	9.5%- US\$5- US\$15
Office properties	Direct Comparison and Income capitalisation.	Capitalisation rate Estimated rental value per sqm per month.	9-10.5%. USD\$3 - US\$15
Land	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).
Residential properties	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 2016

	Valuation Technique	Significant unobservable inputs	Range
Investment properties	Direct Comparison and Income capitalisation.	Capitalisation rate Estimated rental value per sqm per month.	10%-10.2%. US\$6- US\$12
Office properties	Direct Comparison and Income capitalisation.	Capitalisation rate Estimated rental value per sqm per month.	8-11%. US\$4- US\$12
Land	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).
Residential properties	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 2017

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)	50
Venture Capital Company of Zimbabwe (Private) Limited (Dormant)	100
ResZim (Private) Limited	100

38.1 Balances with related parties

Related Party	Relationship	Transaction	2017 US\$	2016 US\$
Fidelity Printers and Refineries	Subsidiary	loan	123,875,609	41,836,209
Homelink	Subsidiary	loan	4,002,369	4,381,845
Zimbabwe Asset Management Company	Subsidiary	loan	81,296,861	65,233,499
Aurex	Subsidiary	loan	2,910,912	1,610,912
Total			212,085,752	113,062,465

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017



38.1 Compensation of key management personnel of the Bank.

The Bank has not entered into transactions with its Directors and their associates in 2017.

Salaries and benefits to management personnel

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

	2017 US\$	2016 US\$
Short term senior managers benefits	3,559,493	3,441,727
Directors fees	384,702	379,664
Senior managers loans	1,250,616	1,013,494
Total	5,194,811	4,834,885

39. NOTES TO THE STATEMENT OF CASH FLOWS

Property and equipment

39.1 Additions

Additions as per PE note (note 18)	4,376,359	1,959,874
Add assets purchased not yet delivered	6,234,906	-
Less assets purchased in prior year capitalised	(1,139,070)	(852,374)
Balance as per Statement of Cash flow	9,472,195	1,107,500

39.2 Disposals

Property and equipment

Disposals as per PE note (note 18)	535,156	1,361,574
Less accumulated depreciation	(523,387)	(701,931)
	11,769	659,643
Profit on disposal	73,908	68,438
Balance as per Statement of Cash flow	85,677	728,081



RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017



40. COMPARATIVE FIGURES

Comparative figures are based on the 2016 audited financial statements.

41. EVENTS AFTER REPORTING PERIOD

The President of the Republic of Zimbabwe extended the amnesty period for the return of funds externalised until the 16th of March 2018 after expiry of the initial 3 months. The list of those who failed to heed the call was published on the 19th of March 2018.

42. BASIS OF FUNDING

The Bank has made great strides towards self-sustenance which resulted in Government grant being reduced by 50% in 2018. These financial statements were therefore prepared on a going concern basis. The Board believes the Bank will continue to be a going concern in the foreseeable future.



Banking Sector, Stability and Supervision Committee



Mr. O. J. S. Mukumba

Dr. K. Mlambo
Deputy Governor

Mr J.S Mutizwa
Chairperson

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





Dr. J. P. Mangudya
Governor

Reserve Bank of Zimbabwe
Executive Management



Dr. J. T. Chipika
Deputy Governor



Dr. K. Mlambo
Deputy Governor



Mr F. Masendu
Director, Exchange
Control



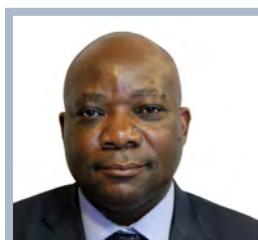
Mr S. Nyarota
Director, Economic Research



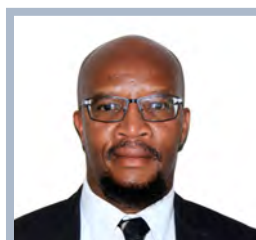
Mr. A. Saburi
Director, Financial Markets



Ms. T. Hungwe
Director, Finance & Procurement



Mr. N. Mataruka
Director, Bank Supervision



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



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

OPERATING ENVIRONMENT: INTERNATIONAL CONTEXT



Global and Regional Economic Developments

15. Global economic activity continues to firm up with output being estimated to have increased from 3.2% in 2016 to 3.7% in 2017. The pick-up in growth has been broad based, with notable upside coming from growth in Europe and Asia. The IMF revised global growth forecasts to 3.9% for 2018 and 2019, citing further increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes.
16. The U.S. is expected to institute an array of tax policy changes that are widely expected to stimulate activity in the world's largest economy, with the short-term impact on the United States mostly driven by the investment response to the corporate income tax cuts. The effect on U.S. growth is estimated to be positive through 2020.
17. Table 1 summarizes global economic growth developments for selected regions and countries.

Table 1: Global Economic Growth & Outlook (%)

	2014	2015	2016	2017 Estimate	2018 Proj
World Output	3.4	3.2	3.2	3.7	3.9
Advanced Economies	1.9	2.1	1.7	2.3	2.3
US	2.4	2.6	1.5	2.3	2.7
Euro Area	0.9	2.0	1.8	2.4	2.2
Japan	0.0	1.2	0.9	1.8	1.2
Emerging Market & Developing Economies	4.6	4.1	4.4	4.7	4.9
China	7.3	6.9	6.7	6.8	6.6
India	7.2	7.6	7.1	6.7	7.4
Sub-Saharan Africa	5.1	3.4	1.4	2.7	3.3
Zimbabwe¹	3.8	1.1	0.7	3.7	4.5
Latin America & the Caribbean	1.3	0.1	-0.7	1.3	1.9

Source: IMF (World Economic Outlook Update (January 2018))

18. Overall, global growth in 2017 picked up in a number of economies, supported by improvements in investment, particularly in advanced economies and increased manufacturing activity in Asia. Expectations of favourable global financial conditions and strong consumer confidence will keep final demand high, and with it a significant positive impact on overall growth in some economies.
19. Headline inflation is also picking up in advanced economies, on account of the increase in fuel prices and higher aggregate demand, while wage and core-

price inflation remain depressed. On the downside, the possibility of tightening of financial conditions in the form of higher interest rates than currently prevailing and more volatile asset prices poses a threat to near term global growth prospects.

Sub-Saharan Africa

20. Economic growth in sub-Saharan Africa is estimated at 2.7% in 2017, up from 1.4% recorded in 2016. Growth is expected to further increase to 3.3% in 2018, with sizable differences across countries. Fiscal deficits are stabilizing and current account deficits narrowing in most sub-Saharan African countries, partly reflecting a slight rebound in commodity prices. There are, however, mounting vulnerabilities in the region, notably, rising public debt, financial sector strains and low external buffers. Public debt is high not only in oil exporting countries but in many fast-growing economies as well.

Commodity Price Developments

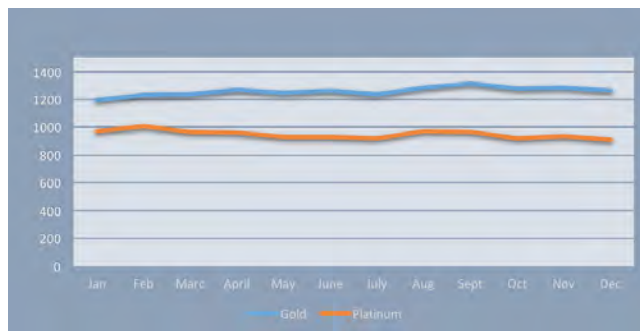
21. Despite expectations of more robust global commodity demand in 2017 and going forward, commodity prices softened during the first half of 2017, before making recoveries in the second half of the year. Reflecting mixed fortunes, gold, copper, nickel and crude oil prices firmed during the year 2017. Platinum prices, however, retreated during the same period.
22. As with the broader group of emerging market and developing economies, the IMF predicted that low-income developing countries, such as Zimbabwe, dependent on commodity exports, continue to face weaker economic prospects than those countries with more diversified export bases. These countries had benefited from China's rapid manufacturing growth in years past. Permanently lower export prices, therefore, call for new growth models.

Precious Metals

23. Gold prices firmed by 0.8%, from an annual average of US\$1,248.33/oz in 2016 to an average of US\$1,258.04/oz in 2017. The yellow metal price was supported by a weaker US dollar, amid soft US economic data, which boosted safe haven demand prospects for gold. In addition, the interest rate cut in China, coupled with hopes that demand would improve, exerted upward pressure on gold prices.
24. Platinum prices decreased by 3.8%, from US\$986.45/oz in 2016 to an average of US\$949.07/oz in 2017. The decrease was underpinned by low industrial demand for platinum. The industrial metal is used as a catalytic

converter for diesel powered cars in Europe and China. Figure 1 shows movement of gold and platinum prices for 2017.

Figure 1: Gold and Platinum Prices

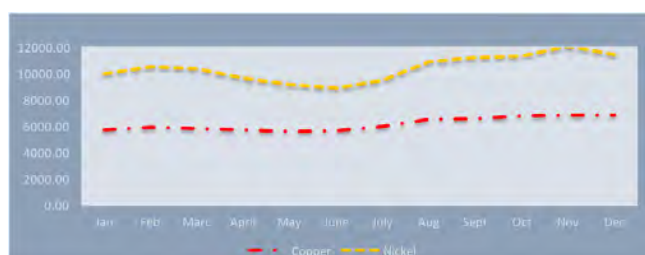


Source: Bloomberg, BBC and KITCO, 2017

Base Metals

25. Copper prices rallied by 26.9%, from an annual average of US\$4,862.36/tonne in 2016 to US\$6,170.05/tonne in 2017. The increase was underpinned by signs of growth in global demand particularly in China, the world's largest base metal consumer.
26. Similarly, nickel prices rose by 8.8%, from an average of US\$9,587.97/tonne in 2016 to US\$10,429.45/tonne in 2017. This was on account of supply gaps emanating from the continued ban on nickel ore exports in Indonesia, one of the world's largest nickel producers.

Figure 2: Copper and Nickel Prices for 2017 (US\$/tonne)

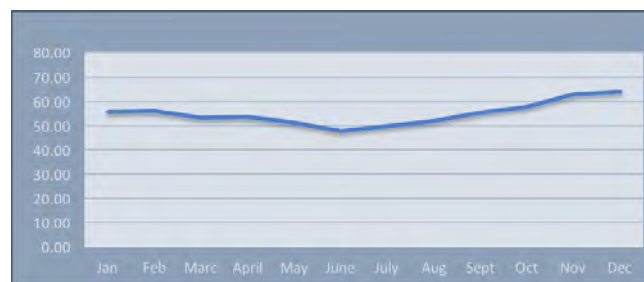


Source: Bloomberg, BBC and KITCO, 2017

Crude Oil

27. Crude oil prices surged markedly by 21.3%, from an average of \$45.21/barrel in 2016 to an average of US\$54.86/barrel in 2017, as shown in Figure 3. The main drivers of crude oil prices, particularly in the first half of 2017, were higher-than-expected US shale production and stronger-than-expected production recoveries in Libya and Nigeria. In addition, exports from OPEC countries remained at relatively high levels, even with lower production. The strengthening of global demand in the second half of 2017, also exerted upward pressure on crude oil prices.

Figure 3: Crude Oil Prices 2017 (US\$/Barrel)



Source: Bloomberg, BBC and KITCO, 2017

Exchange rates developments

28. The U.S. dollar and the euro remained close to their August 2017 levels in real effective terms as at end December 2017, according to the IMF's World Economic Outlook Report. The Japanese yen depreciated by 5% on widening interest differentials, while the British pound appreciated by close to 4% on the back of a hike in interest rates by the Bank of England in November 2017, coupled with heightened expectations of a Brexit deal. On the other hand, currencies for most emerging market economies generally appreciated on account of improved growth outlook and firmer commodity prices.
29. Zimbabwe's implied nominal effective and real effective exchange rates continued to exhibit signs of depreciation and convergence to their equilibrium value of 100 in 2017. This emanated from a positive inflation trajectory experienced in the domestic economy. Accordingly, the nominal and real effective exchange rates depreciated by 9.7% and 9.1% to 80.4 and 59.2, respectively, in 2017.

Figure 4: Implied Nominal & Real Effective Exchange Rate (2009=100)



Source: Reserve Bank of Zimbabwe, 2017

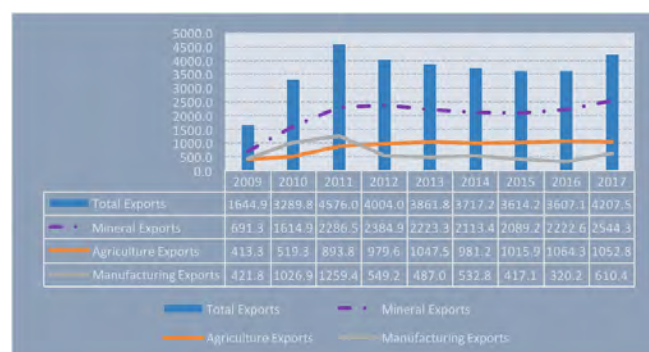
30. The country's the real effective exchange rate, however, remained well below optimum levels, implying that the country's exports are not competitive in both the domestic and external markets.

Merchandise Trade Developments

Merchandise Exports

31. On the back of strengthening global mineral prices and export support measures instituted by the Government and the Reserve Bank of Zimbabwe, merchandise exports increased by 16.6%, from US\$3,607.1 million realized in 2016 to US\$4,207.5 million in 2017.
32. The surge in merchandise export was largely underpinned by increases in export receipts for gold and platinum group of metals (PGMs). In particular, the increase in gold export receipts was on account of improvements in both production, as well as the price of the precious metal on the international market.
33. Gold production stood at 26.5 tonnes in 2017, propelled by the delivery bonus paid to small scale gold producers and large scale gold producers. In addition, the increase in gold production was on account of the US\$20 million Gold facility availed by the Reserve bank and being managed by Fidelity Printers and Refiners (FPR).
34. The manufacturing sector, which used to contribute immensely to the country's export earnings, continued to be adversely affected by low capacity utilization in the sector occasioned by the influx of cheap imports, foreign exchange shortages for importation of raw materials and capital equipment, obsolete industrial machinery and equipment as well as limited access to affordable lines of credit.
35. The country's export basket was largely composed of mineral exports, notably, gold and platinum, which accounted for about 48% of total export receipts. Figure 5 shows the composition of exports during the period under review.

Figure 5: Composition of Exports 2009 to 2017



Source: Zimstat and RBZ, 2017

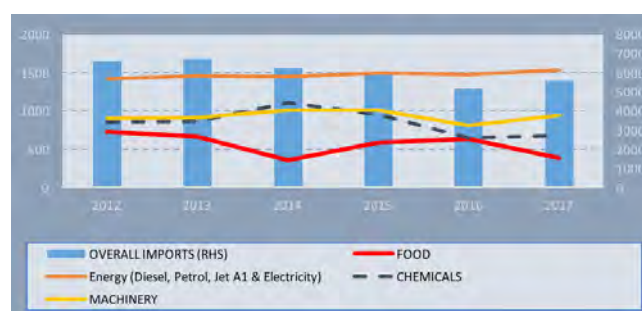
36. Agriculture exports are estimated to have declined by

1.1%, from US\$1,064.3 million in 2016 to US\$1,052.8 million in 2017, on account of decreased tobacco revenues due to low average prices. Sugar exports marginally increased in 2017 and were mainly destined for Italy; the EU; USA; Kenya; Botswana; and the DRC.

Merchandise Imports

37. Zimbabwe's merchandise imports stood at US\$5,550.7 million in 2017, a 7.5% increase from US\$5,162.9 million recorded in 2016. The surge in the country's import bill was due to increases in imports of fuels (diesel, petrol and Jet A1), machinery and manufactured goods. International crude oil prices also firmed, reflecting efforts by OPEC to curb global production.
38. Electricity imports, however, declined owing to the availability of additional capacity of 150 MW from Kariba.
39. Similarly, grain imports were lower than those recorded in 2016 as a result of the good harvest in the 206/2017 agricultural season.
40. The country's major merchandise imports comprised of energy, that is, diesel, petrol, electricity and Jet A1; and machinery; chemicals; and food (maize and rice), as shown in Figure 6.

Figure 6: Zimbabwe's imports 2012-2017 (US\$ Million)



Source: RBZ and Zimstat, 2017

Services Account

41. The services account balance improved by 22.7%, from a deficit of US\$867.1 million in 2016 to a deficit of US\$669.8 million in 2017. The improvement largely reflected the sharp decline in service payments. Services payments declined by 13.9% from US\$1 263.8 million in 2016 to US\$1088.7 million in 2017. This, in large part, reflected foreign currency shortages that the country is facing.
42. Service receipts increased by 5.6% from US\$396.7 million in 2016 to US\$418.9 million in 2017, underpinned by a surge in freight receipts, in line with the increase in

merchandise exports.

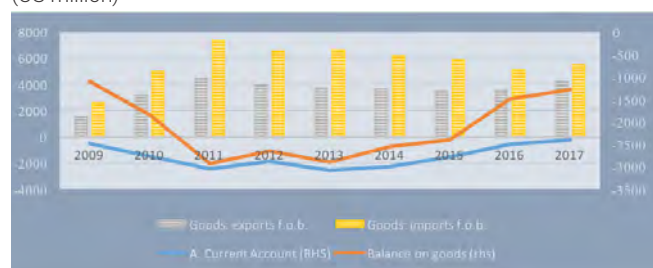
Income Account

43. The secondary income account, mainly records transfers to Non-Profit Institutions Serving Households (NPISHs) and personal remittances (transfers that a migrant makes to the country of origin). Secondary income flows are second largest contributor of foreign currency to the country after exports. The secondary income account receipts declined by about 5.1%, from US\$1,979.7 million in 2016 to US\$1,878.5 million in 2017, following declines in transfers to NPISHs.
44. Personal remittances increased from US\$1,102.8 million in 2016 to US\$1,112.8 million in 2017. As expected, transfers to NPISHs declined from US\$750.3 million in 2016 to US\$633.5 million in 2017, in line with declining aid globally. The humanitarian needs of the country were also lower in 2017, as the country recovered from the effects of the 2015/2016 drought.

Current Account

45. Developments on the merchandise trade, services and income accounts resulted in a current account deficit. The current account deficit, however, narrowed in 2017, largely due to the improved trade balance, resulting from a combination of improved export performance and import compression measures. This notwithstanding, the country's exports continued to lag behind imports, a development which exerted pressure on the foreign exchange situation in the economy.
46. The current account continued to be financed largely by debt creating flows, which if sustained, could put the country's external position on an unsustainable path in the medium to long term.

Figure 7: Merchandise exports, imports and current account balance (US million)



Source: RBZ, 2017

Capital and Financial Account

47. The capital account balance rose from US\$242.3 million in 2016 to US\$285.7 million in 2017. Financial account inflows, however, deteriorated significantly in 2017, on account of subdued offshore loans and foreign direct investment inflows.

Figure 8: Capital and Financial Account Inflows 2009-2017



Source: RBZ, 2017

Overall Balance of Payments

48. Reflecting developments in both the current and capital and financial accounts, the overall balance of payments worsened from a deficit of US\$99.0 million in 2016 to a deficit of US\$129.0 million in 2017. The BOP deficit was largely financed through accumulation of external payment arrears, against the backdrop of low foreign currency reserves, which stood at an average of 0.6 months of import cover in 2017.

Figure 9: Overall balance of payments (US\$ Million)



Source: RBZ, 2017

OPERATING ENVIRONMENT
DOMESTIC ECONOMIC DEVELOPMENTS

REAL GDP

49. The economy is estimated to have grown by 3.7% in 2017, largely driven by strong positive growth in agriculture; mining; electricity; and water; distribution; hotels and restaurants; and transport and communication, as shown in Figure 10.

Figure 10: Real GDP Growth (%) Estimates and Projections



Source: ZIMSTAT, MoFED and RBZ 2017

Table 2: GDP Growth Rates by Sector (%)

	2016	2017 Est.
GDP by Industry Growth Rates	0.6	3.7
Agriculture	-3.6	14.6
Mining and quarrying	8.2	8.5
Manufacturing	-4.0	1.0
Electricity and water	-23.4	10.7
Construction	4.9	2.2
Distribution, Hotels and restaurants	7.6	1.1
Transportation and communication	2.1	2.3
Financial, banking and insurance activities	-3.2	0.2
Administrative and support service activities	10.2	-0.9
Education and training	4.4	2.3
Human health and social work activities	7.4	2.0
Private's education and health	0.9	2.2
Real estate activities	5.9	2.2

Source: ZIMSTAT, Ministry of Finance & Economic Development, Reserve Bank of Zimbabwe, 2017

50. Table 2 shows the sectoral growth estimates and projections from 2016 to 2017.

Agriculture

51. The agriculture sector is estimated to have grown by 14.6% in 2017, driven by the increase in maize, tobacco, sugar cane, wheat, and dairy output.

Table 3: Agriculture Production Trends

	Weight	2015	2016	2017
Tobacco (flue cured)	25.5	198.9	202.3	190
Maize	14.0	742.2	511.0	2,155
Beef	10.2	76.0	86.0	74
Cotton	12.5	105.0	30.0	75
Sugar cane	6.8	4,399.0	4,044.0	4,350
Horticulture	6.5	69.4	65.0	67
Poultry	4.8	151.0	130.0	121.0
Groundnuts	3.2	88.9	73.7	139.0
Wheat	3.6	62.3	61.7	160.0
Dairy (m lt)	2.9	71.9	78.0	83.0
Coffee	2.1	0.7	0.5	0.5
Soybeans	1.9	57.9	47.7	36
Tea	1.9	14.0	17.7	19
Paprika	1.1	5.5	7.0	8
Pork	0.8	10.9	10.7	10.1
Wildlife	0.6	51.0	30.0	32
Sorghum	0.6	39.7	36.3	182.0
Barley	0.4	18.0	13.0	12
Sheep & goats	0.3	6.1	10.5	8.9
Sunflower seeds	0.2	21.0	25.0	10.3
Ostriches	0.1	19.0	19.0	19
Agriculture Growth (%)		16.5	-5.5	14.6

Source: Ministry of Lands, Agriculture and Rural Resettlement, 2017



52. Maize and wheat production benefited from additional financing availed through the Command Agriculture Initiatives that significantly boosted area under cropping, as well as the favourable rains received during the 2016/2017 agriculture season. Maize output increased to 2.155 million tonnes in 2017, from 511 000 tonnes in 2016. Similarly, wheat output increased by 156%, from the 61 715 tonnes produced in 2016 to 160 000 tonnes in 2017. Wheat production benefited from the stable power supply which supported irrigation activities.
53. Tobacco output declined from 202.3 million kilograms in 2016 to about 190 million kg in 2017, due to incessant rains that affected the production of the leaf crop through water-logging and higher incidence of diseases. The excessive rains also resulted in false leaf ripening, which reduced the quality of the crop.
54. Seed cotton stood at 73 034 tonnes in 2017, up from 28 425 tonnes produced in 2016, largely due to improved financing under a 3-year Government programme that seeks to revamp the cotton-to-clothing value chain. Cotton farmers also benefited from an increase in the producer price, from US36c/kg in 2016 to US45c/kg in 2017.
55. Milk output also grew by 6.4% to 83 million litres in 2017, from 78 million in 2016, on account of improved pastures, water and availability of stock feeds. Milk supply, however, remained below national requirement of about 120 million litres a year, pointing to the need for added investments in the sector.
56. Poultry output declined in 2017, compared to 2016, as shown in Table 5, largely due to the incidence of the deadly avian flu virus, which led to the culling and slaughtering of the breeding stock. The output of chicken and table eggs also declined.



Mining

57. Mining output is estimated to have grown by about 8.0% in 2017, slightly lower than the initial projection of 8.5%, due to the underperformance of Platinum Group of Metals (PGMs). The strong positive growth in gold, chrome, diamonds and coal, and other small minerals, however, sustained the growth of mining output in 2017.
58. Table 4 shows the output of selected minerals during the period under review.

Table 4: Selected Mineral Production Statistics: 2016 and 2017 Projections

	2017 Est.	2016	Variance 2016
Gold (kg)	26,495	23,187	14.3
Chrome (tonnes)	1,673,998	735,822	127.5
Coal (tonnes)	2,928,038	2,701,719	8.4
Nickel (tonnes)	16,617	17,743	-6.3
Platinum (kg)	14,258	15,110	-5.6
Palladium (kg)	11,822	12,223	-3.3
Diamonds (Carats)	2,507,862	1,745,819	43.6
Overall Growth (%)	8.0	-3.6	

Source: Ministry of Mines, Chamber of Mines, MMCZ, 2017

59. The favorable international mineral prices, particularly for gold and palladium, as well as the strong performance in some of the key minerals, culminated in total mineral

revenue of US\$2.38 billion in 2017, about 8.2% above the US\$2.2 billion that was realized in 2016. Overall, mining contributed about 59% of total export revenues in 2017.

Gold

60. Cumulative gold output registered a 14.3% increase to 26 495 kg in 2017, from 23 187 kg realized in 2016, driven by both small and large scale miners. Small scale miners, however, dominated the output, contributing 48% to total output. Large scale and secondary producers accounted for 45% and 7%, of total output, respectively, as shown in Figure 11.

Figure 11: Gold Output by sector (2017)



Source: Chamber of Mines, Fidelity Printers and Refiners (FPR), Ministry of Mines, 2017

61. Small scale gold miners largely benefited from the gold facility that was unveiled by Fidelity Printers and Refiners (FPR) in the last half of the year. Flooding conditions also softened across most of the mines, thereby facilitating



improved ore extraction. In addition, the continued monitoring and surveillance by the Gold Mobilization Team also minimized leakages of gold.

62. Gold production also responded positively to the favourable international prices, which averaged US\$1,257.13 per ounce in 2017, up from US\$1,249.10 per ounce in 2016.

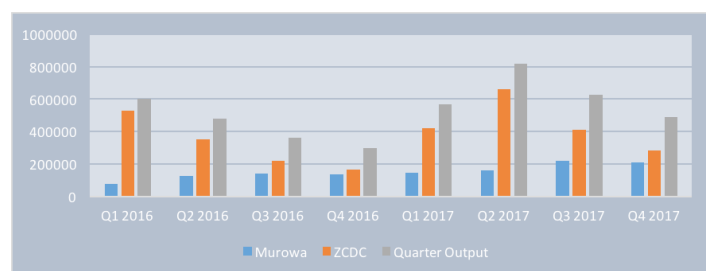
Platinum

63. Platinum output ended the year 2017 at 14 258 kg, 5.6% lower than 15 110 kg produced in 2016. Production was adversely affected by the loss of production time largely due to the on-going mine development and continuous re-development of shafts, as well as the scheduled maintenance of both plant and equipment at Zimplats. In September 2017, Zimplats shut down its smelter for 24 days to institute planned furnace maintenance and repairs. Consequently, platinum in converter matte decreased by 2%, from 269 547 ounces in 2016 to 262 871 ounces in 2017, in line with the decrease in furnace availability.
64. The negative sentiments from the auto industry on diesel cars, particularly in Western Europe and India, as well as the fall in demand for Chinese jewelry, culminated in lower demand for platinum, weighing down on international platinum prices. Consequently, prices averaged US\$948.54 per ounce in 2017, compared to US\$987 per ounce in 2016, adversely affecting the profitability of the mining houses.
65. The performance of other key PGMs performance was also in line with trends in platinum production. Palladium output stood at 11 822 kg in 2017, about 3.3% lower than the 12 223 kg recorded in 2016. Palladium prices, however, were favourable, largely driven by increased demand from the auto industry that use the commodity as a catalyst in gasoline engines.

Diamond

66. Cumulative diamond output was 2.5 million carats in 2017, about 43.6% up from 1.7 million carats produced in 2016. The increase in output was due to the ramp-up in production by both players in the industry.

Figure 12: Trends in Quarterly Diamond Output (Carats) (2016 - 2017)



Source: Ministry of Mines and Mining Development, 2017





67. Diamond production was disrupted by the transitional issues involving the consolidation of former diamond companies into one state company, the Zimbabwe Consolidated Diamond Company (ZCDC) in February 2017.

Nickel

68. Cumulative nickel output stood at 16 617 tonnes in 2017, compared to 17 743 tonnes registered in 2016. The lower than anticipated performance in nickel was partly attributed to subdued PGMs throughput, as well as the lower international prices of the commodity, particularly during the first half of the year.
69. Primary nickel producers contributed 36% of total output, while secondary producers contributed 64% in 2017. Throughput from the primary production was affected by the antiquated equipment and machinery, as well as the continued extraction of low grade ores.

Chrome

70. Chrome output increased by 127.5% to 1 673 998 tonnes in 2017, from 735 822 tonnes realised in 2016, on account of increases in volume of both ore and ferro-chrome production. Production was, however, adversely affected by unfavorable prices for both raw chrome and HCF, which have been declining since the end of the first quarter of 2017, with sharp declines witnessed particularly in the second quarter of 2017. The prices, however, bottomed out in the third quarter of 2017, and have been trending upwards since then.
71. The shortage of appropriate equipment, technology and skills also adversely affected supply of ore in the aftermath of waterlogging and flooding of the mines.

Coal

72. Coal output amounted to 2.928 million tonnes in 2017, an increase of 8.4% on the 2.702 million tonnes recorded in 2016. The increase in output was largely driven by the ramping up of production by all producers. Coal mining activities were, however, affected by foreign currency shortages for importation of critical spare parts for mining equipment and consumables. Furthermore, working capital challenges adversely affected the mining houses' ability to ramp up ore extraction as well value addition and beneficiation, particularly for coke oven battery.

Manufacturing

73. The manufacturing sector is estimated to have grown by 1.0% in 2017, driven by metals and metal products; textiles & ginning; wood & furniture; foodstuffs; and drinks, tobacco & beverages, which grew by 5.3%; 2.6%; 2.1%; 1%; and 0.7%, respectively.
74. The sector largely benefitted from improved agro-processing

value chains in foodstuffs, drinks, and ginning, also amid supportive import management measures which assisted local industries to retool, attract new investments, and increase production and employment levels. The increase in the number of manufacturing entities, following the positive impact of Statutory Instrument 64 of 2016, however, resulted in increased demand for the limited foreign currency available.

75. The 2017 CZI Manufacturing Sector Survey indicated that manufactured output volume grew by 5.5%, as sectors supported by the import management program, such as foodstuffs, paper & packaging, drinks & beverages and wood & furniture, took advantage of the protection to recapitalize and expand capacity utilization.

Table 5: Volume of Manufactured Index (VMI)

Manufacturing Sub Sector	2015	2016	2017	2018	2019	2020
Foodstuffs	98.0	100.0	101.0	105.0	110.0	115.0
Drinks, Tobacco and Beverages	96.7	97.8	99.0	100.0	105.0	110.0
Textiles and Ginning	78.7	78.0	80.0	85.0	87.0	88.0
Clothing and Footwear	91.8	95.0	95.0	97.0	99.0	100.0
Wood and Furniture	99.8	96.2	98.0	99.0	100.0	105.0
Paper, printing and Publishing	93.3	90.4	91.0	95.0	95.0	95.0
Chemical and Petroleum Products	88.4	87.4	88.0	88.0	92.0	100.0
Nonmetallic mineral products	140.6	144.0	143.0	145.0	147.0	150.0
Metals and Metal products	67.5	66.5	70.0	71.0	76.0	80.0
Transport, Equipment	63.2	66.0	66.0	67.0	68.0	69.0
Other manufactured goods	63.5	66.7	67.0	67.0	68.0	69.0
Growth Rates (%)	0.2	-0.4	1.0	2.1	3.9	4.2

Source: Ministry of Finance & Economic Development, Reserve Bank of Zimbabwe, 2017

76. The survey estimated average capacity utilization in the manufacturing sector at 45.1% in 2017, down from 47.4 % recorded in 2016.

Electricity

77. Electricity generated increased by 4.4% to 7400.1 GWh in 2017, from 7089.6 GWh in 2016, on account of improved performance at Kariba, whose output more than offset the decline in combined output of the thermal power stations and Independent Power Producers (IPPs). Table 6 compares annual electricity generation statistics in 2016 and 2017.

Table 6: Electricity Generation Statistics

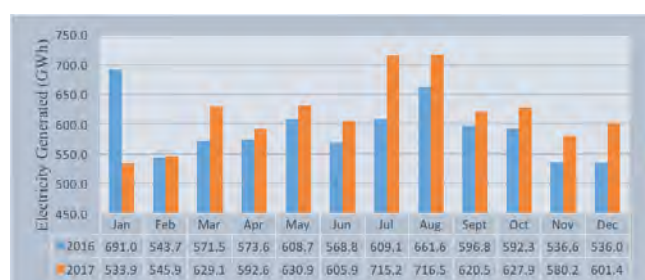
Power Station	Total 2017	Total 2016	Variance
Kariba	3850.2	2917.06	32.0%
Hwange	3202.4	3472.79	-7.8%
Bulawayo	53.6	110.53	-51.5%
Munyati	38.3	116.65	-67.2%
Harare	75.4	162.13	-53.5%
IPPs	180.3	310.4	-41.9%
Total	7400.1	7089.6	4.4%

Source: Zimbabwe Power Company, Zimbabwe Energy Regulatory Authority, 2017

ELECTRICITY GENERATION

78. Electricity generation levels at Munyati and Bulawayo thermal power stations declined due to low coal stock levels, while mechanical breakdowns and delays in repair works negatively affected production levels at Munyati and Harare.
79. Power generation from IPPs decreased following the closure of the 100MW Dema emergency diesel power plant, which used to contribute over 50% of the IPPs output, in March 2017.
80. Despite these challenges, monthly power output in 2017 consistently surpassed the output of 2016 from February onwards. Figure 13 compares total electricity generation statistics on a monthly basis in 2016 and 2017.

Figure 13: Electricity Energy Sent Out (GWh):2016 and 2017

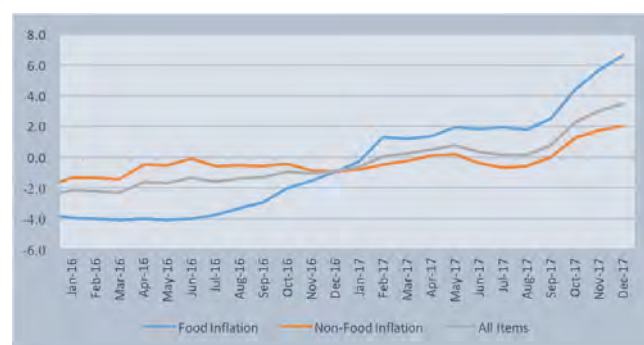


Source: Zimbabwe Power Company, 2017

INFLATION DEVELOPMENTS

81. The annual headline inflation stood at 3.46% in December 2017, up from -0.65% in January 2017, translating to an annual average of 0.9% in 2017, compared to an average of -1.56% in 2016. The increase in the inflation rate was driven by increases in both food and non-food inflation.
82. The increase in inflation was underpinned by speculative and profiteering tendencies; pass-through effects of parallel market premiums on foreign exchange; shortages of some imported basic commodities; as well as some external factors such as firming the South African rand and strengthening international oil prices.

Figure 14: Annual Inflation Profile



Source: ZIMSTAT, 2017

Food Inflation

83. Food inflation surged from -0.30% in January 2017 to 2.49% in September 2017, before accelerating further to 6.60% in December 2017. The increase in food inflation was largely driven by prices of meat, vegetables and fish. The reduction in livestock slaughters due to improved pastures and the impact of the avian flu on poultry production, negatively affected the supply of beef, pork and chicken.
84. The decline in prices of bread and cereals partly due to the 2016/17 bumper harvest, however, partially offset the price increases in other categories.

Non-Food Inflation

85. Annual non-food inflation accelerated from -0.82% in January 2017 to close the year at 2.0%, largely driven by increases in the furniture and household equipment; recreation and culture; and clothing and footwear sub-categories. Increases in non-food prices were largely induced by high premiums on foreign exchange sourced from parallel markets.

Regional Inflation Developments

86. Zimbabwe's inflation remained among the lowest in the SADC countries such as Botswana and Tanzania, as shown in Table 7.

Table 7: USA and Regional Inflation

	Zimbabwe	SA	Botswana	Mozambique	Tanzania	Zambia	Malawi	USA
Jul-2016	-1.6	6.0	2.7	20.3	5.1	20.2	23.5	0.8
Aug-2016	-1.4	5.9	2.6	22.2	4.9	19.6	22.8	1.1
Sept-2016	-1.3	6.1	2.6	25.9	4.5	18.9	21.2	1.5
Oct-2016	-1.0	6.4	2.8	26.3	4.5	12.5	20.1	1.6
Nov-2016	-1.1	6.6	2.9	26.4	4.8	8.8	19.9	1.7
Dec-2016	-0.1	6.8	3.0	23.7	5.0	7.5	20.0	2.1
Jan-2017	-0.1	6.6	3.1	20.6	5.2	7.0	18.2	2.5
Feb-2017	0.1	6.3	3.4	20.9	5.5	6.8	16.1	2.7
Mar-2017	0.2	6.1	3.5	21.6	6.4	6.7	15.8	2.4
Apr-2017	0.5	5.3	3.4	21.3	6.4	6.7	14.6	2.2
May-2017	0.7	5.4	3.5	20.5	6.1	6.5	12.3	1.9
Jun-2017	0.3	5.1	3.5	18.1	5.4	6.8	11.3	1.6
Jul 2017	0.14	4.6	3.4	16.2	5.2	6.6	10.2	1.7
Aug 2017	0.14	4.8	3.4	14.4	5.0	6.3	9.3	1.9
Sep-2017	0.78	5.1	3.2	10.8	5.3	6.6	8.4	2.2
Oct-2017	2.2	4.8	3.0	8.4	5.1	6.4	8.3	2.0
Nov- 2017	3.0	4.6	2.9	7.2	4.4	6.3	7.7	2.2
Dec-2017	3.5	4.5	3.2	5.7	4.0	6.1	7.1	2.1

Source: Country Central Bank Websites, 2017

Inflation Outlook

87. In the outlook period, the risk of inflation would be mitigated by the positive domestic and international goodwill, following the ushering in of a new economic and political dispensation in the country, which has had significant positive effects on reducing the country risk premium and a dampening impact on speculative tendencies, as well as on adverse inflationary expectations. On the other hand, external factors such as the strengthening of the South African rand against the US dollar; high demand for imported goods and services; and surge in oil prices, may exert some upward pressure on domestic prices.

BANKING SECTOR DEVELOPMENTS



Overview

88. The banking sector remained generally safe and stable, premised on adequate capitalisation, improved earnings performance and satisfactory asset quality. The Reserve Bank of Zimbabwe (RBZ) instituted various measures to promote the resilience of the sector, bolster confidence and improve regulatory oversight. In addition, stress tests results revealed that the banking sector is largely resilient to various shocks including credit, market and liquidity risks.
89. As at 31st December 2017, all operating banking institutions were in compliance with the prescribed minimum capital requirements. Banks are making significant progress towards attaining compliance with the 2020 regulatory capital requirements, with three institutions having already met the \$100 million minimum capital requirements for tier 1 segment as at 31st December 2017.
90. Asset quality, as measured by the ratio of non-performing loans to total loans improved over the year under review owing to a number of measures, including enhancement in credit risk management practices by banks, disposal of qualifying non-performing loans to ZAMCO and usage of the Credit Registry.
91. Earnings performance improved during the year ended 31st December 2017, compared to the corresponding period in 2016, largely as a result of reduced provisions for impaired assets on the back of improved asset quality.
92. The Central Bank continued to spearhead implementation of financial inclusion initiatives targeted at minimising constraints and challenges to the inclusion of disadvantaged groups, as well as promoting of access to and increased usage of financial services by all economic agents.
93. The Bank has made significant progress in enhancing the credit infrastructure through the operationalization of the Credit Registry. In addition, the Movable Property Security Interest Act was gazetted to give legal effect to the establishment of a Collateral Registry at the Bank.
- ### ARCHITECTURE OF THE BANKING SECTOR
94. The composition of the banking institutions licenced and regulated by the RBZ as at 31st December 2017, is shown in Table 8.

Table 8: Composition of Banking Sector

Type of Institution	Number	Other Institutions Supervised By The Reserve Bank	Number
Commercial Banks	13	Credit-only-MFIs	178
Building Societies	5	Deposit-taking MFIs	5
Savings Bank (POSB)	1	Development Finance Institutions - SMEDCO and IDBZ	3
Total Banking Institutions	19		

Source : Reserve Bank of Zimbabwe, 2017

95. FMB Capital Holdings Plc of Malawi acquired 81% of Barclays Bank Plc Shares in Afcarne in October 2017, resulting in an effective shareholding of 42.68% in Barclays Bank of Zimbabwe.
96. The RBZ and Time Bank of Zimbabwe Limited reached a resolution for Time Bank to resume banking operations, subject to prior inspection by the Central Bank to ensure that the institution puts in place the necessary capital and banking systems and structures.
97. The Zimbabwe Women Microfinance Bank was licenced in September 2017 as a deposit taking microfinance bank, and is putting in place the requisite infrastructure before commencement of business.
98. During the year 2017, the Industrial Development Corporation of Zimbabwe (IDCZ) was brought under supervision of the RBZ. This development is expected to transform the institution and enable it to contribute meaningfully towards industrial development in Zimbabwe through provision of industrial financing and enterprise development for both large corporates and small and medium enterprises.

CONDITION AND PERFORMANCE OF THE BANKING SECTOR

99. The banking sector recorded satisfactory performance in 2017 and remained sound and resilient.

Capitalisation

100. During the year under review, the banking sector remained adequately capitalised with average capital adequacy and tier 1 ratios of 27.63% and 23.97%, respectively, as at 31st December 2017. All banks complied with the minimum required capital adequacy and tier 1 ratios of 12% and 8%, respectively.

101. The aggregate core capital increased by 19.13%, from \$1.15 billion as at 31 December 2016 to \$1.37 billion as at 31st December 2017, on the back of improved earnings performance.

Asset Quality

Loans and advances

102. Banking sector loans and advances increased marginally from \$3.69 billion as at 31st December 2016 to \$3.80 billion as at 31st December 2017, as some banks adopted a cautious lending approach.

103. The trend in banking sector loans and advances for the period from 31st December 2014 to 31st December 2017, is shown in the Figure 15.

Figure 15: Trend in Banking Sector Loans & Advances (\$m)

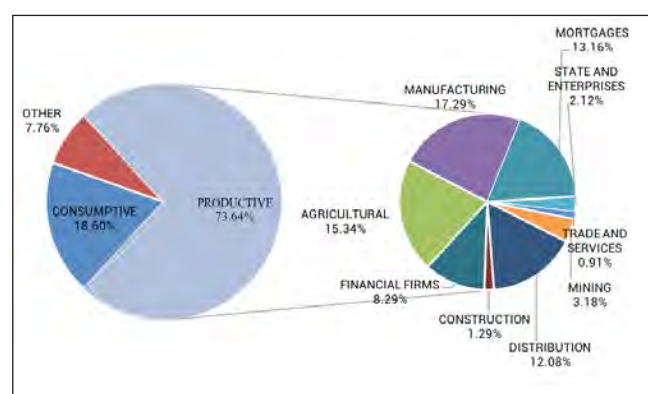


Source: Reserve Bank of Zimbabwe, 2017

Sectoral Distribution of Loans & Advances

104. The distribution of credit remained largely unchanged during the year under review. Lending to the productive sectors of the economy constituted 73.64% of total sector loans as at 31st December 2017, as shown in Figure 16.

Figure 16: Sectoral Distribution of Loans as at 31 December 2017



Source: Reserve Bank of Zimbabwe, 2017

105. The sectoral distribution of loans and advances indicated that the banking sector continued to be constrained in meeting the long-term funding requirements of capital intensive sectors such as construction and mining.

106. Lending to some individuals was for productive purposes to finance farming activities, small scale mining and mortgages. Household or individual borrowing for consumptive purposes accounted for 18.60% of total banking sector loans.

Non-Performing Loans

107. The ratio of non-performing loans (NPLs) to total loans improved from 7.87% as at 31st December 2016, to 7.08% as at 31st December 2017, as banking institutions continue to strengthen their credit risk management systems. Greater use of the Credit Registry also contributed towards the reduction of NPLs.

108. The trend in the NPLs to total loans ratio for the period from December 2011 to December 2017, is shown in Figure 17.

Figure 17: Trend in Non-Performing Loans 2011 – December 2017



Source: Reserve Bank of Zimbabwe, 2017

109. The level of NPLs is expected to continue trending downwards in response to a number of holistic NPL resolution policy measures instituted by the Bank and Government aimed at fostering responsible borrowing culture, including the requirement for banks to obtain Credit Registry reports on prospective borrowers before granting credit and the issuance of Financial Consumer Protection Framework, among others.

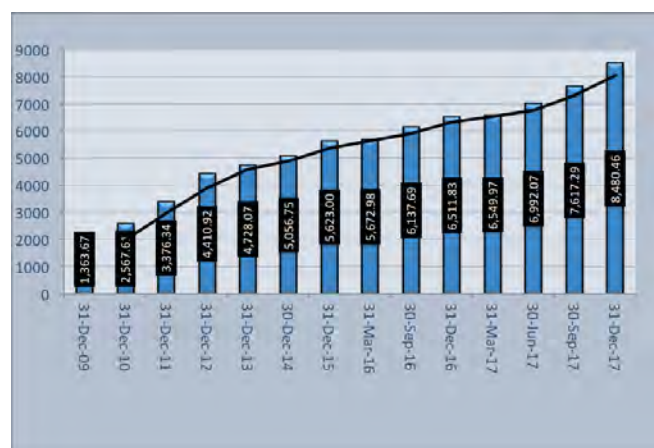
110. The sustainable reduction in NPLs is expected to strengthen banks' balance sheets and position them to meaningfully contribute to the revival of the economy.

Liquidity and Funds Management

111. Banking sector deposits increased by 30.26%, from \$6.51 billion as at 31st December 2016, to \$8.48 billion as at 31st December 2017. The bulk of the deposits were demand deposits.

112. Figure 18 shows the trend of banking sector deposits over the period 30th June 2009 to 31st December 2017.

Figure 18: Banking Sector Deposits (June 2009 – December 2017)

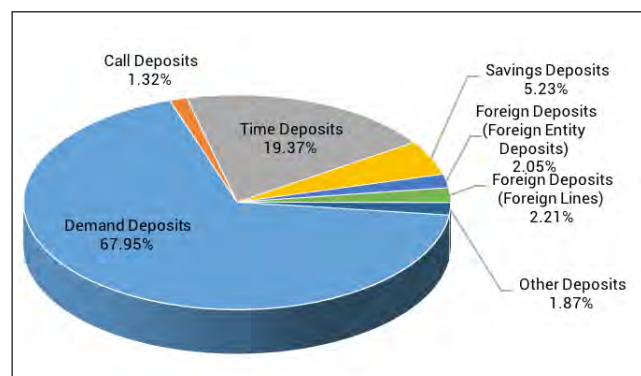


Source: Reserve Bank of Zimbabwe, 2017

113. The commercial banking sub-sector accounted for 82.90% of the banking sector deposits and 72.45% of the total banking sector loans as at 31st December 2017. Banking sector deposits were dominated by demand and time deposits, which accounted for 67.95% and 19.37% of total deposits, respectively, as at 31st December 2017.

114. The composition of total banking sector deposits as at 31st December 2017 is depicted in the Figure 19.

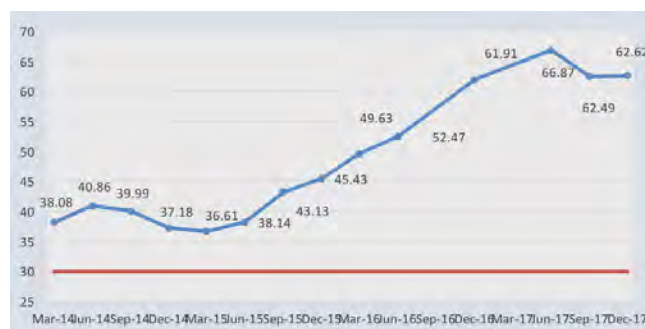
Figure 19: Banking Sector Deposits Mix as at 31 December 2017



Source: Reserve Bank of Zimbabwe, 2017

115. The average prudential liquidity ratio for the banking sector of 62.62%, as at 31st December 2017, was above the regulatory requirement of 30%. Figure 20 shows the trend in the banking sector average prudential liquidity ratio since March 2014.

Figure 20: Prudential liquidity ratio March 2014 to December 2017



Source: Reserve Bank of Zimbabwe, 2017

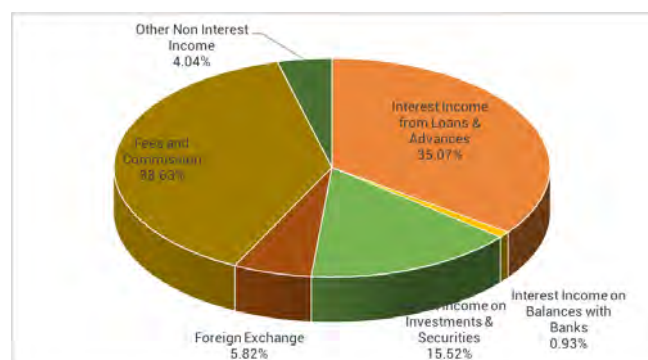
Earnings Performance

116. The banking sector reported a net profit of \$241.94 million during the year ended 31st December 2017. This represented an increase of 33.91%, from \$181.06 million reported in corresponding period in 2016.

117. Interest income continued to be the dominant source of earnings constituting 51.52% of total income of \$1.19 billion for the period ended 31st December 2017. Banking sector non-interest income was largely driven by fees and commission arising from an increase in RTGS, mobile banking and POS transaction volumes.

118. The sources of income for the banking sector for the year ended 31st December 2017 are shown in Figure 21.

Figure 21: Income Sources for the year ended 31 December 2017



Source: Reserve Bank of Zimbabwe, 2017

119. Administrative and salaries & employment benefits continued to dominate total non-interest costs for banking institutions for the year ended 31st December 2017, accounting for 50.62% and 44.63% of total banking sector costs, respectively.

120. The banking sector average return on assets (ROA) and return on equity (ROE) improved to 2.61% and 15.50% as at 31st December 2017, respectively, from 2.26% and 10.96% as at 31st December 2016, as indicated in Figure 22.

Figure 22: Profitability Indicators



Source: Reserve Bank of Zimbabwe, 2017

121. Banking institutions continue to implement revenue enhancement measures such as digital finance and agency banking, while instituting cost containment measures.

MAJOR DEVELOPMENTS AND OTHER SUPERVISORY ACTIVITIES IN THE BANKING SECTOR

122. During the year 2017, a number of a supervisory activities were conducted to promote banking sector stability and bolster confidence.

123. Risk based on-site examinations were conducted to determine the financial condition of the banking institutions, assess the effectiveness of their risk management systems and their compliance with all applicable laws, regulations, prudential guidelines and supervisory recommendations. Examination findings revealed that the examined institutions were in satisfactory conditions and that weaknesses identified could be addressed in the normal course of business.

124. The Bank continued to participate in supervisory colleges including joint on-site examination for effective supervision of cross-border banking groups. The supervisory colleges provide a platform for collaboration, coordination, cooperation and sharing of information by regulators responsible for different components of cross border banking groups.

Resolution of Troubled Banks

125. As at 31st December 2017, a total of 11,744 out of 54,909 depositors had been compensated out of the Deposit Protection Fund, in respect of the failed contributory institutions under liquidation. A total of \$3.2 million was paid, representing 50% of the total exposure of \$6.4 million.

126. A synopsis of deposit insurance payments for the period under review is shown in Table 9.

Table 9: Deposit Insurance Payments as at 31 December 2017

Institution	Total Depositors	Gross Deposits (\$m)	Exposure (Deposits Payable at \$500)	No. of Depositors Paid to Date	Value of Deposits Paid (\$'000')	% Paid to Exposure
Royal Bank	5,433	2.57	472,207	3,105	356	75.5%
Trust Bank	2,958	11.48	328,516	415	146	44.6%
Genesis	86	1.43	11,810	62	9	74.7%
Allied Bank	9,228	14.32	1,248,307	1,529	534	42.8%
Interfin Bank	13,021	137.34	918,814	682	260	28.3%
AfrAsia	24,163	18.56	3,439,276	5,951	1,936	56.3%
TOTAL	54,909	185.69	6,418,930	11,744	3,241	50.5%

Source: Reserve Bank of Zimbabwe, 2017

Enhancement of Credit Infrastructure

Credit Registry

127. The Credit Registry is now fully operational, with all banking institutions' credit data being uploaded into the Credit Registry system on a continuous basis. As at 31st December 2017, the Credit Registry held 350,000 loan records, representing 96.6% of banking sector loan records.
128. As at 31st December 2017, the Credit Registry had a total of 108 subscribers, comprising 19 banks and 89 microfinance institutions. The Credit Registry continued to widen its subscriber base by bringing additional subscribers on board. The enquiries by banking institutions grew steadily to a cumulative total of 116,491 enquiries by 31st December 2017.
129. Consumer awareness and education activities are critical to the success of the Credit Registry in promoting a sound credit culture in the country. In this regard, the Bank embarked on an outreach programme to educate consumers and stakeholders on the establishment of the Credit Registry and the implications to borrowers and lenders during the course of 2017.

Collateral Registry

130. The Movable Property Security Interest Bill was promulgated into law on 28th July 2017. The law provides for the establishment of a Collateral Registry and the registration and administration of security interests in movable collateral by the Reserve Bank.
131. The Bank, in collaboration with the World Bank, is working on the implementation process for the Collateral Registry, including procurement of the software, development of Collateral Registry Regulations and stakeholder consultations.
132. It is envisaged that the establishment of the Collateral Registry will enhance access to credit by marginalised segments of the economy including SMEs, women and youth.

Basel II/III Implementation

133. The Bank is developing the Basel III capital and liquidity management frameworks. The Basel III Standard aims at addressing weaknesses identified during the Global Financial Crisis by improving the quality, consistency and transparency of capital and reduce pro-cyclicality, as well as enhance liquidity management in banks.

IFRS 9 Implementation

134. The Bank has been championing the implementation of the International Financial Reporting Standard (IFRS) 9.
135. To ensure the effective and smooth of its implementation, the Bank has been collaborating with banking institutions, Public Accountants & Auditors Board, Institute of Chartered Accountants Zimbabwe, and accounting firms.
136. The collaborative and consultative efforts culminated in the establishment of an IFRS9 Implementation Working Group and three sub-committees, namely Transitional Arrangements & Stakeholders' Awareness, Models & Capacity Building, and Disclosures & Policies, which have been seized with IFRS 9 technical aspects and implementation strategies thereof.
137. Significant milestones have been achieved in terms of development of IFRS9 compliant models and validation thereof; stakeholder awareness, as well as disclosure requirements and revisions to requisite policies in line with the IFRS 9 Standard.
138. A pilot Quantitative Impact Assessment conducted in June 2017 to assess the impact of expected increases in provisions for bad and doubtful debts as per requirements of the new Standard determined that banking institutions have adequate reserves to absorb the shocks.

Capacity Building Initiatives

139. The Bank will continue to prioritise training programs for its Bank Supervision function to equip staff with bank supervision skills, the latest trends in bank supervision as well as share experiences with other bank supervision regulators.

Legal & Regulatory Developments

140. Subsequent to the promulgation of Banking Act Amendment No. 12 of 2015, measures were put in place to ensure that the new provisions pertaining to risk management and corporate governance became applicable to other regulated entities such as IDBZ, POSB and building societies.
141. Accordingly, the Minister of Finance & Economic Development gazetted General Notice 115 of 2017 on 10 February 2017 essentially specifying the sections of the Banking Act [Chapter 24:20] applicable to the Infrastructure Development Bank of Zimbabwe (IDBZ). IDBZ was previously not under the purview of the RBZ.

142. The Bank, in collaboration with the Ministry of Finance and Economic Development is working on a Microfinance Amendment Bill. The Bill seeks to address issues relating to perpetual licences for deposit-taking microfinance institutions, as well as enhancement of corporate governance systems and risk management practices within the microfinance sector.

EMERGING ISSUES AND REGULATORY PRIORITIES

143. As the financial sector and associated risks continue to evolve, regulatory frameworks need to simultaneously evolve with the sector. Going forward, the Reserve Bank's supervisory attention will focus on the following key areas:

- i. Financial Conglomerate Supervision;
- ii. Proportionality and Bank Regulation;
- iii. Macroprudential Supervision;
- iv. Market Conduct Supervision;
- v. Expected Loss Provisioning;
- vi. Crisis Resolution Regimes;
- vii. Financial Technology (Fintech); and
- viii. Cyber risk.

FINANCIAL INCLUSION

Implementation of the National Financial Inclusion Strategy (NFIS)

144. The Bank continued to spearhead implementation initiatives targeted at minimising constraints and challenges to the inclusion of disadvantaged groups. It is also promoting access to and increased usage of financial services by all economic agents.
145. The strategic goals of the NFIS are :
- i. To increase the overall level of access to formal financial services within the country from 69% in 2014 to at least 90% by 2020; and
 - ii. To increase proportion of banked adults from 30% in 2014 to at least 60% by 2020.
146. The Bank continues to identify and work with stakeholders in implementing various initiatives including the disbursement of empowerment funds to target beneficiaries; and promotion of financial literacy programs. This approach is key in enhancing outreach to marginalised segments such as women, the youth and persons with disabilities.

Opening of Low Cost Accounts

147. Most banks have embraced the low cost accounts model or 'no frills' accounts with very low KYC requirements and minimal bank charges targeting low income groups following realisation of the associated business opportunity.
148. The number of low cost accounts opened by banks increased from 229,264 as at 31st March 2016 to 3.02 million as at 31st December 2017.

Disbursement of Empowerment Facilities

149. The employment of funding accessed by targeted beneficiaries of financial inclusion is expected to spur economic activity and promote the achievement of the sustainable development goals. As at 31st December, a total of \$80.1 million had been accesses under the empowerment facilities.

Financial Literacy

150. The embedding of financial literacy from early childhood development is critical in building a financially literate nation. The Reserve Bank and Government are working with development partners and other stakeholders in embedding financial literacy in school curriculum, as well as in the implementation of tailored financial education programs in the country, in line with a National Financial Literacy Strategy which is being developed.

Consumer Protection and Market Conduct Supervision

151. The Reserve Bank issued a Financial Consumer Protection Framework in June 2017, to enhance consumer protection in the banking sector. The Framework applies to all banking and non-bank financial institutions that are regulated by the Bank and their agents. Going forward, the Bank will be employing various on- and off-site market conduct supervision techniques to achieve the desired levels of consumer protection in the financial sector.

Monitoring and Evaluation of NFIS Implementation

152. In line with best practice, a monitoring and evaluation framework has been established to facilitate ongoing assessment of the impact of financial inclusion initiatives under the auspices of the National Financial Inclusion Strategy.
153. Access to formal financial services by target groups such as women, SMEs and youth has continued to improve as shown in Table 10.

Table 10: Financial Inclusion Indicators

Indicator	Dec 2016	June 2017	Sept 2017	Dec 2017
Value of loans to SMEs	\$131.69 m	\$136.39 m	\$143.82 m	\$146.22 m
Percentage of loans to SMEs over total loans	3.57%	5.36%	6.12%	3.75%
Number of SMEs with bank accounts	71,730	79,484	91,457	76,524
Number of Women with Bank Accounts	769,883	856,472	916,379	935,994
Value of Loans to Women	\$277.30 m	\$303.84 m	\$339.40 m	\$310.78 m
Number of Loans to Youth	38,400	56,926	64,938	61,529
Value of Loans to Youth	\$58.41 m	\$77.09 m	\$120.69 m	\$138.93 m
Total number of Bank Accounts	1.49 m	2.91 m	2.99 m	3.07 m
Number of Low Cost Accounts	1.20 m	1.56 m	1.86 m	3.02 m
Number of ATMs	569	562	563	563
Number of Point of Sale (POS) Terminals/Machines	32,629	44,805	50,418	59,939

Source : Reserve Bank of Zimbabwe, 2017

PERFORMANCE & CONDITION OF THE MICROFINANCE SECTOR

Architecture of the Microfinance Sector

154. The number of microfinance institutions under the purview of the Reserve Bank of Zimbabwe has increased over the years as shown in Table 11.

Table 11: Number of microfinance institutions

Type of Institution	2014	2015	2016	2017
Credit-Only Microfinance Institutions*	147	149	181	181
Deposit-Taking Microfinance Institutions (DTMFIs)	-	3	4	5
Total	147	152	185	186

Source: Reserve Bank of Zimbabwe, 2017

*Inclusive of moneylending institutions

155. The number of microfinance institution branches increased by 3.5%, from 659 in 2016 to 682 in 2017. Similarly, the outreach of microfinance institutions increased by 11.27% from 290,552 active clients in 2016 to 323,286 as at 31st December 2017.

Performance of the Sector Lending Activities

156. The microfinance industry, inclusive of four operating deposit-taking microfinance institutions recorded a 23.15% increase in portfolio size, from \$206.28 million as at 31 December 2016 to \$254.04 million. This represented 6.70% of the total banking sector loans of \$3.79 billion as at the same date. Lending to the productive sectors by the microfinance industry amounted to \$155.02 million, representing 61.03% of the industry's total lending.

157. Table 12 shows key performance indicators for the microfinance industry.

Table 12: Microfinance Key Performance Indicators

Indicator	Dec 2015	Dec 2016	Dec 2017
Number of licensed Institutions	152	185	186
Total Loans (US\$M)	\$187.16 million	\$206.28 million	\$254.04 million
Total Assets (US\$M)	\$225.13 million	\$275.04 million	\$333.27 million
Total Deposits (DTMFIs)	--	\$4.19 million	\$6.41 million
Number of Savings Accounts (DTMFIs)	--	1,411	2,868
Portfolio at Risk (PaR>30 days)*	10.72%	8.34%	7.34%
Number of Active Clients	202,242	290,552	323,286
Number of Outstanding loans	262,627	352,225	416,109
Number of Branches	571	659	682

Source : Reserve Bank of Zimbabwe, 2017

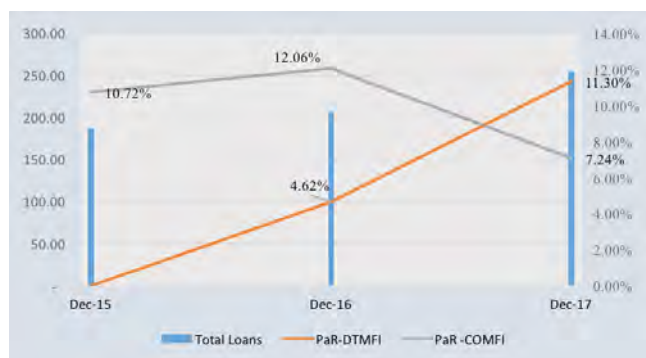


- * Portfolio at Risk [30] days-The value of all loans outstanding that have one or more instalments of principal past due more than [30] days. This includes the entire unpaid principal balance, including both the past due and future instalments, but not accrued interest. It also includes loans that have been restructured or rescheduled.

Portfolio Quality

158. The quality of the loan portfolio for the microfinance industry improved from 8.34% as at 31st December 2016 to 7.34% as at 31st December 2017. The trend in the total loans and the PaR ratios for both the deposit-taking microfinance institutions and credit-only microfinance institutions are shown in Figure 23.

Figure 23: Trend in Total Loans and PaR



Source: Reserve Bank of Zimbabwe, 2017

159. The microfinance industry is expected to enhance its credit risk management systems and ensure that the PaR ratio gravitates towards compliance with the international benchmark of 5%.

Profitability

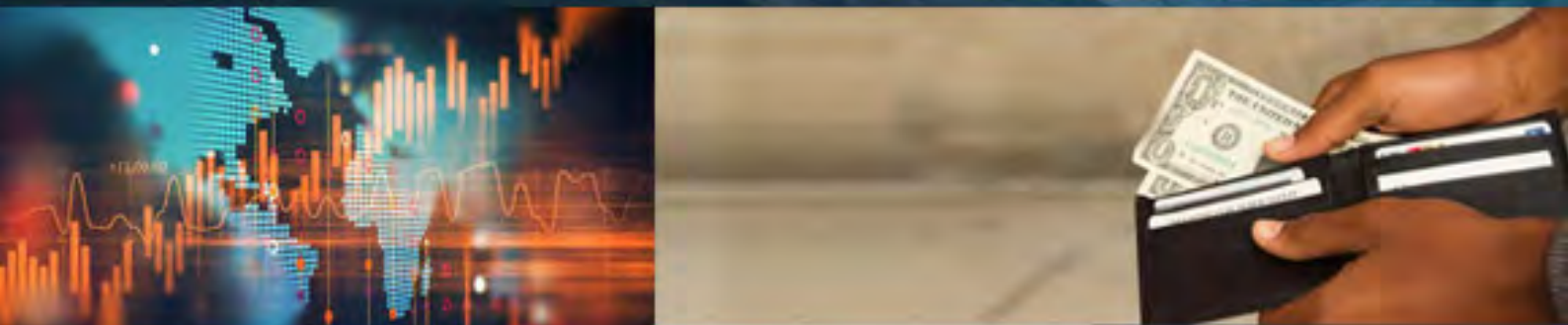
160. The aggregate net profit for the microfinance industry increased by 11.37%, from \$19.43 million for the year ended 31st December 2016 to \$21.64 million for the year ended 31st December 2017.

Capital

161. Total capitalisation for the microfinance industry as at 31st December 2017 was \$130.22 million, representing a 2.11% increase from \$127.53 million recorded in December 2016.



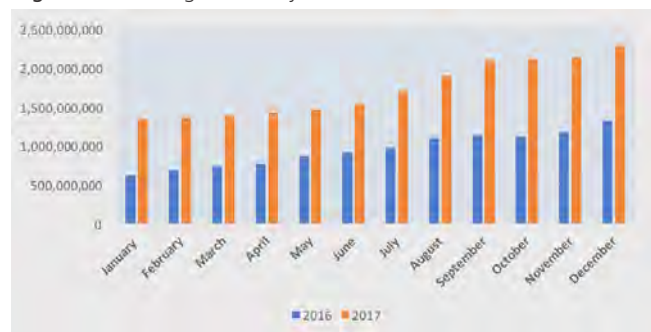
MONEY AND CAPITAL MARKETS DEVELOPMENTS



MONEY MARKET LIQUIDITY

162. Monthly RTGS account balances averaged US\$1,731.8 million in 2017, compared to US\$953.8 million in 2016 as shown in Figure 24.

Figure 24: Average Monthly RTGS Account Balances



Source: Reserve Bank of Zimbabwe, 2017

163. The increase in the RTGS balance position was largely driven by increased Government financing through the overdraft facility at the Central Bank.

164. Liquidity, as measured by RTGS account balances, remained concentrated in a few institutions with the top 5 banks accounting for around 65% of the total market liquidity.

AFREXIMBANK BACKED INTERBANK MARKET (AFTRADES) FACILITY

165. The AFTRADES facility which initially ran from February 2015 to February 2017, was rolled over for another two years at an increased amount of US\$400 million. While the initial objective of the facility was to provide liquidity support to banks experiencing short-term liquidity challenges, it is now also being used as an open market operation tool. This is largely on account of banks' liquidity conditions having improved significantly.

166. The facility is still available to banks requiring liquidity support by unlocking surplus funds to resuscitate interbank lending. By 31st December 2017, the facility had been fully subscribed with total borrowing by short banks standing at US\$70 million.

SAVINGS BOND

167. In September 2017, the Bank introduced the 7% savings bond to provide investors with a platform for saving, given that deposit rates were so low or non-existent to the extent of discouraging banking by the public. It is also being used as a tool to manage excess liquidity in

the market as the funds are largely sterilised.

168. The savings bond has maturities ranging from one year, two years, three years and five years and pays a half-yearly coupon of 7%. It enjoys tax-free interest as well as prescribed asset status, which makes it an attractive investment for insurance and pension funds.

169. As at 31st December 2017, a total of US\$165.2 million had been raised through the savings bond.

MONEY MARKET SECURITIES

Government Securities

170. Government issued securities to finance its expenditures on a private placement basis. Other issuance of government securities were largely for creditors, outstanding RBZ debt takeover and for the Zimbabwe Asset Management Company the Zimbabwe Asset Management Company (ZAMCO).

171. The stock of outstanding Treasury Bills and Bonds, increased from US\$3.2 billion in 2016 to US\$5.2 billion as at the end of 2017.

Publicly Guaranteed Securities

172. Government guaranteed securities were also issued during the year. In this regard, over US\$180 million was raised through the Infrastructure bond, Agro-bills, Irrigation Bond and AMA bills.

RBZ FACILITIES

173. In its effort to promote production, the Bank put in place a number of facilities which covered different sectors of the economy. The facilities were offered through banking institutions for on-lending to the ultimate beneficiaries.

174. The following intervention finance facilities were put in place to promote production, productivity, exports, financial inclusion business and linkages:

- i. Export Finance Facility – US\$70 million;
- ii. Gold Support Facility – US\$40 million;
- iii. Women Empowerment Fund – US\$15 million;
- iv. Tourism Support Facility – US\$15 million;
- v. Cross Border Facility – US\$15 million;
- vi. Horticulture Facility – US\$10 million;
- vii. Business Linkage Facility – US\$10 million;
- viii. Youth Empowerment Fund – US\$10 million; and
- ix. People with Disabilities Fund – US\$5 million.

175. The facilities covered various schemes ranging from

business linkages, export finance, horticulture, small scale tobacco growers, higher and tertiary education and other empowerment facilities. Disbursements were for both working capital, for a period of up to 12 months and for capital expenditure for a period up to 36 months.

INTERNATIONAL FINANCIAL MARKETS

176. The US Federal Reserve Bank raised its benchmark rate three times in 2017, in line with expectations, as borrowing costs continued on an upward trend. The key US interest rate rose from a range of 0.5% - 0.75% in December 2016 to end 2017 at 1.25% - 1.5%. In 2017, leading central banks, namely; Bank of England, European Central Bank and Bank of Canada began signaling the need to start ending quantitative easing in their respective jurisdictions in 2018.

177. Reflecting changes in world interest rates, the world's benchmark borrowing/lending rate, Libor also increased in 2017. The three-month Libor (3MO Libor) rose from about 1.00% in January 2017 to end the year around 1.7%.

178. Most commodities capped a good year of gains, against a declining US dollar which slid to its worst since 2003, on the back of tensions over North Korea, the Russian scandal surrounding US President Trump's election campaign and persistently low US inflation.

BOND MARKET

179. The Zimbabwe Stock Exchange (ZSE) established the Fixed Income Board (FIB) to facilitate the operation of its re-established debt market. The ZSE debt market was revived in April 2017, 16 years after it became dormant.

180. This platform enables investors to diversify their portfolios and mitigate risk. In addition to this, the listing of debt securities on the local bourse enables institutional and individual investors to raise capital in a transparent and efficient platform.

181. Low appetite from issuers and investors on the new market was due to an unfavourable economic environment, which made Zimbabwe vulnerable to capital outflows.

182. Since the FIB started operating, there has been only one listing in the form of medium term notes issued by Getbucks Micro Finance Bank.

183. In August 2017, GetBucks was forced to move its US\$15 million second series medium-term note to private listing due to low uptake on the ZSE.

184. The low uptake on GetBucks bond came at a time when the local stock exchange was performing exceptionally well and this was contrary to inherent benefits of the bond markets.

185. IDBZ listed bonds worth US\$65 million on the Financial Securities Exchange (FINSEC) in November 2017, becoming the second company to list on the bond market.

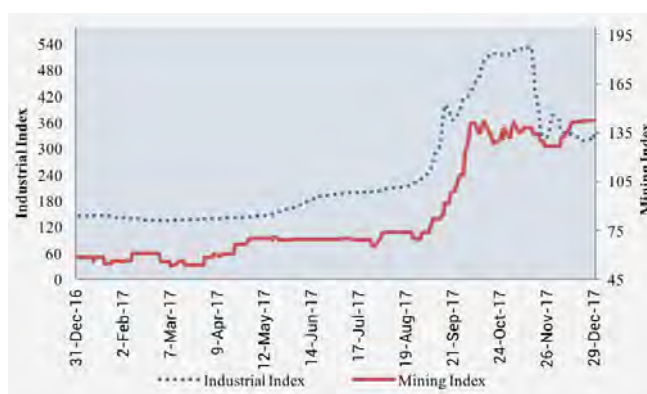
DEVELOPMENTS ON THE ZIMBABWE STOCK EXCHANGE

186. During the first half of 2017, the Zimbabwe Stock Exchange (ZSE) experienced steady growth with the industrial and mining indices rising from 144.53 points and 58.51 points at the end of December 2016 to 195.97 points and 69.79 points on the 30th June 2017, respectively. The second half of 2017, however, recorded exponential growth in both industrial and mining indices, leading to new respective ZSE highs of 534.13 points and 138.12 points on 14th November 2017. The growth was largely attributed to speculative behaviour by investors who flocked to the stock market seeking a safe haven, given the limited investment options in the country.

187. The mainstream index, however, declined by 37.65%, from 534.13 points on 14th November 2017 to 333.02 points as at end of 2017. On a year-on-year basis, however, the industrial and mining indices grew by 130.42% and 143.38%, respectively.

188. Figure 25 shows developments in the industrial and mining indices in 2017.

Figure 25: Zimbabwe Stock Exchange Indices



Source: Zimbabwe Stock Exchange, 2017

Market Turnover

189. As a consequence of high speculative trading activity, the cumulative volume and value of shares traded increased by 124.60% and 260.76% to 3.37 billion shares and \$694.15 million, respectively, during the year under analysis.
190. The ZSE recorded a net foreign capital outflow of \$99.99 million in 2017, compared to an outflow of \$78.32 million in 2016. The persistent decline in foreign portfolio investment was partially attributed to the negative foreign investor perception of the country, particularly before the new dispensation.

Figure 26: ZSE Market Turnover



Source: Zimbabwe Stock Exchange, 2017

Market Capitalisation

191. In line with significant increases in share prices, mainly during the second half of 2017, the ZSE gained \$5.57 billion, or 139.04% of the previous year's value to close the year at \$9.58 billion. This was, however, a significant decline in market capitalization, from a peak of around \$15 billion in mid-November 2017, during the transition to the new dispensation.

Figure 27: Market Capitalization



Source: Zimbabwe Stock Exchange, 2017

Other Developments and Outlook

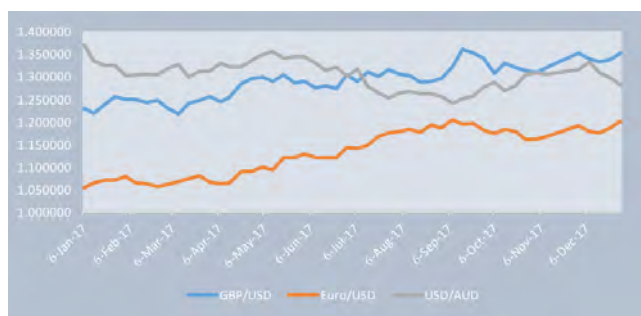
192. In the short to medium term, the stock market is expected to rebound, supported by renewed investor interest emanating from companies' growth impetus, given the economic reforms being instituted by the new Government under the new economic order and political

dispensation. The positive domestic and international goodwill is expected to spur activity on the Zimbabwe Stock Exchange.

Foreign Exchange Markets

193. The US dollar was weaker against its major trading currencies in 2017 weighed down by political concerns as well as concerns on proposed tax cuts. The greenback shed off over 10% against the British pound and euro in 2017. The Australian dollar and Japanese yen gained about 5% and 3.5%, respectively, against the US dollar in 2017.

Figure 28: Exchange Rate Trends – USD vs GBP, Euro & AUD (2017)

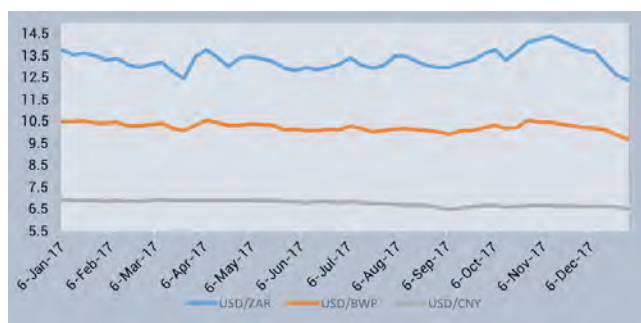


Source: Reuters, 2017

194. Emerging market currencies were stronger against the US dollar, as they trended developments around major world currencies. The South African rand, Botswana pula and Chinese yuan appreciated by about 10%, 8% and 5%, respectively, against the US dollar in line with most advanced countries' currencies.

195. The South African rand remained the most volatile emerging currency as domestic political developments took center stage in 2017. The movement in USD/ZAR, USD/BWP and USD/CNY are shown in Figure 31.

Figure 29: Emerging Markets Rates – USD vs ZAR, BWP & CNY



Source: Reuters, 2017

NATIONAL PAYMENT SYSTEMS

196. Recognizing the significant advances in the digital financial services for the economy, the Bank works with a clear agenda of ensuring that all payment, clearing, securities and settlement systems operating in the country are authorised, safe, secure, sound, efficient and accessible.
197. Consistent with the above, the Bank took several measures during 2017 to improve the efficiency of existing systems. It also promoted the use of electronic means of payment systems and also enforced compliance and stimulated new initiatives.
198. During 2017, the country witnessed a quantum leap in the use of electronic means of payment with one billion transactions valued at US\$93.9 billion. These represented volume and value increases of 169% and 52%, respectively from 2016.

Promotion of Electronic Means of Payment Policy

199. The promotion of electronic means of payment policy aims at developing the country's digital economy through the payment systems infrastructure which is comprehensive, integrated and sustainable.
200. The policy also envisages payment systems that cater for various financial transactions and economic activities by providing convenience and timeliness while at the same time strengthening the competitiveness of businesses.
201. The Bank worked closely with all key stakeholders to ensure smooth implementation of electronic means of payment infrastructure across the country. An example is include the ZINARA tollgate ticketing system.
202. In order to support its calls for increased use of electronic means of payments, the Bank continued to allocate foreign currency for the acquisition of payment system infrastructure such as POS machines.
203. The Bank also undertook educational and awareness campaigns to various stakeholders to promote the use of electronic and other non-cash payment methods.

Development of Innovative Payment Services

204. During the year under review, the Bank encouraged and approved the development of innovative payment services as well as infrastructure with key stakeholders. These included the electronic funds transfer (EFT), Quick Response (QR) Code and near field communication

(NFC) among others. The real time EFT product bridged the gap between large value and other small payment streams.

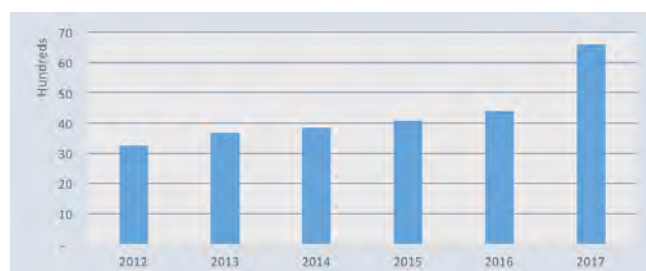
Systems Up Time

205. The systems for Large Value Payments, Clearing and Settlement Systems (RTGS and CSD) that provide interbank settlement services had an uptime of 99% in 2017.
206. Retail payment streams achieved an average up time of 81%, a marginal increase of 5% from 2016. The 19% gap was largely attributed to system interruptions related to upgrades and capacity constraints, which should generally improve in view of the increased investments taking place.

Payment Systems Indicators

207. Annual national payment systems indicators measured against the GDP and population reflected an upward trajectory for the RTGS, mobile, and POS streams during the past six years as shown in Figure 30.

Figure 30: Transaction Value Per Capita –USD (Unit) 2012-2017



Source: Reserve Bank of Zimbabwe, 2017

208. The aggregate turnover to GDP increased to 6.5 times in 2017, compared to 4.4 times in the previous year as shown in Figure 31.

Figure 31: Turnover Value to GDP –USD (2012-2017)



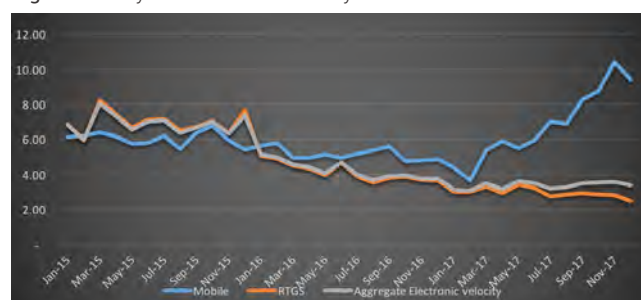
Source: Reserve Bank of Zimbabwe, 2017

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

Velocity of Circulation

210. The Mobile payment stream recorded the highest increase of 93% in velocity of circulation to 9.40, whilst the velocity for the aggregate electronic payments was 3.37 in December 2017, as shown in Figure 32. The trend was in line with the general expectations given that mobile payment is mainly used for small value and high volume payment activities.

Figure 32: Payment streams velocity of circulation 2015-17



Source: Reserve Bank of Zimbabwe, 2017

Financial Market Infrastructures (FMIS) Overview

211. The national payment system is largely characterised by international, regional and local payment services providers, with the latter accounting for more than 80% of the total FMIs.

212. As at 31st December 2017, there were 13 local financial market infrastructures and 21 participating banking institutions as shown in the Table 13.

Table 13: FMI Architecture

Large Value Payment Streams	Number of Providers	Number of Participants in 2017
RTGS System -multi-currency system	1	23
SADC Integrated Regional Settlement System (SIRESS)	1	14*
SECURITIES SETTLEMENT SYSTEMS (SSS)		
Central Securities Depository System (CSD) for Government Securities	1	18
Central Securities Depository System (Equities)	1	5
RETAIL PAYMENT STREAMS		
Switches	4	19
Mobile Payment System Providers	5	11
Internet and Mobile Banking	Various ***	19
Electronic Financial Transfer (EFT)	2	21
Cheque	1	14

Source: Reserve Bank of Zimbabwe, 2017

*Zimbabwean banks

*** Each bank has an approved internet and mobile banking platform which are branded according to the individual institution's preferences



Legal and Policy Issues

213. The Bank continued to make timely initiatives to ensure that the regulatory framework for the payment system keeps in line with technological changes.

stability of payment systems infrastructure, which are important in view of the ever-increasing complexity and diversity of products offered to the market through traditional and digital channels.

214. During 2017, the Bank issued the Retail Payment Systems and Instruments Guidelines, which sets out the minimum standards for the establishment and management of electronic payment infrastructure. The guideline covers issues of governance, capacity and

215. The new Guidelines and the already issued Oversight Framework and Recognition Criteria are intended to foster the design, development and implementation of electronic retail payment systems leveraging on the available technology.

216. The new Guidelines are also expected to go a long way in promoting the usage of electronic means of payments in a prudent, inclusive and customer focused manner.

Oversight Activities

217. The broader objective of the Bank in the financial market infrastructures, is to preserve the integrity and stability of the payment, clearing and settlement systems through its oversight responsibility.

218. The soundness and resilience of the electronic payment systems is underpinned by the continuous enhancement of oversight methodologies, adoption of sound risk management and appropriate corporate governance practices by the institutions.

219. The National Payment Systems Department assumed the responsibility of supervising all FMIs on AML/CFT as designated by the Financial Intelligence Unit (FIU).

220. The oversight activities focused on developing the risk-based approach with a particular emphasis on anti-money laundering and counter financing of terrorism (AML/CFT) activities in line with the Financial Action Task Force (FATF) Recommendations. The quarterly AML/CFT self-assessments indicate an acceptable level of compliance by FMIs.

Consumer Protection

221. The increased wider choices of electronic means of payment have ushered in new consumer protection challenges. In an effort to address the challenges, payment systems providers were directed to continue to embrace the basic rights of consumers.

222. Payment system providers are expected to inform customers of all charges, fees, penalties and any other financial liability or obligations arising from the use of their platforms or services.

223. The Bank continues to implore providers of payments streams to continuously reduce charges and fees and aim to push more volumes of transactions.

Payment Systems Risk Management

224. The Bank ensured that all banks implemented the SWIFT Customer Security Programme (CSP) whose deadline was 31st December 2017. CSP aims to improve information sharing throughout the community, enhance SWIFT-related tools and provide security control framework for customers.

225. It has become imperative that banks and payment systems providers rapidly deploy, collaborate and maintain minimum cyber hygiene tools and security controls for all their systems.

226. The Bank approved the setting up of the Electronic Banking Fraud Forum to counter fraud and other related issues. This initiative was supported by key stakeholders such as VISA and MasterCard who provided initial training, leveraging on their global experiences on cybercrime.

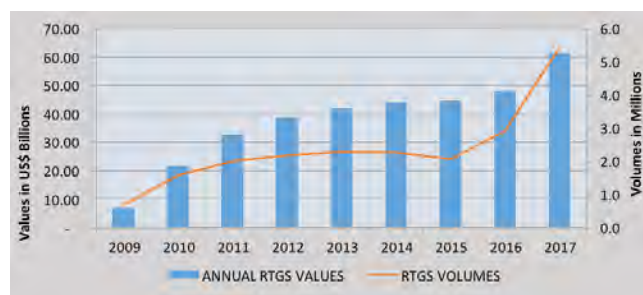
Large Value Payments

Real Time Gross Settlement (RTGS) System

227. A cumulative total of 5.4 million transactions valued at US\$61.6 billion, ZAR739.9 million, GBP1 million and EUR24.5 were processed through the RTGS system in 2017.

228. The total volumes and values increased by 87% and 28% respectively, compared to the same period of 2016. Figure 33 illustrates RTGS activities over the past nine years.

Figure 33: Total RTGS Transactional Activities from 2009 to 2017



Source: Reserve Bank of Zimbabwe, 2017

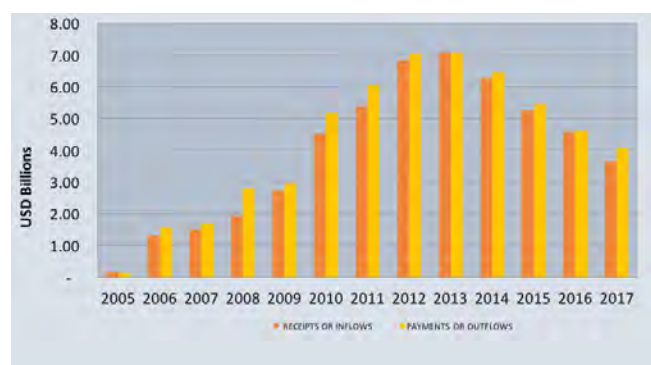
Swift Foreign Transactions

229. SWIFT based volumes for foreign currency receipts decreased by 23%, to 115,161 in 2017, from 148,645 in 2016. Foreign currency payment volumes decreased by 20%, to 95,384 in 2017 from 118,988 in 2016.

230. Foreign currency receipts and payments values decreased to US\$3.66 billion and US\$4.08 billion, from US\$4.57 billion and US\$4.61 billion, respectively. This was in line with the foreign exchange challenges which the country experienced during the year under review.

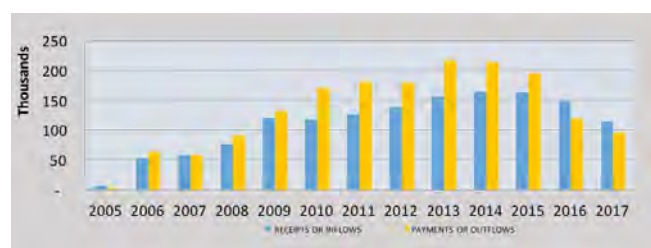
231. Figures 34 and 35 show trends in swift foreign currency transactions since 2005.

Figure 34: Swift Foreign Currency Transaction Values



Source: Reserve Bank of Zimbabwe, 2017

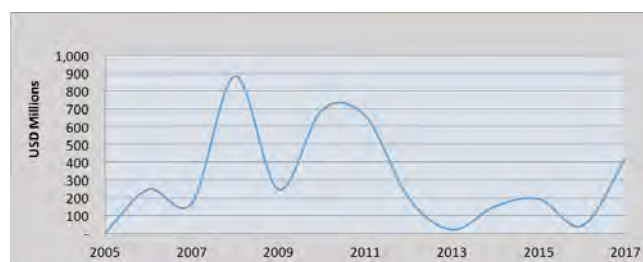
Figure 35: Swift Foreign Currency Transaction Volumes



Source: Reserve Bank of Zimbabwe, 2017

232. Net foreign currency outflows through the SWIFT infrastructure amounted to US\$422 million as shown in Figure 36.

Figure 36: Swift Annual Net Outflows (million)



Source: Reserve Bank of Zimbabwe, 2017

Retail Payment Streams

233. During the period under review, retail payment streams continued on upward trajectory growth path except for cheques and ATM transactions.

234. Aggregate values and volumes went up by 126% and 169%, respectively with mobile transactions constituting the largest proportions as shown in Table 14.

Table 14: Retail Payment Transactional Activities for 2016 and 2017

PAYMENT STREAMS	2016	2017	Proportion of Total 2017	% Change
			Values	
CHEQUE	113,083,273.59	69,437,643.79	0.28%	-39%
POS	2,898,437,870.85	6,635,840,710.92	26.36%	129%
ATMS	2,283,533,146.98	427,973,605.99	1.70%	-81%
MOBILE	5,815,862,225.76	18,020,733,457.33	71.66%	210%
TOTAL VALUE	11,110,916,517.18	25,153,985,418.03	100.00%	126.3%
	Volumes			
CHEQUE	347,735	320,341	0.03%	-8%
POS	52,407,464	214,857,784	21.97%	310%
ATMs	12,332,547	8,098,497	0.83%	-34%
MOBILE	298,586,190	754,742,123	77.17%	153%
TOTAL	363,673,936	978,018,745	100%	169%

Source: Reserve Bank of Zimbabwe, 2017

235. The growth in the transactional activities was largely due to the market responding to policy pronouncements on the promotion of plastic money in the economy. There was also a corresponding increase in the devices and access points.

236. Point of sale (POS) devices increased by 84%, to 59,939 in 2017 from 32 629 in 2016. At the same time the market embraced mobile point of sale (mPos) as part of the payments stream. All access points recorded positive growth during 2017 except for ATMs as shown in Table 15.

Table 15: Payment Access Points and Devices for 2016 and 2017

	2016	2017	Difference	% Change
Mobile Money Agents	40,590	44,793	4,203	10%
ATMs	569	563	-6	-1%
POS	32,629	59,939	27,310	84%
NFC	-	6,063		
QR Code	1065	7,075	6,010	564%
PAYMENT SYSTEMS ACCESS DEVICES				
Debit Cards	3,127,153	4,281,683	1,154,530	37%
Credit Cards	16,030	17,411	1,381	9%
Prepaid Cards	43,288	63,987	20,699	48%
Mobile Payment Subscribers	3,279,049	4,611,608	1,332,559	41%
Internet Banking Subscribers	168,339	277,674	109,335	65%

Source: Reserve Bank of Zimbabwe, 2017

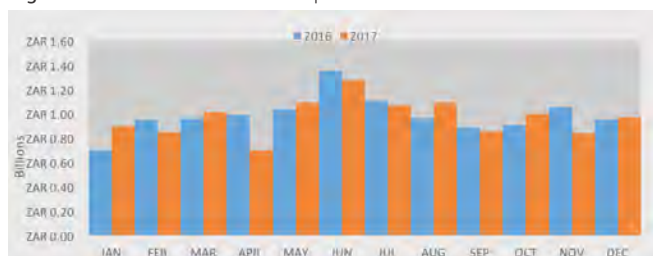
237. The value of Mobile Financial Services (MFS) transactions for the year stood at US\$18 billion, an increase of 210% from the US\$5.8 billion recorded in 2016. MFS transaction volumes also increased by 153% to 754.7 million in 2017, from 298.6 million in 2016.

238. The increase in non-cash retail payment streams during the period under review was a positive development as the country moves to become a cash-lite economy.

Regional Developments

239. The Central Bank is committed to regional payment system initiatives and continues to encourage banks and other payment service providers to utilise the SADC Integrated Regional Electronic Settlement System (SIRESS) platforms to settle regional cross-border transactions.

240. Since the implementation of SIRESS in July 2013, the number of local banks participating on SIRESS has risen to 14, whilst transaction values have also risen as shown in Figure 37.

Figure 37: Month on Month Comparison values -2016 and 2017

Source: Reserve Bank of Zimbabwe, 2017

Remittances

241. The inaugural 2017 Remittances Survey Report for Zimbabwe by the World Bank revealed the need to enhance the remittances infrastructure and reduce the transaction costs especially for cross border activities within the SADC region.

EXCHANGE CONTROL POLICY DEVELOPMENTS



Operational guidance and efficient payments to tobacco and cotton growers

242. In terms of the Exchange Control Tobacco Finance Order of 2004, and Exchange Control Cotton Finance of 2008, green leaf tobacco and seed cotton respectively, continued to be purchased using funds drawn-down from offshore sources.

243. Consistent with the need to spread financial liquidity arising from the tobacco financing arrangements to

the rest of the economy, for all funds drawn down for the purpose of purchasing green leaf tobacco, 80% was transferred to the RBZ Nostro. The Bank transferred the equivalent value to the Authorised Dealer's RTGS Account for the account of the tobacco merchant. The remaining 20% was retained by commercial banks to finance foreign payments requirements for the rest of their clients.

244. Tobacco farmers continued to be paid through bank accounts and/or electronic platforms.

245. The Reserve Bank paid the 5% export incentive for tobacco growers by the end of each calendar month. To facilitate these payments, the Tobacco Industry and Marketing Board (TIMB) submitted to the Bank, fully authenticated information relating to sales by tobacco growers for the period under consideration.

Enhanced Gold Support Facility for Artisanal Miners

246. In order to mobilise more gold from small and medium scale gold producers, the Bank increased the gold support facility from US\$20 million to US\$40 million.

247. The facility was administered by Fidelity Printers and Refiners in relation to the amount of gold delivered by each artisanal miner.

Establishment of the Zimbabwe Portfolio Investment Fund

248. In order to maintain investor confidence, promote foreign investment inflows, and aid the well-functioning of the stock market, with effect from 1st September 2017, the Bank established the Zimbabwe Portfolio Investment Fund.

249. The Fund is housed at identified local commercial banks, who are responsible for the receipt and payment of all portfolio investment proceeds and dividends into and out of the country by portfolio foreign investors.

Management of foreign exchange receipts for PGMs and Chrome

250. In order to ensure effective administration of foreign exchange, as well as spread liquidity and guarantee equity in the foreign exchange market, 80% of all foreign exchange receipts from the Platinum Group of Metals (PGMs) and Chrome were transferred to the Reserve Bank Nostro Account on receipt. The Reserve Bank transferred an equivalent amount through RTGS to the commercial banks for the account of the exporter.

Standby facility to support export competitiveness

251. In order to build on the success of the Export Incentive Scheme that was introduced in May 2016, the Reserve Bank extended by a further US\$300 million under a standby liquidity support from Afreximbank. This facility, which aimed at improving and enhancing production of goods and services for export, was administered similarly to the existing US\$200 million facility.

Export of Cash by Individuals

252. In an effort to bring convenience to the travelling public, the limit of foreign currency cash that can be carried on person or baggage per exit without Exchange Control approval was increased from US\$1000 to an equivalent of US\$2,000.

Reduction of Licencing Fees for Authorised Dealers with Limited Authority and Bureaux de Change

253. In an effort to enhance the ease of doing business and increase competition in the remittances market, the licence fees for Authorised Dealers with Limited Authority (ADLAs) and Bureaux de Change were reviewed downwards by about 50%.

Supply and Demand of Foreign Currency

254. Global foreign currency receipts for the period 1st January – 31st December 2017 amounted to US\$5.52 billion, compared to US\$5.37 billion received during the same period in 2016. This represented a 2.9% increase.

255. Export receipts constituted 64% of the total foreign currency receipts, followed by international remittances 25%, loan proceeds 10%, income receipts with a modest 1%.

256. Global foreign payments decreased by 6% to US\$4.81 in 2017, from US\$5.14 billion recorded in 2016.

257. A foreign currency net position of US\$714.9 million was achieved during the period under review, compared to US\$229.8 million for the same period in 2016.



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Table 1: Depository Corporation Survey

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Net Foreign Assets	-94,626.89	-86,042.14	-239,224.67	-374,368.83	-728,596.76	-691,268.72	-643,665.14	-556,149.85	-963,774.49
Central Bank	-644,659.48	-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
Other Depository Corporations	550,032.59	528,938.78	441,443.94	265,571.67	1,490.63	-61,645.96	-4,167.43	18,101.16	162,486.37
Net Domestic Assets (NDA)	1,475,076.92	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	9,071,999.06
Domestic Claims	1,595,748.34	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	10,699,362.07
Claims on Central Government(net)	865,901.02	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
Claims on Central Government	888,183.84	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
Less Liabilities to Central Government	22,282.81	136,744.65	212,466.94	206,387.11	92,077.58	97,809.67	109,823.09	160,773.86	134,978.34
Claims on Other Sectors	729,847.31	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	4,421,894.49
Other Financial Corporations	12,035.70	35,485.70	44,912.44	76,815.35	38,903.84	24,193.92	81,997.26	82,282.79	64,990.53
State and Local Government	183.10	17,507.84	16,123.28	20,810.52	18,619.20	12,198.23	45,257.57	34,237.41	46,177.22
Public Non Financial Corporations	25,643.99	22,923.34	64,424.45	71,216.88	80,528.68	86,261.61	172,204.57	253,405.61	591,300.63
Private Sector	691,984.52	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
Other Items(Net)	120,671.41	225,819.52	538,937.98	722,480.23	589,004.85	354,583.34	950,145.92	1,286,987.02	1,627,363.01
Broad Money-M3	1,380,450.04	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	8,108,224.57
Securities Other than Shares Included in Broad Money	516.32	55,848.18	57,954.25	55,930.97	82,609.89	119,858.96	44,656.65	62,894.35	68,638.47
Broad Money-M2	1,379,933.72	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	8,039,586.10
Other Deposits	207,232.62	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
Narrow Money-M1	1,172,701.10	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	6,637,861.06
Transferable Deposits	1,172,701.10	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	6,305,923.18
Currency Outside Depository Corporations	0.00	0.00	0.00	0.00	0.00	298.65	7,126.98	70,170.81	331,937.88

Source: Reserve Bank of Zimbabwe, 2017

Table 2: Institutional Asset Base and Market Share

	2011	2012	2013	2014	2015	2016	2017	Market Share (%)
Commercial Banks	3,829,719,206	4,604,687,298	4,904,957,639	5,633,320,582	6,260,377,926	7,066,935,424	9,279,145,363	82.51%
Merchant Banks	713,488,952	402,288,508	158,588,381	99,998,770	91,564,731	**	**	**
Building Societies	505,088,407	717,144,950	921,033,146	1,234,855,548	1,408,846,687	1,497,005,608	1,740,131,986	15.47%
P.O.S.B	64,988,910	80,599,023	91,188,954	105,153,436	143,480,509	164,329,313	226,694,598	2.02%
GRAND TOTAL	5,113,285,475	5,804,719,779	6,075,768,120	7,073,328,336	7,904,269,853	8,728,270,345	11,245,971,948	100.00%

Source: Reserve Bank of Zimbabwe, 2017

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

NON-FOOD INFLATION													FOOD INFLATION	ALL ITEMS
	ALCOHOLIC BEVERAGES & TOBACCO	CLOTHING FOOTWEAR	HSING, WATER, ELECTRICITY, 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	4.38	6.05	17.74	9.91	2.16	9.76	3.41	2.1	5.67	1.38	3.91	66.47	33.53	100
2017														
January	-0.47	-1.52	-2.16	-0.62	-0.68	-1.76	-1.44	0.20	3.49	-0.02	-0.62	-0.82	-0.30	-0.65
February	-0.42	-1.66	-1.91	0.26	-0.53	-1.29	-1.31	0.18	3.49	0.24	-0.05	-0.51	1.29	0.06
March	-0.13	-1.45	-0.95	1.64	-0.30	-0.79	-1.74	0.40	0.12	0.87	0.92	-0.25	1.21	0.21
April	-0.26	-1.29	-0.89	2.03	-0.33	-0.86	-1.61	0.44	2.16	1.30	1.21	0.08	1.35	0.48
May	0.15	-0.98	-1.01	2.16	-0.01	-0.71	0.00	0.17	2.16	0.88	1.46	0.21	1.92	0.75
June	0.29	-0.74	-2.39	2.52	-0.19	-0.81	0.00	0.59	-0.48	0.86	1.70	-0.37	1.82	0.31
July	0.47	-0.58	-2.43	2.41	-0.03	-1.01	0.29	0.55	-3.28	1.93	2.12	-0.67	1.92	0.14
August	0.35	-0.26	-2.37	2.50	0.02	-0.88	0.33	0.78	-3.28	1.92	2.05	-0.60	1.76	0.14
September	0.27	0.22	-1.05	3.91	0.12	-1.11	0.57	1.69	-3.28	1.97	2.07	-0.01	2.49	0.78
October	0.95	1.91	-0.68	7.47	1.22	0.02	0.94	4.84	-3.28	2.49	4.61	1.25	4.40	2.24
November	1.17	2.62	-0.62	8.78	1.67	-0.02	0.89	5.83	-2.25	1.76	5.62	1.74	5.65	2.97
December	1.51	3.27	-0.45	8.77	1.57	0.55	0.89	6.35	-2.26	2.09	6.04	2.00	6.60	3.46

Source: ZIMSTAT, 2017

Table 4: Central Government Operations- US\$ Millions

	2011	2012	2013	2014	2015	2016	2017
Total revenue and grants	2,922.5	3,495.8	3,741.0	3,727.2	3,737.1	3,501.9	3,870.0
Total expenditure and net lending	3,051.3	3,587.9	3,981.3	3,916.6	3,923.6	4,705.5	6568.1
Deficit	-128.9	-92.1	-240.3	-189.4	-186.5	-1,203.6	-2,698.1
Financing	67.6	75.4	240.7	189.4	129.0	1,425.1	2,698.1
of which : Foreign (net)	95.1	-41.1	7.6	-49.9	-63.4	184.5	-72.4
Domestic (net)	-27.5	116.5	233.1	239.3	192.4	1,240.6	2770.5

Source: Ministry of Finance and Economic Development, 2017

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

Period	Agriculture Hunting and Fishing	Mining and Quarrying	Manufacturing	Electricity and Water	Construction	Finance and Insurance	Real Estate	Distribution Hotels and Restaurants	Transport and Communication	Public Administration	Education	Health	Other Services	Total
2011	1129	958	1238	354	258	639	172	1370	1131	823	912	205	437	9625
2012	1217	1034	1304	355	318	953	274	1429	1207	1150	1214	274	391	11115
2013	1186	1156	1296	373	331	1088	276	1485	1291	1157	1381	300	372	11682
2014	1459	1116	1230	393	353	849	289	1522	1306	1262	1454	333	360	11915
2015	1383	1121	1233	371	367	896	321	1580	1370	1278	1372	372	343	11990
2016	1333	1213	1184	284	385	988	331	1701	1326	1373	1384	394	391	12266

Source: ZIMSTAT, 2017

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	Per capita Gross Domestic Product**
2011	12,098.5	-2,000.3	10,098.1	11,205.5	9,129.6	971.0
2012	14242.5	-2,213.6	12,028.9	12,861.6	10,860.3	1,090.4
2013	15,451.0	-1,877.6	13,574.2	13,572.8	11,902.6	1,155.8
2014	15,891.0	-1,852.2	14,038.8	13,861.5	12,210.3	1,164.0
2015	16,304.7	-1,982.4	14,322.3	14,095.7	12,284.8	1,169.4
2016	16,620.0	-1,775.7	14,844.2	14,182.5	12,534.6	1,165.3

Source: ZIMSTAT, 2017

**Calculated using GDP at constant prices

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

Income Approach										
Item / year	Compensation of employees	Gross Operating Surplus	Mixed Income	Taxes on production	GDP at basic Prices	Net taxes on products	Taxes on products	GDP at market prices	Net primary income from abroad	Gross National Income
2011	5226.73	3089.44	2079.56	151.47	10547.20	1551.25	1551.14	12098.45	-2000.31	10098.15
2012	6387.67	3387.40	2541.47	171.33	12487.87	1754.62	1754.62	14242.49	-2213.58	12028.91
2013	7091.13	3414.24	2821.35	185.20	13511.93	1939.84	1939.84	15451.77	-1877.60	13574.17
2014	7043.89	4019.79	2802.56	184.07	14050.31	1840.74	1840.74	15891.05	-1852.24	14038.81
2015	7285.60	4058.04	2730.72	186.00	14260.36	2044.31	2044.31	16304.67	-1982.35	14322.32

Source: ZIMSTAT, 2017

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

Period	Private consumption	Net Government current expenditure	Gross fixed capital formation	Increase in stocks	Statistical discrepancy	Total domestic expenditure	Net export of goods and services	Expenditure on gross domestic product
2011	8,828.4	2,647.5	2,063.8	389.6	0.0	14,899.8	-2,986.0	12,098.5
2012	12,172.5	3,424.0	2,079.2	-392.2	0.0	18,322.0	-2,706.3	14,242.5
2013	12,114.6	3,520.1	1,752.8	5.4	0.0	18,254.5	-2,947.1	15,451.8
2014	18,887.6	3,813.4	1,873.4	5.8	0.0	18,388.7	-2,589.1	15,891.0
2015	13,342.2	3,768.5	1,995.4	8.0	0.0	19,983.6	-2,448.1	16,304.7
2016	11,371.2	4,131.1	2,015.4	11.0	0.0	18,948.5	-2,328.6	16,620

Source: ZIMSTAT, 2017

Table 9: Balance of Payments – US\$ Millions

	2011	2012	2013	2014	2015	2016	2017
Trade balance	-3145.7	-2902	-3114.6	-2748	-2448.1	-1500.0	-1287.4
Current Account Balance (excluding official transfers)	-3385.6	-3042.4	-3432.2	-3065.3	-1519.4	-591.3	-266.2
Capital Account Balance (including official transfers)	1633.4	1721.8	2723.4	2914.7	1632.3	242.3	285.7
Net Errors and Omissions	969.7	885.3	316.5	110.4	-138.6	-93.8	-160.7
Gross Foreign Reserves (US \$m)	427.2	425	331.4	349.5	352.3	421.3	308.2
Import Cover (months) at 100% (Goods & Services)	0.6	0.7	0.6	0.6	0.7	1.0	0.7
Exchange Rate:							
US\$/ZAR	8.17	8.48	9.65	10.85	12.76	14.66	13.27
GBP/US\$	1.54	1.62	1.7	1.65	1.54	1.2	1.29

Source: Reserve Bank of Zimbabwe, 2017

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	93.8	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

Source: Reserve Bank of Zimbabwe, 2017

Table 11: Stock Exchange

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	4,036.80
2017	333.02	142.40	9,580.66

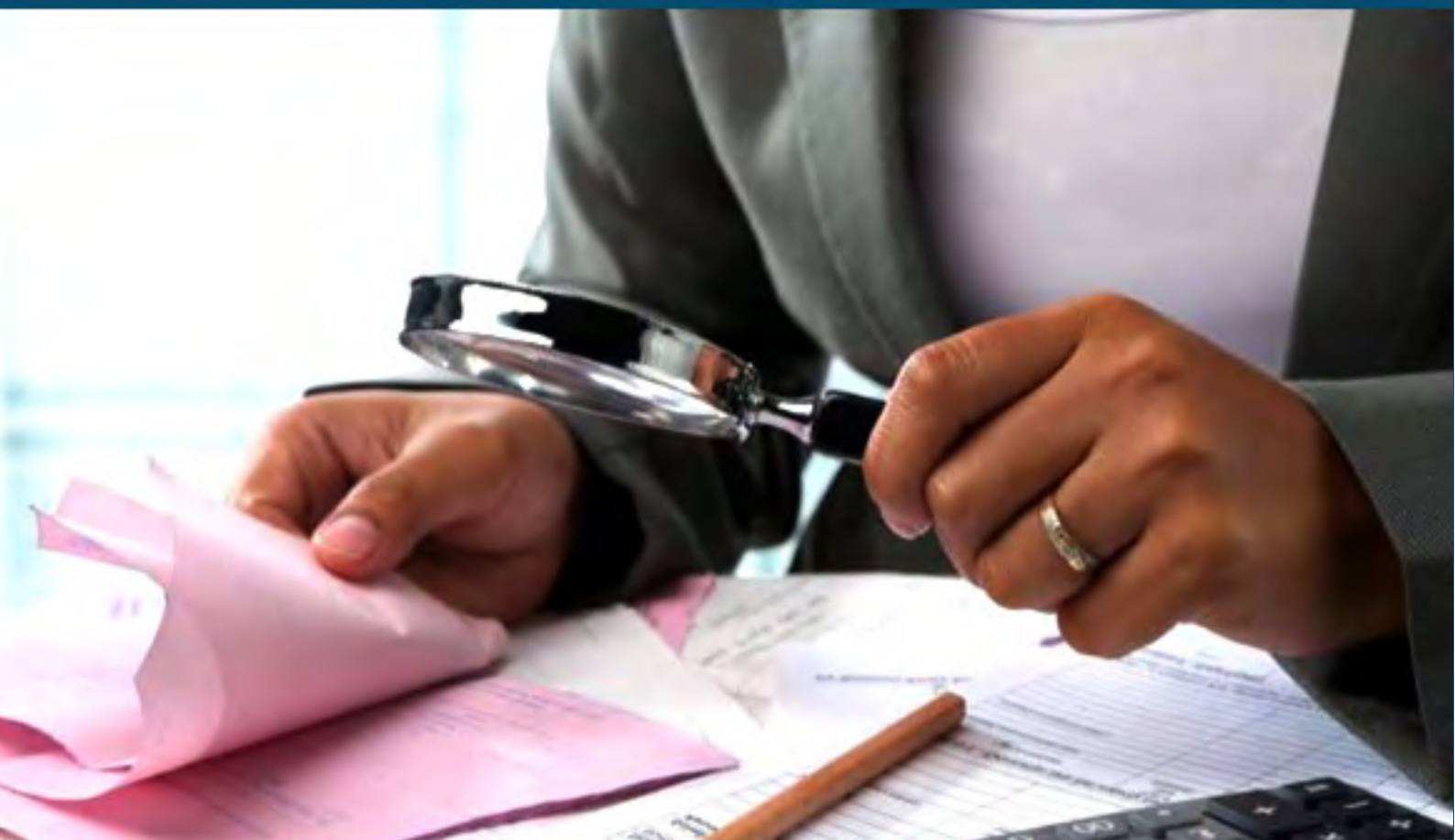
Source: Zimbabwe Stock Exchange, 2017

Table 12: Selected Economic Indicators

	2010	2011	2012	2013	2014	2015	2016	2017
ANNUAL MONEY SUPPLY GROWTH RATE								
M1 % change	33	35	23	-6.2	10.1	12.5	34.2	
M2 % change	64	32	21	-3.5	11.0	8.9	18.8	
M3 % change	69	33	26	1.2	12.0	8.2	19.1	
REAL SECTOR /1								
Real GDP: Factor Cost (US\$m)	7673.1	8586.6	9493.8	9854.4	10240.3	13972.4		
Real GDP Growth rate (%)	11.4	11.9	10.6	4.5	3.8	1.4		
EXTERNAL DEBT								
Total External Debt	7,050	7,382	7,498	8,934	10,838	10,684	10,684	11,260
Public and publicly Guaranteed External Debt	6,454	6,479	6,772	6,982	6,770	7,100	7,308	7,508
o/w Central Government external debt	3,493	4,638	4,929	5,012	4,522	5,293	5,365	5,595
Publicly Enterprises & Local Government	2,961	1,841	1,843	1,970	2,248	1,807	1,943	1,406
Private Sector External Debt	596	904	726	1,952	4,069	3,584	3,652	3,752
Domestic debt (Central Government)								
RATE OF INFLATION								
End of period	3.20%	4.90%	2.90%	0.30%	-0.80%	-2.50%	-0.93%	3.46%
Period Average	3.10%	3.50%	3.73%	1.60%	-0.20%	-2.40%	-1.56%	0.90%

Source: Reserve Bank of Zimbabwe, 2017; ZIMSTAT, 2017

2017 AUDITED FINANCIAL STATEMENTS



FINANCIAL STATEMENTS

For the year ended 31 December 2017



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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 2017

The Directors of the Reserve Bank of Zimbabwe ("the Bank", "RBZ") have pleasure in submitting their report for the financial year ended 31 December 2017.

1. NATURE OF BUSINESS

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

As required by the Reserve Bank Act [Chapter 22:15] the functions of the Bank are as follows:

- a) to regulate Zimbabwe's monetary system;
- b) to achieve and maintain the stability of the Zimbabwe dollar;
- c) to foster the liquidity, solvency, stability and proper functions of Zimbabwe's financial system;
- d) to supervise banking institutions and to promote the smooth 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.

DIRECTORS' REPORT

For the year ended 31 December 2017



1.2 The subsidiaries and joint ventures 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 transfers services, promoting and marketing investments and espousing development of housing schemes for Zimbabwean's living abroad.
- 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 jatropa.
- 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. Please 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 with 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.



DIRECTORS' REPORT

For the year ended 31 December 2017



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. 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 led by the Governor as the 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 Reserve Bank of Zimbabwe Board was fully constituted during the year 2017 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. C.L. Dhlwayo	Deputy Governor (Executive)*
Dr. J.T. Chipika	Deputy Governor (Executive)*
Mrs. P. Chapendama	Independent Non - Executive Director
Mr. Z.R. Churu	Non-Executive Director
Ambassador A. Maboyi	Independent 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

* Dr. C.L. Dhlwayo retired on the 31st of March 2017 after serving two full five year terms as Deputy Governor and on the Board. She was replaced by Dr. J.T. Chipika as deputy Governor on the 1st of April 2017.

** Ambassador A. Maboyi resigned from the Board on the 11th of October 2017 after his appointment as Minister of State for Matabeleland South.



DIRECTORS' REPORT

For the year ended 31 December 2017



3.2 BOARD COMMITTEES

The Board has three committees which helps it to discharge its mandate. The committees have clearly defined terms of reference setting out their roles, responsibilities and reporting procedures. The committees are as follows:

- a) Audit and Oversight Committee,
- b) Human Resources Committee and
- c) Banking Sector Stability Committee.

3.2.1 AUDIT AND OVERSIGHT COMMITTEE

This committee assists the Board of Directors in fulfilling its 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. The internal and external auditors have unrestricted access to the Audit and Oversight Committee.

During 2017, the Audit and Oversight committee met five times. The table below shows the composition and meeting attendance of its members during the year under review:

Audit and Oversight Meetings - 2017

Name	No. of Meetings Attended	No. of Meetings Eligible to Attend
Mrs. R. Likukuma (Chairman)	5	5
Mrs. P. Chapendama	5	5
Mr. C.R. Maradza	5	5
Mr. L. Murahwa	5	5
Mr. Z .R. Churu	4	5

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. The table below shows the composition and meeting attendance of members of the Human Resource Committee during the year.

Human Resources Meetings - 2017

Name	No. of Meetings Attended	No. of Meetings Eligible to Attend
Mrs. V. Mudimu (Chairman)	4	4
Mr. J. Mutizwa	4	4
Dr. K. Mlambo	4	4
Ambassador A. Maboyi	3	3

3.2.3 BANKING SECTOR STABILITY COMMITTEE

The purpose of this committee is to provide guidance to the Board in carrying out its mandate of promoting financial stability. The table below shows the composition and meeting attendance of members during the year.

DIRECTORS' REPORT

For the year ended 31 December 2017

**Banking Sector Stability Meetings - 2017**

Name	No. of Meetings Attended	No. of Meetings Eligible to Attend
Mr. J. Mutizwa (Chairman)	4	4
Dr. J.T. Chipika	3	3
Mr. Z .R. Churu	4	4
Dr. K. Mlambo	4	4
Mr. O.J. Mukumba	4	4
Mr. M .Z. Nyabadza	3	4
Dr. C.L Dhliwayo	-	1

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 recognized a surplus of **US\$160,264,135** (2016 surplus: **US\$555,552,228**). The surplus was a result of the Bank's operations and reversal of impairment of financial assets as indicated below.

	2017 US\$	2016 US\$
Surplus for the year before reversal of impairment of financial assets	77,602,542	118,415,995
Financial assets impairment reversal	82,661,593	437,136,233
Surplus after reversal of impairment of financial assets	160,264,135	555,552,228

Surplus for the year was mainly due to interests and commissions earned, Government grant and liability derecognition. The Bank realised an impairment reversal of US\$83 million (2016: US\$311 million) from RBZ legacy debt Treasury Bills issued during the period. All legacy debts payments (Government debts in RBZ's books) are treated as Government repayments of RBZ amounts due from Government which had been impaired, in prior years. The Bank appreciates the Government's continued support.

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). This provides for surplus banks and deficit banks to lend and borrow from each other, respectively, in a controlled environment. This facility has assisted the Bank to resume its role, of lender of last resort to a greater extent. The facility which matured in February 2017 was rolled over to February 2019.

7. EXPORT INCENTIVES AND BOND NOTES

The Bank continued to administer the Export Incentive Scheme which was introduced in May 2016 to enhance export competitiveness. As a result of this intervention, exports significantly grew by 36% in 2017. As at 31 December 2017, US\$290 million export incentives had been cumulatively paid to exporters in the form of bond notes.



DIRECTORS' REPORT

For the year ended 31 December 2017

8. SAVINGS BONDS

The Bank introduced 7% tax-free Savings Bonds in September 2017 to mop up excess liquidity in the market. The market embraced the facility such that as at 31 December 2017, a total of US\$165 million had been raised through Savings Bonds.

9. FINANCIAL INCLUSION AND SUSTAINABLE ECONOMIC DEVELOPMENT FACILITIES

During the year under review, the Bank introduced various facilities earmarked for promoting production, business linkages and empowerment. The following is a list of the facilities which were in operation in 2017:

- i) Export Finance Facility;
- ii) Gold Support Facility;
- iii) Tourism Support Facility;
- iv) Horticulture Facility;
- v) Women Empowerment Fund;
- vi) Cross Border Facility;
- vii) People with Disabilities Fund;
- viii) Youth Empowerment Fund;
- ix) Business Linkages Facility; and
- x) University Education Support Facility

These facilities have ensured access to formal financial services by marginalised groups in support of the National Financial Inclusion Strategy.

10. GOVERNMENT FACILITIES

The Bank continued to seek and negotiate facilities from offshore on behalf of the Government of Zimbabwe. As at 31 December 2017, the Bank received a cumulative US\$1.1 billion in facilities from regional and international lenders. The facilities run for periods of between one and five years and were utilized for the importation of petroleum products, electricity, crude oil for cooking oil, medicals, fertilizer, agro chemicals and raw materials for use by industry etc. The Bank is leveraging on the export of minerals for the repayment of these facilities.

11. LOANS AND ADVANCES TO GOVERNMENT AND TO STATUTORY BODIES

As at 31 December 2017, legacy loans and advances to Government and to Statutory Bodies were US\$0.2 billion (2016: US\$0.3 billion) before impairment. The Bank has 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. Pursuant to the enactment of the Reserve Bank of Zimbabwe Debt Assumption Act 2015, the Government of Zimbabwe issued Treasury Bills (TBs) worth US\$83 million (2016: US\$311 million) towards the clearance of the Reserve Bank of Zimbabwe legacy debt during the year. Accordingly, these Treasury Bills issued by Government were credited to amounts due from Government that resulted in impairment reversals in subsequent periods. Also, the facilities in 'note 10' above are accounted for in the Bank's books as loans to Government. The balance as at 31 December 2017 was US\$679 million (2016: US\$355 million). Additionally, the Bank made other advances to Government during the year for fiscal support.

12. CHANGE IN LEGISLATION

The Reserve Bank of Zimbabwe Amendment Act No 1 of 2017 was gazetted on the 24th of March 2017. The Amendment Act empowers the Bank to issue bond notes and coins at par with the US\$.

DIRECTORS' REPORT

For the year ended 31 December 2017



The Exchange Control (General) (Amendment) Order, Statutory Instrument 93 of 2017 was gazetted on the 18th of August 2017 to amend Section 14 of the Exchange Control General Order of 1996. Section 14 of the principal order was repealed and substituted with a new clause allowing persons "departing from the country to possess, without authorization a total of up to two thousand United States dollars, or its equivalent in any currency or combination of currencies or in bond notes or coins".

The Exchange Control (Amendment) Regulations, Statutory Instrument 122A of 2017 was promulgated and its main effect was to expand the definition of "currency" to include bond notes and coins and also to expand the list of acts or omissions that constituted unlawful dealing in currency.

On the 5th December 2017, the Presidential Powers (Temporary Measures) (Amendment of Exchange Control Act), Statutory Instrument 145 of 2017 was published in the Government Gazette. The Statutory Instrument amended the Exchange Control Act to offer three months amnesty to those who had externalized property. The amendment gave an opportunity to those affected to return expatriated property into the country without fear of prosecution.

13. INFORMATION COMMUNICATION TECHNOLOGY (ICT) PROJECTS

Due to the high rate of non-performing loans in the market, the Bank decided to invest in a Credit Registry which houses credit history. The Credit Registry System went live in the first quarter of 2017. As at year end, there were 108 subscribers in the Credit Registry system comprising of banks, microfinance institutions and other non-bank subscribers. Currently there are 19 data providers (all banking institutions) who submit reports on existing and new loan facilities and their repayments to the Credit Registry on a regular basis. The subscribers have access to reports from the system as and when required and pay a small fee for their access to the system according to the approved pricing policy.

African Development Bank assisted the Bank by significantly financing two ICT projects during the year. The core banking system upgrading project which started in 2016 was completed during the year and went live on the 26th of June 2017. The Document Management System (DMS) project was started and completed during the year. The system has initially been deployed in Exchange Control division with future plans to roll it throughout the Bank. The DMS allows authorized dealers to submit applications electronically to the Exchange Control division on behalf of exporters and importers. It has greatly improved the operating efficiency of the Exchange Control division through easing of the processing, storage and retrieval of documents.

The Bank also upgraded the Paynet system which connects the Bank's retail banking section and its customers allowing for efficient communication. Also, the Bank embarked on a project to upgrade its security systems to match current security threats. As at the reporting date, the project was at an advanced stage.

14. BASIS OF FUNDING

The Bank has made great strides towards self-sustenance which resulted in Government grant being reduced by 50% in 2018. 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.





15. APPROVAL OF FINANCIAL STATEMENTS

The financial statements which appear on pages 64 -112 were approved by the Board of Directors on 28 March 2018. 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. K. Mlambo
 Deputy Governor

Dr. J.T. Chipika
 Deputy Governor

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

Date: 28 March 2018





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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of Annual Financial Statements

Opinion

We have audited the financial statements of the Reserve Bank of Zimbabwe (the "Bank") set out on pages 64 to 113, which comprise the statement of financial position as at 31 December 2017, 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, the accompanying financial statements of the Reserve Bank of Zimbabwe for the year ended 31 December 2017 are prepared, in all material respects in accordance with the Reserve Bank of Zimbabwe Act (Chapter 22:15).

Basis for Opinion

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 (the "IESBA Code") and other independence requirements applicable to performing audits of financial statements in Zimbabwe. 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 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. Our opinion is not modified in this respect.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each 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>Valuation of properties</p> <p>The Bank's properties disclosed in the statement of financial position under investment property and property and equipment were revalued in the current year in accordance with the Bank's accounting policies.</p> <p>Management engaged an independent expert who revalued the properties based on the open market valuation method. The valuations were assessed as significant to our audit because they involve use of significant assumptions and judgements in coming up with the open market values.</p> <p>One of the key assumptions is determination of market factors such as market rentals and capitalisation rates. Given the continued inactive market and absence of observable data, determining a market value in line with the requirements of IFRS13 "Fair Value Measurement", requires significant judgement.</p>	<p>We performed the following audit procedures among others:-</p> <ul style="list-style-type: none"> Assessed the key assumptions and methodologies used in the valuation models by the experts in determining the fair values of these properties for reasonableness. Included in our team, valuation experts to assist us with the review of assumptions and methodologies based on available market information. Performed procedures to enable us to rely on the work performed by the management experts in line with the guidance provided by the relevant auditing standards. Assessed the competency and objectivity of the valuation experts. <p>We assessed the adequacy of the Bank's disclosures included in Notes 5.1, 5.2, 17, 18 and 37 to the financial statements.</p>
Key audit matter	How the matter was addressed in the audit
<p>Valuation of investments in unquoted equities</p> <p>We assessed the valuation of unquoted equity investments as significant for our audit in the current year as the process involves significant judgement given that in the local and regional markets, it is difficult to find comparable listed investments against which these investments can be compared.</p> <p>Management engaged independent experts to determine the appropriate values. The experts used three different valuation methods and weighted these to arrive at the fair value of the foreign investment. For the local investment, the expert used the net asset value.</p> <p>The valuation process involved certain key assumptions such as:</p> <ul style="list-style-type: none"> Determining a discount rate to use in the discounted cashflow in calculating the net present value (taking into account country risk factors) ; Determination of appropriate cashflow projections; Determining the cost of equity to be used in the dividend valuation model appropriate for each investment ; Determining the return on equity and growth rates based on current performance and future projections. <p>The assumptions noted above involve use of judgement in particular, the allocating of weights for the different valuation models used. In addition, identification of an appropriate discount rate used in calculating discounted cashflows, is difficult given the lack of liquidity in the local bond market and the perceived country risk.</p>	<p>We performed the following audit procedures among others:-</p> <ul style="list-style-type: none"> Assessed the key assumptions and methodologies used in the valuation models by the experts in determining the fair values of these investments for reasonableness. Included in our team, valuation experts to assist us with the review of these assumptions and methodologies based on available market information. Performed procedures to enable us to rely on the work performed by the management experts in line with the guidance provided by the relevant auditing standards. Assessed the competency and objectivity of the experts. Recomputed the valuations and weights used. <p>We assessed the adequacy of the Bank's disclosures included in Notes 9 and 14 to the financial statements in relation to those assumptions to which the outcome of the valuation is most sensitive.</p>

Key audit matter	How the matter was addressed in the audit
<p>Loans and advances to the Government</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.'</p> <p>As at year end, the loans and advances to the Government had exceeded the statutory limit stated above by a significant amount. We have assessed this matter as significant for our audit in the current year as the balance of loans and advances to the Government constitute a significant portion of the Bank's total assets.</p>	<p>We performed the following audit procedures among others:-</p> <ul style="list-style-type: none"> • Requested for confirmation of balances from the different Government ministries including the Ministry of Finance and Economic Development. • For selected material payments on behalf of the Government, we reviewed correspondence with the Government and the relevant supporting documentation with the approvals for disbursements of funds. <p>We assessed the adequacy of the Bank's disclosures included in section 11 of the director's report and Note 12 to the financial statements in relation to the 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 on the Other Information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

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.

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:



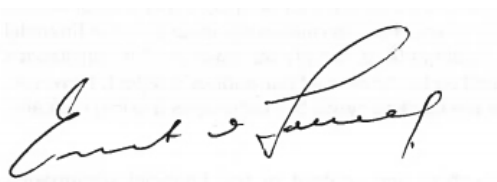
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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.

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

3 April 2018



STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Notes	2017 US\$	2016 US\$
Interest and commission income	6.1	161,225,114	98,698,406
Interest and commission expense	6.2	(65,500,210)	(50,502,675)
Net interest and commission income		95,724,904	48,195,731
Other income	6.3	65,901,012	133,965,571
Net interest and commission income after other income		161,625,916	182,161,302
Operating costs	6.4	(84,023,374)	(63,745,307)
Surplus for the year before reversal of impairment of financial assets		77,602,542	118,415,995
Reversal of financial assets impairment	7	82,661,593	437,136,233
Surplus for the year		160,264,135	555,552,228
Other comprehensive income (OCI)			
Other comprehensive income to be reclassified to Profit or loss in subsequent periods			
Fair value (loss)/gain on other foreign investment		(6,584,291)	27,492
Fair value gain on buildings		3,114,377	-
Net gain in other comprehensive income to be reclassified to profit or loss in subsequent periods		(3,469,914)	27,492
Other comprehensive income not to be reclassified to Profit or loss in subsequent period		-	-
Net gain after other comprehensive income not to be classified to profit or loss in subsequent periods		(3,469,914)	27,492
Total other comprehensive income for the year		(3,469,914)	27,492
Total comprehensive income for the year		156,794,221	555,579,720

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017



	Notes	2017 US\$	2016 US\$
Assets			
Cash and bank balances	8	292,018,509	308,970,377
Gold and foreign assets	9	93,920,523	97,312,432
Financial securities	10	1,478,745,936	566,328,080
Other receivables	11	797,111,217	519,840,250
Loans and advances to Government and Statutory Bodies	12	1,863,548,635	1,297,728,732
Other loans and advances	13	628,694,936	281,449,805
Other investments	14	4,494,689	4,734,359
Investments in subsidiaries	15	48,767,035	40,104,252
Non-current assets held for sale	16	750,000	760,000
Investment property	17	13,600,000	8,365,000
Property and equipment	18	79,929,480	62,457,879
Total Assets		5,301,580,960	3,188,051,166
Equity and Liabilities			
Capital and reserves			
Share capital	19	2,000,000	2,000,000
Share premium	19	98,000,000	98,000,000
Revaluation reserve	20	7,112,039	3,997,662
Mark to market	21	40,410,536	46,994,827
Non distributable reserve	22	-	-
General reserve fund	23	-	-
Accumulated surplus / (deficit)	24	153,579,489	(6,684,645)
Surplus attributable to equity Shareholders		301,102,064	144,307,844
Liabilities			
Other deposits payable	25	51,448,436	51,976,707
Bond notes and coins in circulation	26	344,082,242	85,999,281
International Monetary Fund facilities	27	482,258,657	454,965,773
Foreign liabilities	28	833,360,899	514,729,678
Domestic loans	29	-	57,262,950
Deposit accounts	30	3,200,190,165	1,783,204,029
Payables	31	89,138,497	95,604,904
Total liabilities		5,000,478,896	3,043,743,322
Total equity and liabilities		5,301,580,960	3,188,051,166

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017



Dr. J.P. Mangudya
Governor,
Board Chairman

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

Dr. K. Mlambo
Deputy Governor

Dr. J.T. Chipika
Deputy Governor

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

Date: 28 March 2018



STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Share capital US\$	Share premium US\$	General reserve US\$	Mark to Market reserve US\$	Non - distributable reserve US\$	Revaluation reserve US\$	Accumulated (Deficit)/Surplus US\$	Total US\$
Balance at 1 January 2016	2,000,000	98,000,000	-	46,967,335	(903,715,388)	3,997,662	341,478,514	(411,271,877)
Surplus for the year	-	-	-	-	-	-	555,552,228	555,552,228
Other comprehensive income	-	-	-	27,492	-	-	-	27,492
Transfer to accumulated Surplus for the year (NDR)	-	-	-	-	903,715,388	-	(903,715,388)	-
Balance at 31 December 2016	2,000,000	98,000,000	-	46,994,827	-	3,997,662	(6,684,646)	144,307,843
Surplus for the year	-	-	-	-	-	-	160,264,135	160,264,135
Other comprehensive income	-	-	-	(6,584,291)	-	3,114,377	-	(3,469,914)
Balance at 31 December 2017	2,000,000	98,000,000	-	40,410,536	-	7,112,039	153,579,489	301,102,064

STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating cash flows		
Surplus for the year	160,264,135	555,552,228
Adjustment for items not affecting cash flows		
-Government grant treasury bills	-	(8,502,647)
-Depreciation	3,443,316	3,056,957
-Fair value (gain)/loss on investment property	(5,235,000)	2,585,000
-Fair value gain on property & equipment	(13,425,949)	-
-Impairment of unquoted shares	327,281	305,515
-Bad debts	48,000	1,022,571
-Profit on disposal of property and equipment	(73,908)	(68,438)
-Reversal of financial assets impairment	(82,661,593)	(437,136,233)
-Other accrued interest receivable	(135,962,495)	(78,098,210)
-Interest expense	65,500,210	50,502,675
-Derecognition of liabilities & other	(7,023,184)	(49,479,323)
Operating cash flows before movements in working capital	(14,799,187)	39,740,095
Interest and commission paid		
-Interest and commission paid	(4,930,618)	(2,227,210)
	(19,729,805)	37,512,885
Movements in working capital		
Decrease in other receivables	(121,759,115)	(50,919,600)
Increase / (decrease) in Special Drawing Rights (SDR) holdings	4,543,808	(20,765,770)
Increase in deposit accounts.	1,871,514,792	1,105,368,800
Decrease/ (increase) in payables	3,243,076	(101,080,404)
Increase in advances	(1,652,363,008)	(701,016,062)
Net working capital movements	105,179,553	231,586,964
Net cash inflow from operating activities	85,449,748	269,099,849

STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
CASH FLOWS FROM INVESTING ACTIVITIES		
Investing Activities		
Purchase of shares and financial securities	(93,609,693)	(282,191,506)
Proceeds from disposal of property and equipment	85,677	728,081
Purchase of property and equipment (refer to note 39)	(9,472,195)	(1,107,500)
Net cash from Investing Activities	(102,996,211)	(282,570,925)
CASH FLOWS FROM FINANCING ACTIVITIES		
Transfers to reduce overdraft balance, South African Reserve Bank	(465,633)	(409,491)
Net cash from Financing Activities	(465,633)	(409,491)
Increase\ (Decrease) in cash and cash equivalents due to revaluation	1,060,228	(240,919)
DECREASE IN CASH AND CASH EQUIVALENTS	(16,951,868)	(14,121,486)
Cash and cash equivalents at beginning of the year	308,970,377	323,091,863
-Balances with foreign banks	295,358,981	294,831,736
-Foreign currency	13,511,396	28,160,127
-Committed funds	100,000	100,000
Cash and cash equivalents at end of the year	292,018,509	308,970,377
Balances with foreign banks	286,804,876	295,358,981
- Foreign currency	4,113,633	13,511,396
-Committed funds	1,100,000	100,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017



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 and 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 provision 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



NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017



statements are described in 'note 5' to the financial statements.

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 and commission income

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

3.3 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,



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017



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.

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



NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017



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

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 and financial liabilities

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.

3.7.2 Financial assets

Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss' (FVTPL), 'financial securities', 'available for sale' (AFS) financial assets and 'loans and receivables'. 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, available for sale investments and other receivables.

3.7.3 Loans and receivables

Receivables, loans and advances to Government and to Statutory Bodies, other loans and advances that are not quoted on an active market are classified as loans and receivables. These include loans to subsidiaries as well as amounts due from the Government of Zimbabwe and Statutory Bodies. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method less impairment. 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.

3.7.4 Gold and foreign assets

Gold and foreign assets are recognised at the rate of exchange ruling when they are acquired and subsequently restated using the spot exchange rate at 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].

3.7.5 Available for sale (AFS) financial assets

AFS financial assets include equity investments and



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017



debt securities. Equity investments classified as AFS are those neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, AFS 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. 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 AFS financial assets is reported as dividend income.

3.7.6 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.

3.8 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.

3.8.1 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 IAS 39 is met. The Bank has not designated any financial liability as fair value through profit or loss.

3.8.2 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017



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.

- d) Deterioration of borrowers' competitive position.
- e) Deterioration in the value of collateral.
- f) Renegotiation of loans to be on terms that the Bank would not otherwise consider.

3.9 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.

3.9.1 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.

3.9.2 Impairment and provisioning policies

At each reporting date, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that loss event had a negative effect on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably.

The Bank considers objective evidence of impairment as:

- a) Insolvency/financial difficulties on the part of a debtor.
- b) Delinquency by counterparty.
- c) Breach of loan covenants or conditions.

The Bank first assesses whether there is objective evidence of impairment for financial assets that are individually significant, and individually or collectively for financial assets that are not significant. Loans and advances are analysed on a case by case basis taking into account breaches of key loan conditions in accordance with the Banking Regulations SI 205 of 2000. Impairment allowances on individually assessed accounts are determined by an evaluation of the impairment at reporting date on a case by case basis, and are applied to all significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that account.

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

3.9.3 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017



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.

3.10 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.

3.11 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.

3.12 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.

3.13 Non-current assets held for sale

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

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
- an active programme to locate a buyer has been initiated;
- the asset is being marketed at a reasonable price in relation to its fair value; and
- 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:

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

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

3.14 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



NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017



the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- 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:

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

At the date of authorisation of these financial state-

ments the following standards, amendments to existing standards and interpretations were in issue, but not yet effective up to the date of issuance of the Bank's financial statements. The Bank intends to adopt these standards if applicable when they become effective.

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 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. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. 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.

The core principle of the new Standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services.

The new Standard will also result in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The Bank does not expect the standard to have material financial impact in future financial statements.



NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017



4.2 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.

4.3 IFRS 9 "Financial Instruments" (effective for annual periods beginning 1 January 2018)
The standard issued on 24 July 2014, and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. Retrospective application is required but providing comparative information is not required.

The Reserve Bank of Zimbabwe will be adopting IFRS 9: Financial instruments as issued by the IASB in July 2014 with a date of transition of 1 January 2018. The adoption of the new standard will result in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Reserve Bank of Zimbabwe did not early-adopt IFRS 9 in the financial periods prior to 1 January 2018.

As permitted by the transitional provisions of IFRS 9, the Reserve Bank of Zimbabwe will not restate

comparative figures at the initial adoption of IFRS 9.

Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition will be recognised in the opening retained earnings and other reserves of the period beginning 1 January 2018.

The adoption of IFRS 9 will result in changes in the Bank's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments, such as IFRS 7 Financial Instruments: Disclosures.

The Reserve Bank of Zimbabwe is currently in the process of performing an analysis to ascertain the extent of the changes from IAS 39 to IFRS 9. Set out below are some of the disclosures relating to the likely impact of the adoption of IFRS 9 on the classification of the Reserve Bank of Zimbabwe's financial instruments. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Bank in 2018 when the Bank will adopt IFRS 9.



NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017



(a) Classification and measurement of financial instruments

The classification and measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 as at 1 January 2018 are compared as follows:

	IAS 39 Classification and measurement	IFRS 9 Classification and measurement
Financial Assets		
Cash and bank balances	Amortised cost (loans and receivables)	Amortised cost
Gold holdings	FVPL	FVPL
Investments in SWIFT	FVOCI (available for sale)	FVOCI
Investments in Afreximbank	FVOCI (available for sale)	FVOCI
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	FVOCI (available for sale)	FVOCI
Investments in subsidiaries	FVOCI (available for sale)	FVOCI
Financial Liabilities		
Other deposits payable	Amortised cost	Amortised cost
Bond notes and coins in circulation	Amortised cost	Amortised cost
International monetary fund facilities	Amortised cost	Amortised cost
Foreign Liabilities	Amortised cost	Amortised cost
Domestic loans	Amortised cost	Amortised cost
Deposit accounts	Amortised cost	Amortised cost
Payables	Amortised cost	Amortised cost



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

(b) Impact on impairment

IFRS 9 will introduce new impairment considerations that are expected to have a significant impact on the impairment recognised. Impairment is likely to increase as a result of a requirement to recognise impairment using an expected credit loss model, which is a probability-weighted outcome that takes into account forward-looking information, amongst other variables. Currently, IAS 39 requires the recognition of impairment using an incurred loss model, which requires an estimation of losses already incurred. IFRS 9 will result in impairment being recognised on performing assets based on a 12-month probability of default whilst impairment will be recognised on assets that have suffered significant credit deterioration using a lifetime probability of default.

IFRS 9 will require impairment considerations to be made for exposures that were previously not subject to impairment. The Reserve Bank of Zimbabwe has assessed its exposures and observed that the following exposures, which were previously not subject to impairment, will be subject to impairment under IFRS 9.

Exposure Type	Exposure as at 31 December 2017
Undrawn portion of loan commitments	US\$241m

At year-end, the Reserve Bank of Zimbabwe was still in the process of developing forward-looking models for the determination of expected credit losses on its financial instruments. The likely impact on impairment is yet to be quantified.

5. 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.

5.1 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. The valuations resulted in a fair value increase of US\$10.5 million across the class.

The Directors reviewed the results of the independent valuation for reasonableness and they believe the buildings have been fairly valued. In performing the valuation, the valuers considered the following key inputs:

- The properties are highly maintained and remain in good state of repair and maintenance.
 - Each property is not contaminated and is not adversely affected by any existing or proposed environmental law.
 - 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 defects.
- 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"

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017



5.2 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 increase of US\$5 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:

- The properties have no significant structural defects and that any defects would not require more than the normal level of maintenance and expenditure
- Each property is not contaminated and is not adversely affected by any existing or proposed environmental law.
- 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.
- 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'.

5.3 Impairment of loans and advances

At each reporting date, the Bank reviews the carrying

amount of its loans and advances against estimations of the recoverable amount. The Bank has estimated impairment for loans and advances in accordance with the Banking Regulations SI 205 of 2000, as set out in 'note 12'.

5.4 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 15'.

The Bank's investments in unquoted shares are in IDBZ and Afreximbank. The Bank engaged services of professional consultants for the independent fair valuation of its investments in Infrastructural Development Bank of Zimbabwe (IDBZ) and African Import Export Bank (Afreximbank). 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 9' and 'note 14' respectively.

5.5 Provision for legal disputes

The Bank is in the process of defending a number of legal cases. 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 2017

6. INCOME AND EXPENDITURE

6.1 Interest and commission income comprise:

Interest income

- Interest on Treasury Bills (foreign and local Treasury Bills)
- Interest on Local and foreign bank balances
- Interest on Government loans & advances
- Interest on advances to financial institutions
- Commission earned (RTGS)

2017
US\$

2016
US\$

42,842,695
544,379
87,475,127
20,812,154
9,550,759

19,811,547
1,000,465
44,788,809
24,696,771
8,400,814

161,225,114

98,698,406

Interest earning assets as at 31 December 2017 were US\$3.9 billion (2016: US\$2.153 billion). (See note 35.3) The average interest rate on assets was 6.1 % per annum (2016: 4.2%).

6.2 Interest and commission expense comprises:

- interest expense on loans and advances
- interest on interbank facilities

40,095,479
25,404,731

34,336,111
16,166,564

65,500,210

50,502,675

Interest expense consists mainly of interest on interbank advances, loans and borrowings. Interest bearing liabilities as at 31 December 2017 were US\$1.4 billion (2016: US\$813 million). The average interest rate charged on liabilities was 6.5% per annum (2016: 6.2%).

6.3 Other income comprises:

- Dividends from shares (local and foreign)
- Government grant (budgetary support)
- Government grant (ZIMRA Debt Payments)
- Government Grant Treasury Bills
- Licensing fees, customs declaration (CD) forms
- Mark to market revaluation on investment property
- Reversal of devaluation - buildings
- Other income (derecognition of liabilities)
- Profit on disposal of property and equipment
- Rent receivable
- Mark to market gain-Cairns Holdings

2,766,801
24,000,000
-
-
13,677,966
5,235,000
13,425,949
5,910,844
73,908
810,544
-

2,331,349
24,000,000
37,651,517
8,502,647
9,823,898
-
-
49,499,278
68,438
817,044
1,271,400

65,901,012

133,965,571

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
6. INCOME AND EXPENDITURE (continued)		
6.4 Operating expenses	84,023,374	63,745,307
Included in operating expenses are:		
Auditors' remuneration	209,457	274,850
Advertising Expenses	411,897	4,146,415
Bond notes & coins printing	17,216,754	3,625,574
Computer software licences	2,267,539	1,872,137
Depreciation of property and equipment	3,443,316	3,056,961
Impairment of unquoted investments	327,281	305,515
Impairment of investment property	-	2,585,000
Repairs, maintenance and Bank vehicle expenses	965,920	899,138
Retrenchment costs	1,299,685	381,617
Utility bills and telecommunication	1,683,910	1,756,449
Employee benefits	41,419,836	30,843,128
-salaries	23,914,493	22,220,160
-staff bonuses	1,448,988	1,256,447
-medical expenses	1,594,906	1,538,332
-Pension & NSSA contributions	10,610,114	2,397,471
-other expenses	3,851,335	3,430,718
Directors' fees	384,702	379,664
 The Bank made a once off payment of US\$8.5 million to the Bank's pension fund to regularise prior years' contribution waivers which led to some pensioners getting low monthly pay-outs.		
7. REVERSAL OF FINANCIAL ASSETS IMPAIRMENT		
Movements in provision for doubtful debts comprise:		
Change in provision for doubtful debts (Gvt) (see note 12.1)	82,661,593	437,094,248
Change in provision for doubtful debts (other) (see note 13)	-	41,985
	82,661,593	437,136,233
 8. CASH AND BANK BALANCES		
Nostro accounts balances	286,804,876	295,358,981
Bank balances/cash at hand	4,113,633	13,511,396
Committed Funds	1,100,000	100,000
	292,018,509	308,970,377

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 2017

	2017 US\$	2016 US\$
9. GOLD AND FOREIGN ASSETS		
Gold	523,182	, 461,401
Foreign investments	86,792,216	90,831,655
	87,315,398	91,293,056
Committed Funds	6,605,125	6,019,376
South African Treasury Bills (Financial securities)	6,605,125	6,019,376
	93,920,523	97,312,432
Foreign investments reconciliation		
Opening balance	90,831,655	89,414,248
Additions - Afreximbank shares	2,526,645	1,394,015
Exchange rate gains/(losses) SWIFT	18,208	(4,100)
Fair value adjustment	(6,584,292)	27,492
Balance at year end	86,792,216	90,831,655

The gold balance is made up of gold coins in the Bank's vaults. Foreign investments are shares in African Export-Import Bank (Afreximbank) and SWIFT. The Bank ceded its 2016 dividend for 147 additional shares in Afreximbank.

Management performed valuation of Afreximbank investments with the assistance of professional consultants. The following valuation methods were used to calculate the value of the investee.

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 investments, 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
10. FINANCIAL SECURITIES		
Zimbabwe Treasury Bills	1,478,745,936	566,328,080
Financial securities are local investments in Zimbabwe Treasury Bills. During the reporting period, the Bank received Treasury Bills worth US\$912 million from the Government of Zimbabwe in payment for maize procured under the Grain Procurement program to alleviate the severe effects of 2016/17 El nino induced drought and other Government obligations.		
11. OTHER RECEIVABLES		
Receivables	69,688,341	30,261,425
Prepayments	7,934,409	4,071,386
Impairment loss (note 11.1)	(1,092,462)	(1,092,462)
	76,530,288	33,240,349
Export Incentives	332,451,258	100,493,565
Government IMF drawdowns	383,859,879	383,878,748
IMF interest and charges	4,269,792	2,227,588
Balance at year end	797,111,217	519,840,250

The Bank pays incentives to exporters in bond notes. Export incentives are receivable from Government in the Bank's books and will be received in future at the time of demonetisation of bond notes. Additionally, under receivables is accrued interest on other advances.

Government IMF drawdown is made up of SDR258 million (2016:SDR258 million) withdrawn by the Government from its IMF SDR allocation. These balances are measured at historic cost and are not yet due.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

11. OTHER RECEIVABLES

11.1 Impairment allowance reconciliation

	2017 US\$	2016 US\$
Opening Balance	(1,092,462)	(870,970)
Impairment allowance	-	(221,492)
Balance at year end	<u>(1,092,462)</u>	<u>(1,092,462)</u>

12. LOANS AND ADVANCES TO GOVERNMENT AND
STATUTORY BODIES

12.1 Loans and advances

Loans and advances (legacy debt)	166,988,801	249,650,394
Government advances	1,184,227,304	941,815,036
Government loans	679,321,331	355,913,696
Impairment loss	(166,988,801)	(249,650,394)
	<u>1,863,548,635</u>	<u>1,297,728,732</u>
Movement of impairment		
Balance at the beginning of the year	(249,650,394)	(686,744,642)
Movement for the year	82,661,593	437,094,248
Balance at the end of the year	<u>(166,988,801)</u>	<u>(249,650,394)</u>

Government advances are mostly payments on behalf of Government on matured Treasury Bills and other fiscal support. The movement in loans and advances (legacy debt) was a result of Government debt takeover of the Bank's liabilities through issuance of Treasury Bills. Government loans comprise of PTA Bank, Afreximbank and Trafigura facilities.

Loans to subsidiaries

2017

RESERVE BANK OF ZIMBABWE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017



13. OTHER LOANS AND ADVANCES (continued)

Interbank and other advances

The Government of Zimbabwe, the Bank and Afreximbank tripartite interbank facility known as the African Export Import Bank (Afreximbank) trade debt backed securities (AFTRADES) facility continued throughout the year and was extended by a further two years to February 2019. The Interbank advances relate to advances made to deficit banks by surplus banks and are guaranteed by Afreximbank. The Bank acts as an intermediary and an agent of Afreximbank. AFTRADES facility has thus assisted the Bank to resume its role as a lender of last resort to a great extent. This has assisted to stabilise the financial sector.

Loans to private sector

Private sector loans are advances made by the Bank to strategic institutions during the reporting period. Some of these loans are being managed by local financial institutions on behalf of the Bank.

13.1 Finance Lease

The Bank extended a finance lease to a quasi-Government company for the purchase of machinery valued at US\$5 million in 2015. The Lease was for a three year term at 9.5% interest rate using the diminishing balance method with a guaranteed residual value of US\$1. The lease is being managed by a local financial institution on behalf of the Bank.

	2017 US\$	2016 US\$
Gross investment	1,571,250	3,823,500
Unearned finance income	(71,250)	(332,500)
	<hr/>	<hr/>
Present value	1,500,000	3,500,000
	<hr/> <hr/>	<hr/> <hr/>
14. OTHER INVESTMENTS - IDBZ		
Opening balance	4,734,359	2,181,048
Additional Investment	87,611	2,858,826
Fair value (loss)	(327,281)	(305,515)
	<hr/>	<hr/>
Total	4,494,689	4,734,359
	<hr/> <hr/>	<hr/> <hr/>

The investments in unquoted local shares are classified as available for sale through other comprehensive income. The Bank's unquoted local shares refer to 12.56% shareholding in IDBZ. During 2017, the Bank purchased an additional 8,001 shares from an exiting shareholder. 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 2017

			2017	2016
			US\$	US\$
15	INVESTMENT IN SUBSIDIARIES			
15.1	Investment in subsidiaries at cost less impairment losses			
	Shareholding			
	Fidelity Printers & Refiners (Private) Limited	100%	16,647,587	16,647,587
	Aurex (Private) Limited (note 15.2)	100%	4,300,000	4,300,000
	Homelink (Private) Limited	100%	10,678,751	9,098,022
	Export Credit Guarantee Corporation (ECGC)	100%	1,970,393	1,623,460
	Zimbabwe Asset Management Corporation (ZAMCO)	100%	287,521	287,521
	Tuli Coal (Private) Limited	100%	11,570,766	8,147,662
	Reszim Investments (Private) Limited	100%	-	-
	Finance Trust of Zimbabwe (Private) Limited	100%	-	-
	Carstone (Private) Limited	100%	3,312,017	-
	Fiscorp (Private) Limited	100%	-	-
	Transload (Private) Limited	50%	-	-
	Venture Capital Company of Zimbabwe (Pvt) Ltd	100%	-	-
			48,767,035	40,104,252

Investments in subsidiaries are carried at cost less impairment losses. All of the above subsidiaries are incorporated in Zimbabwe. During the year, the Bank continued its efforts of recapitalising all active subsidiaries through working capital provision.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

16. NON-CURRENT ASSETS HELD FOR SALE

Buildings
Devaluation

Balance at the end of the year

2017 US\$	2016 US\$
760,000	760,000
(10,000)	-
750,000	760,000

The Bank expects to conclude the transactions in the ordinary course of business.

17. INVESTMENT PROPERTY

Opening balance
Fair value adjustment

Closing balance

2017 US\$	2016 US\$
8,365,000	10,950,000
5,235,000	(2,585,000)
13,600,00	8,365,000

The Bank's investment property was revalued at 31 December 2017 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. Please refer to "note 5.2" for the key valuation assumptions.

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

	2017 US\$	2016 US\$
Rental income	810,544	817,044
Direct operating expenses from property that generated rental income	(87,446)	(55,584)
	723,098	761,460

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 2017.

Up to 1 Year	2 to 5 Years	More than 5 Years
US\$ 721,697	-	-

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

18. PROPERTY AND EQUIPMENT (2017)

	Land US\$	Buildings US\$	Furniture, equipment and machinery US\$	Motor vehicles US\$	Total US\$
Cost					
At 1 January 2016	242,000	63,818,498	6,726,540	5,447,162	76,234,200
Additions	-	-	1,797,719	162,155	1,959,874
Disposals	-	(740,000)	(230,574)	(391,000)	(1,361,574)
Adjustment (NCAHS)*	-	6,500	-	-	6,500
At 31 December 2016	242,000	63,084,998	8,293,685	5,218,317	76,839,000
Additions	-	-	3,359,823	1,016,536	4,376,359
Donations / Disposals	-	-	(85,656)	(449,500)	(535,156)
Revaluation	(32,000)	10,575,000	-	-	10,543,000
At 31 December 2017	210,000	73,659,998	11,567,852	5,785,354	91,223,203
Accumulated Depreciation					
At 1 January 2016	-	3,164,252	4,305,328	4,556,511	12,026,091
Charge for the year	-	1,544,617	1,220,760	291,584	3,056,961
Disposals	-	(80,357)	(230,574)	(391,000)	(701,931)
At 31 December 2016	-	4,628,512	5,295,514	4,457,095	14,381,121
Charge for the year	-	1,517,832	1,605,498	319,986	3,443,316
Disposals	-	-	(73,887)	(449,500)	(523,387)
Depreciation Adjustment	-	(6,007,327)	-	-	(6,007,327)
At 31 December 2017	-	139,017	6,827,125	4,327,581	11,293,723
Net Book Values					
At 31 December 2017	210,000	73,520,981	4,740,727	1,457,773	79,929,480
At 31 December 2016	242,000	58,456,486	2,998,171	761,222	62,457,879

Had the land and buildings been carried at the historical cost, the carrying amount would have been US\$39,946,491 (2016: US\$41,464,323).

*NCAHS - Non Current Assets Held for Sale

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
19. SHARE CAPITAL		
Authorised		
2 million shares of \$1 each	2,000,000	2,000,000
Issued		
2 million shares of \$1 each	2,000,000	2,000,000
Reserves		
Share premium	98,000,000	98,000,000
The Bank's authorised capital is US\$2 million wholly issued to the Government of Zimbabwe as per Section 31 of the Reserve Bank of Zimbabwe Act [Chapter 22:15]. In December 2015, the Government of Zimbabwe issued \$100 million eight year debt instruments to the Bank as capitalisation.		
20. REVALUATION RESERVE		
Opening Balance	3,997,662	3,997,662
Fair value gain on buildings	3,114,377	-
Closing balance	7,112,039	3,997,662

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
21. MARK TO MARKET RESERVE		
Opening balance	46,994,827	46,967,335
Fair value gain on other foreign investments	(6,584,291)	27,492
Closing balance	<u>40,410,536</u>	<u>46,994,827</u>
22. NON DISTRIBUTABLE RESERVE		
Arising from restatement process	-	(903,715,388)
Transfer to accumulated surplus (refer to note 24)	-	903,715,388
	<u>-</u>	<u>-</u>
<p>This amount was the overall net effect of the restatement process on the translation from Zimbabwe dollar statement of financial position that gave rise to United States dollar denominated statement of financial position as at 1 January 2009. The Non-Distributable Reserve was transferred to accumulated surplus as at 31 December 2016.</p>		
23. GENERAL RESERVE FUND		
Balance at the end of the year	<u>-</u>	<u>-</u>

In terms of section 32 of the Reserve Bank of Zimbabwe Act [Chapter 22:15], the Bank is required to maintain a general reserve fund. Once the balance of the fund exceeds three times the issued share capital of the Bank, any operating surplus, after providing for bad and doubtful debts, depreciation, staff costs and any such items as are usually provided by financial institutions, shall ultimately be paid to the Government of Zimbabwe.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
24. ACCUMULATED SURPLUS/ (DEFICIT)		
Opening Balance	(6,684,645)	341,478,514
Movement	160,264,134	555,552,228
Transfer from NDR (refer to note 22)	-	(903,715,388)
Closing balance	<u>153,579,489</u>	<u>(6,684,645)</u>
25. OTHER DEPOSITS PAYABLE		
Interest due and unpaid	21,016,495	20,613,791
Loans from regional banks	25,000,000	25,000,000
Zep-Re PTA Investments	5,431,941	6,362,916
Closing balance	<u>51,448,436</u>	<u>51,976,707</u>
26. BOND NOTES AND COINS IN CIRCULATION		
Bond Notes	289,827,726	72,950,552
Bond Coins	54,254,516	13,048,729
	<u>344,082,242</u>	<u>85,999,281</u>

Bond notes and coins are at par with the US\$. Bond notes are a reflection of export incentives performance. As at reporting period, export incentives were US\$332 million to US\$290 million in bond notes which were paid out.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

27. INTERNATIONAL MONETARY FUND
FACILITIES

Net cumulative SDR allocations
IMF No.1 and 2

	2017 US\$	2016 US\$
	481,022,082	453,729,065
	1,236,575	1,236,708
	<u>482,258,657</u>	<u>454,965,773</u>
The Special Drawing Rights (SDR) amounts equivalent owed to IMF SDR allocations and PRGT were as follows:		
	2017 SDR	2016 SDR
Net Cumulative SDR allocations	338,581,039	338,581,039
IMF No 1 and 2	-	-
	<u>338,581,039</u>	<u>338,581,039</u>
The IMF No 1 and 2 accounts are denominated in US\$. The exchange rate applied, USD/SDR 1.420700 (2016, USD/SDR 1.34009)		
28. FOREIGN LIABILITIES		
Aggregated foreign loans	<u>833,360,899</u>	<u>514,729,678</u>
Included in foreign liabilities are facilities from regional and international institutions which the Bank secured on behalf of Government for the importation of critical inputs such as electricity, raw materials for industries and medical supplies.		
Additionally, the foreign loans include the South African Reserve Bank overdraft. The facility is secured by encumbered assets in the form of South African Treasury Bills held at the South African Reserve Bank		
29. DOMESTIC LOANS		
	<u>-</u>	<u>57,262,950</u>

The reduction in the domestic loans is attributable to takeover of these loans by Government through issuance of Treasury Bills as per the RBZ Debt Assumption Act of 2015.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

	2017 US\$	2016 US\$
30. DEPOSIT ACCOUNTS		
Local Financial institutions		
-Bankers RTGS	2,197,179,910	1,352,311,405
-Government (FCAs)	41,469,312	65,818,176
-Corporates (FCAs)	56,490	2,407,805
-Other	94,227,390	36,446,918
	<hr/>	<hr/>
	2,332,933,102	1,456,984,304
Government Accounts	-	78,996,101
Short term deposits	863,210,574	243,369,142
	<hr/>	<hr/>
	3,196,143,676	1,779,349,547
	<hr/>	<hr/>
Foreign		
PTA accounts	4,046,489	3,854,482
	<hr/>	<hr/>
	4,046,489	3,854,482
	<hr/>	<hr/>
Grand total	3,200,190,165	1,783,204,029
	<hr/> <hr/>	<hr/> <hr/>
Included in the short term deposits are deposits from surplus banks under the Interbank Afrades facility, 7% savings bonds and other current accounts .		
31. PAYABLES		
Payables	57,722,948	41,167,629
Gold & foreign currency adjustment account	31,415,549	54,437,275
	<hr/>	<hr/>
	89,138,497	95,604,904
	<hr/> <hr/>	<hr/> <hr/>
31.1 LEAVE PAY PROVISION RECONCILIATION		
Opening balance 1 January	1,370,159	2,915,688
Net provisions utilised	40,713	(1,545,529)
	<hr/>	<hr/>
Closing balance 31 December	1,410,872	1,370,159
	<hr/> <hr/>	<hr/> <hr/>

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

31.2 Gold and Foreign Currency Adjustments (GFCA account)

At reporting date, the Bank had a balance of US\$31 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. CONTINGENT LIABILITIES

At the reporting date, the Bank had contingent liabilities of US\$12,390,728 (2016: US\$24,276,853). The contingent liabilities are comprised of US\$6,297,909 (2016: US\$7,649,277) relating to disputed amounts with various creditors whose debts were taken over by the Government as at 31 December 2013 and the US\$4,834,360 (2016: US\$14,204,134) is the interest charged by other creditors that is still in dispute. The remaining US\$1,258,459 relates to the interest charged by a local bank which is in dispute. The Bank believes the outcome of the negotiations are uncertain.

33. CAPITAL COMMITMENTS

Authorised and contracted:
Authorised and uncontracted:

Total

2017 US\$	2016 US\$
428,000	650,000
-	-
428,000	650,000

The Bank upgraded its security systems in 2017 and the balance above relates to the upgrade. The Temenos T24 system upgrade project which was running as at 31 December 2016 went live in June 2017.

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\$10,277,776 (2016: US\$2,072,475) towards this plan and the cost is included in the staff costs. The 83% (US\$8.5 million) increase in contributions was a once off payment towards pensions. This was done to cover a funding gap caused by waivers (from contributing) that the Bank sought and was granted by the Insurance and Pension Commission between 2009 and 2011 due to working capital challenges. This led to most Bank pensioners getting very low pensions and in the spirit of improving their welfare, the Bank considered it prudent to rectify this anomaly during the period.

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\$332,338 (2016: US\$324,997) towards this plan and the cost is included in the staff costs.

34.3 Recognition of contributions

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

NOTES TO THE FINANCIAL STATEMENTS
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RETIREMENT BENEFIT SCHEMES (continued)

	2017 US\$	2016 US\$
34.4 Contributions recognized as an expense during the year		
Fintrust Pension Fund	10,277,776	2,072,475
National Social Security Authority Scheme	332,338	324,997
	10,610,114	2,397,472

35. RISK MANAGEMENT

The Bank has various policies and procedures to manage its risk. Below is a table on classification of the Bank's financial assets on certain aspects of its risk management specific to its financial instruments.

35.1 Classification of Financial Assets and Liabilities (2017)

	Held to maturity investments US\$	Loans & Borrowings US\$	Available for sale US\$	Investments in subsidiaries US\$	Loans and receivables US\$	Total US\$
Financial Assets						
Investments in subsidiaries at cost	-	-	-	48,767,035	-	48,767,035
Other investments	-	-	4,494,689	-	-	4,494,689
Other loans and advances	-	-	-	-	628,694,936	628,694,936
Government loans and advances	-	-	-	-	1,863,548,635	1,863,548,635
Other receivables	-	-	-	-	797,111,218	797,111,218
Investments in treasury bills	1,478,745,936	-	-	-	-	1,478,745,936
Gold and foreign assets	6,605,125	-	87,315,398	-	-	93,920,523
Cash and Bank balances	-	-	-	-	292,018,509	292,018,509
Total	1,485,351,061	-	91,810,087	48,767,035	3,581,373,297	5,207,301,479
Financial Liabilities						
Other deposits payable	-	51,448,436	-	-	-	51,448,436
Bond notes and coins in circulation	-	344,082,242	-	-	-	344,082,242
International Monetary Fund facilities	-	482,258,657	-	-	-	482,258,657
Foreign Liabilities	-	833,360,899	-	-	-	833,360,899
Deposit accounts	-	3,200,190,165	-	-	-	3,200,190,165
Payables	-	89,138,497	-	-	-	89,138,497
Total	-	5,000,478,896	-	-	-	5,000,478,896

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017



35.1 Classification of Financial Assets and Liabilities (2016)

	Held to maturity investments US\$	Loans & Borrowings US\$	Available for sale US\$	Investments in subsidiaries US\$	Loans and receivables US\$	Total US\$
Financial Assets						
Investments in subsidiaries at cost	-	-	-	40,104,252	-	40,104,252
Other investments	-	-	4,734,359	-	-	4,734,359
Other loans and advances	-	-	-	-	281,449,805	281,449,805
Government loans and advances	-	-	-	-	1,297,728,732	1,297,728,732
Other receivables	-	-	-	-	519,840,250	519,840,250
Investments in Treasury Bills	566,328,080	-	-	-	-	566,328,080
Gold and foreign assets	6,019,376	-	91,293,056	-	-	97,312,432
Cash and Bank balances	-	-	-	-	308,970,377	308,970,377
Total	572,347,456	-	96,027,415	40,104,252	2,407,989,164	3,116,468,287
Financial Liabilities						
Other deposits payable	-	51,976,707	-	-	-	51,976,707
Bond coins in circulation	-	85,999,281	-	-	-	85,999,281
International Monetary Fund facilities	-	454,965,773	-	-	-	454,965,773
Foreign Liabilities	-	514,729,678	-	-	-	514,729,678
Domestic Loans	-	57,262,950	-	-	-	57,262,950
Deposit accounts	-	1,783,204,029	-	-	-	1,783,204,029
Payables	-	95,604,904	-	-	-	95,604,904
Total	-	3,043,743,322	-	-	-	3,043,743,322



NOTES TO THE FINANCIAL STATEMENTS
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35.2 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.

35.3 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.

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

		2017 US\$	2016 US\$
Financial assets	Average Interest		
Foreign Treasury Bills	6%	6,605,125	6,019,376
Advances to Government	5%	1,184,227,304	941,815,033
Zimbabwe Treasury Bills	5%	1,478,745,936	566,328,080
Interbank advances	4%	118,799,293	136,299,293
Government Loans	8%	613,017,658	355,913,698
Loans to subsidiaries	5%	231,672,843	112,350,691
Loans and advances	9%	279,772,216	34,346,844
Total		3,912,840,376	2,153,073,015
Financial Liabilities			
Other deposits payable	7%	30,431,941	31,362,916
Short term loans	6%	769,922,954	569,434,103
Deposits	7%	399,500,000	207,879,819
SARB 1	6%	4,747,592	4,478,550
Savings Bonds	7%	165,174,800	-
Total		1,369,777,287	813,155,388

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

35.4 Equity risk analysis: Afreximbank and Infrastructure Development Bank of Zimbabwe (IDBZ).

The Bank is exposed to equity price risk on its investments classified as available for sale. The fair value of the available for sale investments was estimated using a weighted average equity price based on Dividend valuation model (DVM), Discounted cash flow model (DCF) and Net asset model (NAV).

Below is a sensitivity analysis showing the impact of increases/decreases in the weights assigned and impacts on equity fair value.

Afreximbank (6 481 Shares)	Weight Assigned	Calculated Value US\$000	Reduce DVM by 10%		Increase DVM by 10%		Weighted Value US\$000
			Weighted Value US\$000	Weight Assigned	Weighted Value US\$000	Weight Assigned	
Valuation Method							
Dividend valuation model (DVM)	65%	6,893	4,480	55%	3,791	75%	5,170
Discounted cash flow model (DCF)	20%	32,140	6,428	25%	8,035	15%	4,821
Net asset model (NAV)	15%	16,382	2,427	20%	3,276	10%	1,638
Estimated equity value per share (US\$)		13,366		15,103			11,629
Value of shares (US\$ 000)		86,625		97,883			75,368
IDBZ (560 435 Shares)	Weight Assigned	Calculated Value	Weighted Value	Weight Assigned	Weighted Value	Weight Assigned	Weighted Value
Valuation Method							
Net asset value model	100%	8.02	8.02	100%	8.02	100	8.02
Estimate equity value per share (US\$)			8.02				8.02
Value of shares (US\$ 000)			4,495		4,495		4,495

35.5 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].

35.6 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. 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.

NOTES TO THE FINANCIAL STATEMENTS

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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.

Credit risk measurement

The Bank assesses the probability of default of financial institutions or counterparty using internal rating scale tailored to the various categories of counterparties. The rating scale has been developed internally and combines data analysis with credit officer judgment and is validated, where appropriate, by comparison with externally available information. Clients of the Bank are segmented into seven rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating scale is kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

Bank's Internal Ratings Scale

Bank's rating grade	Description of the rating
1	Low risk
2	Satisfactory risk
3	Fair risk
4	Watch list
5	Sub-Standard risk
6	Doubtful and bad
7	Loss

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

35.6.1 Credit risk Analysis

	Neither Past Due/Nor Impaired US\$	Past Due Not Impaired US\$	Past Due and Impaired US\$	Total US\$
Credit risk Analysis 2017				
Gold and foreign assets	7,128,306	-	-	7,128,306
Receivables	400,758,159	9,315,850	1,092,462	411,166,471
Other receivables	385,944,747	-	-	385,944,747
Financial securities	1,478,745,936	-	-	1,478,745,936
Government loans and advances	1,863,548,635	-	-	1,863,548,635
Government recoverable	-	-	166,988,801	166,988,801
Advances	628,694,936	-	1,549,494	630,244,429
Total non-derivative assets	4,764,820,718	9,315,850	169,630,758	4,943,767,326
Credit risk Analysis 2016				
Gold and foreign assets	6,480,776	-	-	6,480,776
Receivables	129,664,979	5,161,397	-	134,826,376
Other receivables	385,013,874	-	-	385,013,874
Financial securities	566,328,080	-	-	566,328,080
Government recoverable	-	-	249,650,395	249,650,395
Government loans and advances	1,297,728,732	-	-	1,297,728,732
Advances	281,449,805	-	-	281,449,805
Total non-derivative assets	2,666,666,246	5,161,397	249,650,395	2,921,478,038

35.6.2 Credit risk exposure

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

	2017 US\$	2016 US\$
Gold and foreign assets	7,128,306	6,480,776
Receivables	410,122,009	134,826,376
Government loans and advances	1,863,548,635	1,297,728,732
Financial securities	1,478,745,936	566,328,080
Interbank facility advances	118,799,293	136,299,293
Other facilities	231,672,843	112,350,691
Loans and advances	277,523,094	30,098,429
Total	4,387,540,115	2,284,112,377

35.7 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.

35.7.1 Maturity Analysis (2017)

	On demand US\$	Due between 0-3 months US\$	Due between 3-12 months US\$	Due between 1-5 years US\$	Due After 5 years cost US\$	Total carrying amount US\$
Non-derivative liabilities						
Other deposits payable	-	50,938,751	509,685	-	-	51,448,436
International Monetary Fund facilities	1,236,575	-	-	-	481,022,082	482,258,657
Foreign liabilities	-	77,247,592	258,860,043	497,253,264	-	833,360,899
Deposit accounts	2,800,690,165	-	-	399,500,000	-	3,200,190,165
Payables	89,138,497	-	-	-	-	89,138,497
Bond notes and coins in circulation	344,082,242	-	-	-	-	344,082,242
Total non-derivative liabilities	3,235,147,478	128,186,343	259,369,728	896,753,264	481,022,082	5,000,478,896
Assets held for managing liquidity risk						
Cash and Bank balances	292,018,509	-	-	-	-	292,018,509
Financial securities	-	58,105,120	248,302,361	1,139,125,269	39,818,310	1,485,351,060
Available for sale	523,182	-	86,792,215	-	-	87,315,397
Loans and receivables	-	395,490,810	1,648,698	9,269,402	390,702,307	797,111,218
Other loans and advances	-	-	434,702,425	63,950,611	8,971,080	507,624,116
Interbank advances	-	18,799,293	100,000,000	-	-	118,799,293
Government loans and advances	-	-	1,863,548,635	-	-	1,863,548,635
Total assets held for managing liquidity risk	292,541,691	472,395,223	2,734,994,334	1,212,345,282	439,491,697	5,151,768,227
Net exposure	2,942,605,787	-344,208,880	-2,475,624,605	-315,592,018	41,530,385	-151,289,332

35.7.2 Maturity Analysis (2016)

	On demand US\$	Due between 0-3 months US\$	Due between 3-12 months US\$	Due between 1-5 years US\$	Due After 5 years cost US\$	Total carrying amount US\$
Non-derivative liabilities						
Other deposits payable	-	51,190,280	786,427	-	-	51,976,707
International Monetary Fund facilities	1,236,708	-	-	-	453,729,065	454,965,773
Foreign liabilities	85,212,698	388,123,293	41,393,687	-	-	514,729,678
Domestic loans	28,803,735	-	28,459,215	-	-	57,262,950
Deposit accounts	1,575,324,210	207,879,819	-	-	-	1,783,204,029
Payables	95,604,904	-	-	-	-	95,604,904
Bond coins in circulation	85,999,281	-	-	-	-	85,999,281
Total non-derivative liabilities	1,872,181,536	647,193,392	70,639,329	-	453,729,065	3,043,743,322
Assets held for managing liquidity risk						
Cash and Bank balances	308,970,377	-	-	-	-	308,970,377
Financial securities	-	100,442,135	122,178,034	349,727,286	-	572,347,455
Available for sale	461,401	-	90,831,654	-	-	91,293,055
Loans and receivables	-	126,322,646	1,764,571	4,871,613	386,881,420	519,840,250
Interbank	-	136,299,293	-	-	-	136,299,293
Government loans and advances	-	-	1,297,728,732	-	-	1,297,728,732
Total assets held for managing liquidity risk	309,431,778	363,064,074	1,512,502,992	354,598,899	386,881,420	2,926,479,162
Net exposure	1,562,749,758	284,129,318	-1,441,863,663	-354,598,899	66,847,645	117,264,160

35.7.3 Default and breaches disclosure

As at reporting date, the Bank was in default for the loans and payables listed below. The carrying amounts include the principal and interest.

	2017 US\$	2016 US\$
Non-derivative liabilities		
Foreign liabilities	-	85,212,698
Domestic loans	-	28,803,735
Deposit accounts	-	70,936,284
Payables	-	41,167,629
Total non-derivative liabilities	-	226,120,346

The Government of Zimbabwe has taken over most of the RBZ legacy debt through the issuance of Treasury Bills.

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35.7.4 Secured and unsecured Loans and Advances (2017)

	Secured value 2017 US\$	Unsecured value 2017 US\$	Total carrying Amount 2017 US\$
Financial Assets			
Loans and advances to financial institutions	-	797,111,218	797,111,218
Other loans and advances	118,800,000	509,894,936	628,694,936
Government loans and advances	-	1,863,548,635	1,863,548,635
Total	118,800,000	3,170,554,788	3,289,354,788
Secured and Unsecured Financial Liabilities			
Other deposits payable	-	51,448,436	51,448,436
Bond notes and coins in circulation	-	344,082,242	344,082,242
International Monetary Fund facilities	-	482,258,657	482,258,657
Foreign Liabilities	-	833,360,899	833,360,899
Deposit accounts	-	3,200,190,165	3,200,190,165
Payables	-	89,138,497	89,138,497
Total	-	5,000,478,896	5,000,478,896

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 2017

35.7.5 Secured and unsecured Loans and Advances (2016)

	Secured value 2016 US\$	Unsecured value 2016 US\$	Total carrying Amount 2016 US\$
Financial Assets			
Loans and advances to financial institutions	-	519,840,250	519,840,250
Other loans and advances	229,003,312	52,446,493	281,449,805
Government loans and advances		1,297,728,732	1,297,728,732
Total	229,003,312	1,870,015,475	2,099,018,787
Secured and Unsecured Financial Liabilities			
Other deposits payable	-	51,976,707	51,976,707
Bond coins in circulation	-	85,999,281	85,999,281
International Monetary Fund facilities	-	454,965,773	454,965,773
Foreign Liabilities	-	514,729,678	514,729,678
Domestic Loans	-	57,729,678	57,729,678
Deposit accounts	-	1,783,204,029	1,783,204,029
Payables	-	95,604,904	95,604,904
Total	-	3,043,743,322	3,043,743,322

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.

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 liquidity and stability of the economy at large.

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 2016.

	2017 US\$	2016 US\$
Share capital	2,000,000	2,000,000
Share premium	98,000,000	98,000,000
Revaluation reserve	7,112,039	3,997,662
Mark to market	40,410,536	46,994,827
Non distributable reserves	-	-
General reserve fund	-	-
Accumulated Surplus/ (deficit)	153,579,489	(6,684,645)
Total	301,102,064	144,307,845

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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.

37. Fair Value Measurement

Quantitative disclosures fair value measurement hierarchy for assets as at December 2017 and 2016.

	Date of valuation	Total US\$	Fair Value measurement using		
			Quoted prices in active markets US\$	Significant observable inputs US\$	Significant unobservable inputs US\$
Assets measured at fair value					
Investment properties	31 December 2017	13,600,000	-	-	13,600,000
Available-for-sale financial investments					
Unquoted equity shares	31 December 2017	4,494,689	-	-	4,494,689
Revalued property and equipment					
Land and buildings	31 December 2017	73,730,981	-	-	73,730,981
Other Assets					
Gold and foreign assets	31 December 2017	93,920,523	7,128,307	-	86,792,216
2016					
Assets measured at fair value					
Investment properties	31 December 2016	8,365,000	-	-	8,365,000
Available-for-sale financial investments					
Unquoted equity shares	31 December 2016	4,734,359	-	-	4,734,359
Revalued property and equipment					
Land and buildings	31 December 2016	63,326,998	-	-	63,326,998
Other Assets					
Gold and foreign assets	31 December 2016	97,312,432	461,401	-	96,851,031

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

	Valuation Technique	Significant unobservable inputs	Range
Investment properties	Direct Comparison and Income capitalisation.	Capitalisation rate Estimated rental value per sqm per month.	9.5%- US\$5- US\$15
Office properties	Direct Comparison and Income capitalisation.	Capitalisation rate Estimated rental value per sqm per month.	9-10.5%. USD\$3 - US\$15
Land	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).
Residential properties	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 2016

	Valuation Technique	Significant unobservable inputs	Range
Investment properties	Direct Comparison and Income capitalisation.	Capitalisation rate Estimated rental value per sqm per month.	10%-10.2%. US\$6- US\$12
Office properties	Direct Comparison and Income capitalisation.	Capitalisation rate Estimated rental value per sqm per month.	8-11%. US\$4- US\$12
Land	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).
Residential properties	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
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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)	50
Venture Capital Company of Zimbabwe (Private) Limited (Dormant)	100
ResZim (Private) Limited	100

38.1 Balances with related parties

Related Party	Relationship	Transaction	2017 US\$	2016 US\$
Fidelity Printers and Refineries	Subsidiary	loan	123,875,609	41,836,209
Homelink	Subsidiary	loan	4,002,369	4,381,845
Zimbabwe Asset Management Company	Subsidiary	loan	81,296,861	65,233,499
Aurex	Subsidiary	loan	2,910,912	1,610,912
Total			212,085,752	113,062,465

NOTES TO THE FINANCIAL STATEMENTS
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38.1 Compensation of key management personnel of the Bank.

The Bank has not entered into transactions with its Directors and their associates in 2017.

Salaries and benefits to management personnel

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

	2017 US\$	2016 US\$
Short term senior managers benefits	3,559,493	3,441,727
Directors fees	384,702	379,664
Senior managers loans	1,250,616	1,013,494
Total	5,194,811	4,834,885

39. NOTES TO THE STATEMENT OF CASH FLOWS

Property and equipment

39.1 Additions

Additions as per PE note (note 18)	4,376,359	1,959,874
Add assets purchased not yet delivered	6,234,906	-
Less assets purchased in prior year capitalised	(1,139,070)	(852,374)
Balance as per Statement of Cash flow	9,472,195	1,107,500

39.2 Disposals

Property and equipment

Disposals as per PE note (note 18)	535,156	1,361,574
Less accumulated depreciation	(523,387)	(701,931)
	11,769	659,643
Profit on disposal	73,908	68,438
Balance as per Statement of Cash flow	85,677	728,081



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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017



40. COMPARATIVE FIGURES

Comparative figures are based on the 2016 audited financial statements.

41. EVENTS AFTER REPORTING PERIOD

The President of the Republic of Zimbabwe extended the amnesty period for the return of funds externalised until the 16th of March 2018 after expiry of the initial 3 months. The list of those who failed to heed the call was published on the 19th of March 2018.

42. BASIS OF FUNDING

The Bank has made great strides towards self-sustenance which resulted in Government grant being reduced by 50% in 2018. These financial statements were therefore prepared on a going concern basis. The Board believes the Bank will continue to be a going concern in the foreseeable future.





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