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# Chairman's Statement

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## Operating Environment

Standard Chartered Bank Zimbabwe Limited remains well positioned in the market with a strong franchise, a solid skills base and extensive international reach that serves the needs of a cross-section of corporate, SME and personal customers. These attributes have augured well for the Bank given the economic challenges that the country continues to face. Recent surveys reported a reduction in manufacturing capacity utilisation from 57.2% in 2011 to 44.2% in 2012, a situation mainly attributed to lack of capital for retooling and stiff competition from imported products.

The Zimbabwe National Statistics Agency reported year on year inflation to December 2012 of 2.9% and GDP growth of 4.4%. Whilst a low inflation environment is conducive to business growth, significant constraints emanated from the erratic supply of energy, water and deteriorating infrastructure. Overall, growth remained largely driven by mining and agriculture, which benefited from firming volumes and international commodity prices, but was lower than that recorded in 2011 and lower than initial projections for 2012.

Banking sector deposits were up 33% from USD3.4 billion in 2011 to USD4.4 billion at the end of 2012. Deposits remained mostly short term in nature and restricted longer term lending, a pre-requisite for the revival of the manufacturing sector. The financial sector continues to have no active interbank market or lender of last resort which has exacerbated liquidity constraints. Loans and advances grew by 21% from USD2.9 billion in December 2011 to USD3.5 billion in December 2012, most of which went to trade and working capital requirements. The Bank however, continues to grow its loan book in line with international credit risk best practices.

## Financial Performance

The Bank reported a profit before tax of USD23.5 million for the year to December 2012 compared with USD29.3 million for the same period in 2011. The prior period amount includes a once off recovery of USD6.3 million. The Bank increased its lending to retail and corporate customers by 216% and 24% respectively and this is mirrored by the firmer interest income recorded in 2012. During the same period, non-funded income grew by a marginal 6% due to migration of customer transactions to lower cost channels earlier in the year. Tight cost controls and the use of cheaper alternate channels limited cost growth to 7% year on year. As a result, the cost to income ratio improved from 59% to 57% despite the investment the Bank made with the opening of a new state of the art branch in Belmont, Bulawayo.

The Bank's statement of financial position remains differentiated by being highly liquid and well capitalised. This reflects the Bank's continued focus on meeting the needs of its customers and clients while adhering to all prudential guidelines.

## Corporate Social Engagement

As in all the Group's markets around the world, it is the Bank's business success that allows it to contribute to the wider community, and be **Here for good** in Zimbabwe. The Bank continues to contribute significantly to social and developmental programmes either on its own or in partnership with other organizations.

Seeing is Believing is the Group's global initiative to help tackle avoidable blindness. The Bank has provided funding to bring affordable eye-care to some of the poorest communities across the globe. In Zimbabwe, and in partnership with Eyes for Africa, the Bank has provided eye care services through the development of primary and secondary eye care services in most regions of the country. In 2012 over 300 people were screened for sight conditions and 85 people had their sight restored through cataract operations. Additionally, the Bank's management committee volunteered in sight restoration operations at the Rusape General Hospital.

A community month programme pioneered by the Bank in Zimbabwe in 2004 runs annually in markets in which the Standard

# Chairman's Statement cont'd

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Chartered Bank Group operates around the world and focuses on assisting the underprivileged including children, the disabled and the elderly. Forty-four (44) charitable organizations in Zimbabwe benefitted from this initiative in 2012 when staff were once again allowed time off to assist the less privileged in our society.

In addition to their annual leave, every staff member in the Bank is accorded three (3) days of volunteering leave to take part in community initiatives of their choice. The Bank's objective is to encourage employees to commit their time and unique skills to help the needy in our society. In 2012, Bank staff recorded over 900 Employee Volunteering days in support of community investment programmes – exceeding the 2012 target by 67%. Initiatives included mentoring young students, advising small enterprises in financial management skills, supporting environmental initiatives, health and education.

Standard Chartered Bank Zimbabwe Limited is committed to advancing Zimbabwe's education, which is central to national growth. In this regard, the Bank has run joint education programmes, which include the funding of educational scholarships for the underprivileged in conjunction with World Vision. Seven students whom the Bank sponsored through high school are now at various universities throughout the country and continue to benefit from the Bank's bursaries.

The Bank has remained a key member of the Zimbabwe Business Council on AIDS, which assists in the fight against HIV and AIDS by offering valuable leadership to advance the agenda of fighting the disease. The Bank has also embarked on HIV/AIDS awareness training in companies, schools and social organizations among others.

The Bank continues to look for ways to minimise its direct impact on the environment. In partnership with Friends of the Environment, the Bank participates in an annual environmental awareness walk. In 2012, in addition to being one of the major sponsors of the annual walk, 19 of the Bank's staff joined the walk from Harare to Mutoko, a distance of 140 kilometres.

## Corporate Governance

The Bank and its Board of Directors remain committed to the maintenance of the highest standards of corporate governance across all its banking activities. The Board and its Committees, which are chaired by non-executive directors, oversee and monitor the application of effective Risk Management Processes through the Board Risk Committee and regular independent Audit processes. A Risk Management framework is in place to ensure adherence to internal processes and procedures as well as regulatory requirements.

## Outlook

Standard Chartered Bank Zimbabwe Limited is committed to maintaining its status as a premium international franchise. The Bank's strategy remains the same: **To be the world's best international bank leading the way in Asia, Africa and the Middle East.**

The Standard Chartered Group has a strong presence in high growth markets and is well positioned to support Zimbabwean businesses in pursuing trade opportunities arising in Asia, particularly China, India, the Middle-East and indeed Africa. The Bank will continue to leverage on its deep international relationships to develop new product capabilities, provide skills development and training, thus enhancing its capacity to deliver superior service through world class systems and processes.

## Acknowledgement

My sincere appreciation goes to Mr. J. P. Maposa, who resigned from the Board in June. The Board greatly appreciates his commitment, dedication and contribution for the more than six years that he served on the Board, including serving as

# Chairman's Statement cont'd

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Chairman prior to his departure. The Bank wishes him well in all his future endeavours. I further express my gratitude to Mr. J.S Brice who resigned from the Board after a distinguished service and wish him success in his future pursuits. I take this opportunity to welcome Mr. T.K. Shee to the Board and look forward to his contribution.

I would also like to thank staff, management and my fellow Directors for their dedication and commitment which was recognized through the award of the following accolades during 2012:

- Best Bank in Zimbabwe – The Zimbabwe Banks and Banking Survey Magazine
- Most Marketed Organization - Megafest Business Magazine
- Best Foreign Bank in Zimbabwe – EMEA Finance Awards
- Best Bank in Zimbabwe – The Banker Magazine

The Bank's brand promise to be **Here for good** is premised on our vision to be: **Here for people, Here for progress and Here for the long run**. I would therefore like to take this opportunity to thank all our stakeholders, especially our customers and staff, for their continued support and confidence in the Bank and wish them well in 2013.



S V Rushwaya

CHAIRMAN

21 March 2013

# Directors

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**S V Rushwaya**  
Chairman

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**T K Shee**  
Non Executive Director



**L T Manatsa**  
Non Executive Director



**I J Mckenzie**  
Non Executive Director

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**R Watungwa**  
Chief Executive Officer



**A R T Manzai**  
Executive Director



**S Nhakaniso**  
Executive Director

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# Report of the Directors

for the year ended 31 December 2012

## 1 SHARE CAPITAL

The authorised and issued share capital of Standard Chartered Bank Zimbabwe Limited (“the Bank”) remained unchanged at 1,000,000 and 825,000 ordinary shares respectively. The par value of the shares was redenominated in 2009 to USD1 per ordinary share upon the change in functional currency.

## 2 BASIS OF PREPARATION AND PRESENTATION OF ACCOUNTS

The Directors are responsible for the preparation, integrity and fair presentation of the financial statements of the Bank. The financial statements have been prepared and presented in compliance with International Financial Reporting Standards, the Companies Act (Chapter 24:03), the Banking Act (Chapter 24:20) and the relevant Statutory Instruments (“SI” 33/99) and SI 62/96.

## 3. DIRECTORATE

Chairman	S V Rushwaya
Directors	R Watungwa*
	I J Mackenzie
	L T Manatsa
	A R T Manzai*
	S Nhakaniso*
	T K Shee (appointed on 8 August 2012)
	J P Maposa (resigned on 12 June 2012)
	S J Brice (resigned on 12 September 2012)

\* Executive

J P Maposa resigned as Chairman of the Board on 12 June 2012.

S V Rushwaya was appointed as Acting Chairman with effect from 10 July 2012 and as substantive Chairman on 21 December 2012.

## 4 CORPORATE GOVERNANCE

### The Board

The Board, which comprises three Executive Directors and four Non-Executive Directors, meets for a minimum of four times each year and has oversight over the Bank’s affairs. It sets and monitors the Bank’s strategy, reviews the Bank’s performance and ensures that adequate financial resources are available to operate the Bank. The Board of Directors oversees compliance with Corporate Governance best practice, the Reserve Bank regulations and other regulatory bodies, as well as policies and procedures of the Standard Chartered Bank Group.

# Report of the Directors cont'd

## DIRECTORS' ATTENDANCE AT BOARD MEETINGS

DIRECTOR	DATE OF MEETING			
	1-Mar-12	7-Jun-12	6-Sep-12	29-Nov-12
S V Rushwaya*	√	√	√	√
R Watungwa	√	√	√	√
S J Brice***	x	x	x	resigned
J P Maposa**	√	√	resigned	resigned
I J Mackenzie	√	√	√	√
A R T Manzai	√	√	√	√
S Nhakaniso	√	√	√	√
L T Manatsa	√	√	√	√
T K Shee			√	√

Key	
√	Present
x	Absent

\* Appointed Acting Chairman on 10 July 2012 and substantive Chairman on 21 December 2012.

\*\*Resigned from the Board and chairmanship on 12 June 2012.

\*\*\*Resigned from the Board on 12 September 2012.

The Board has four committees, namely Audit, Risk, Loans Review and Credit.

### Audit Committee

This Committee, inter alia, reviews the Bank's financial statements and liaises with the external and internal auditors on accounting policies, procedures and other internal controls in operation.

DIRECTOR	NUMBER OF MEETINGS ATTENDED	NUMBER OF MEETINGS HELD IN 2012	MINIMUM NUMBER OF MEETINGS TO BE HELD IN A YEAR
I J Mackenzie	5	5	4
S V Rushwaya*	3		
L T Manatsa	4		

\*Mr Rushwaya stepped down from the Committee when he was appointed Acting Chairman of the Board.

### Risk Committee

The Risk Committee's mandate is to ensure the quality, integrity and reliability of the Bank's risk management systems and processes. The Committee has the responsibility, inter alia, of reviewing and assessing the Bank's risk control systems, and to ensure that risk policies and strategies are effectively managed. The Committee also makes an independent review of management actions and decisions pertaining to enterprise risk.

## Report of the Directors cont'd

DIRECTOR	NUMBER OF MEETINGS ATTENDED	NUMBER OF MEETINGS HELD IN 2012	MINIMUM NUMBER OF MEETINGS TO BE HELD IN A YEAR
S V Rushwaya	4	4	4
R Watungwa	4		
S Nhakaniso	4		
A R T Manzai	4		

Please note: The Committee has other members who are not Board members.

### Loans Review Committee

The Committee meets at least quarterly to review the quality of the Bank's loan portfolio in order to ensure its conformity to sound lending policies approved and adopted by the Board. The Committee ensures that the Board is adequately informed regarding portfolio risk.

DIRECTOR	NUMBER OF MEETINGS ATTENDED	NUMBER OF MEETINGS HELD IN 2012	MINIMUM NUMBER OF MEETINGS TO BE HELD IN A YEAR
I J Mackenzie	4	4	4
A R T Manzai	4		

Please note: This Committee has other members who are not Board members.

### Credit Committee

The Credit Committee oversees the overall lending policy of the Bank. It ensures that there are effective processes and procedures to identify and manage irregular problem exposures and minimise credit losses while maximising recoveries.

DIRECTOR	NUMBER OF MEETINGS ATTENDED	NUMBER OF MEETINGS HELD IN 2012	MINIMUM NUMBER OF MEETINGS TO BE HELD IN A YEAR
J P Maposa*	1	4	4
L T Manatsa	3		
R Watungwa	4		
S Nhakaniso	4		

\*Resigned on 12 June 2012.

Please note: This Committee has other members who are not Board members.

## 5 STATEMENT OF COMPLIANCE

The Bank complies with all statutes regulating financial institutions as well as Corporate Governance best practice. In addition, the Bank also complies with the Reserve Bank of Zimbabwe's directives on liquidity management, capital adequacy, as well as prudential lending guidelines.



# Report of the Directors cont'd

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## 6 GOING CONCERN BASIS

The financial statements are prepared on a going concern basis. In the opinion of the Directors, the Bank's business is sound and adequate resources exist to support this basis.

The financial statements were approved at a meeting held on 21 March 2013.

By order of the Board



Company Secretary

21 March 2013

# Report of the Independent Auditors



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We have audited the accompanying financial statements of Standard Chartered Bank Zimbabwe Limited (“the Bank”) on pages 10 to 50, which comprise the statement of financial position at 31 December 2012, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

## **DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act (Chapter 24:03) the Banking Act (Chapter 24:20), and the relevant Statutory Instruments (SI 33/99 and SI 62/96). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

## **AUDITOR’S RESPONSIBILITY**

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

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

## **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Standard Chartered Bank Zimbabwe Limited at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In our opinion, the financial statements have, in all material respects, been properly prepared in compliance with the Companies Act (Chapter 24:03), the Banking Act (Chapter 24:20) and the relevant Statutory Instruments (SI 33/99 and SI 62/96).

**Deloitte & Touche**  
Harare, Zimbabwe  
21 March 2013

# Income Statement

for the year ended 31 December 2012

	Notes	2012 USD	2011 USD
Interest and similar income	6	18 307 117	14 529 269
Interest and similar expenses	7	(6 461)	(48 028)
<b>Net interest income</b>		<b>18 300 656</b>	<b>14 481 241</b>
Fees and commission income	6.1	41 666 784	37 574 021
Gains less losses - foreign currencies	6.2	5 719 440	5 624 276
Other income	8	992 442	2 579 892
<b>Non-interest income</b>		<b>48 378 666</b>	<b>45 778 189</b>
<b>Total operating income</b>		<b>66 679 322</b>	<b>60 259 430</b>
Operating expenses	9	(38 129 940)	(35 636 820)
<b>Profit before loan impairment charges</b>		<b>28 549 382</b>	<b>24 622 610</b>
Specific recovery		57 346	6 316 074
Loan impairment charges		(5 082 579)	(1 681 191)
Net impairment charge		(5 025 233)	4 634 883
<b>Profit before taxation</b>		<b>23 524 149</b>	<b>29 257 493</b>
Taxation	10.1	(6 163 657)	(7 267 725)
<b>Profit for the year</b>		<b>17 360 492</b>	<b>21 989 768</b>
<b>Basic earnings per share (USD)</b>	<b>12</b>	<b>21.04</b>	<b>26.65</b>

# Statement of Comprehensive Income

for the year ended 31 December 2012

	Note	2012 USD	2011 USD
Profit for the year		<u>17 360 492</u>	<u>21 989 768</u>
<b>Other comprehensive income:</b>			
Fair value (loss) / gain on available for sale investments		(22 167)	22 167
Gains on property revaluation	19.1	11 262 405	-
Income tax relating to components of comprehensive income		<u>(2 109 620)</u>	<u>(5 708)</u>
<b>Other comprehensive income net of tax</b>		<b><u>9 130 618</u></b>	<b><u>16 459</u></b>
<b>Total comprehensive income for the year</b>		<b><u>26 491 110</u></b>	<b><u>22 006 227</u></b>

# Statement of Financial Position

as at 31 December 2012

	Notes	2012 USD	2011 USD
<b>ASSETS</b>			
Cash and cash equivalents	13	88 879 161	137 515 616
Financial assets available for sale	15	38 325 980	10 964 371
Loans and advances to customers	16.1	197 124 489	116 932 025
Current tax asset		424 782	-
Other assets	17	2 562 847	1 691 308
Balances due from banks	14	25 039 185	33 903 755
Investment property	18	6 090 000	5 420 000
Property and equipment	19	30 646 028	18 679 134
<b>Total assets</b>		<b>389 092 472</b>	<b>325 106 209</b>
<b>EQUITY AND RESERVES</b>			
Share capital		825 000	825 000
Share premium		20 625 000	20 625 000
Non distributable reserve		5 888 147	5 888 147
Available for sale reserve		-	16 459
Revaluation reserve		9 147 077	-
Retained earnings		29 003 191	26 642 699
<b>Total equity and reserves</b>		<b>65 488 415</b>	<b>53 997 305</b>
<b>LIABILITIES</b>			
Deposits from customers	20.1	298 291 757	253 202 902
Deposits from banks	21	1 884 309	728 934
Other liabilities	22	13 249 270	8 882 657
Provisions	23	5 965 233	4 926 315
Taxation - current		-	204 045
Taxation - deferred	10.3	4 213 488	3 164 051
<b>Total liabilities</b>		<b>323 604 057</b>	<b>271 108 904</b>
<b>Total equity and liabilities</b>		<b>389 092 472</b>	<b>325 106 209</b>



S. V. Rushwaya  
Chairman  
21 March 2013



R. Watungwa  
Chief Executive Officer  
21 March 2013



A. R. T. Manzai  
Finance Director  
21 March 2013

# Statement of Changes in Equity

for year ended 31 December 2012

	Share capital USD	Share premium USD	Non distributable reserve USD	Revaluation reserve USD	Available for sale reserve USD	Retained earnings USD	Total USD
Balance at 1 January 2011	825 000	20 625,000	5 888 147	-	-	4 652 931	31 991 078
Profit for the year	-	-	-	-	-	21 989 768	21 989 768
Other comprehensive income	-	-	-	-	16 459	-	16 459
<b>Balance at 31 December 2011</b>	<b>825 000</b>	<b>20 625 000</b>	<b>5 888 147</b>	<b>-</b>	<b>16 459</b>	<b>26 642 699</b>	<b>53 997 305</b>
Balance at 1 January 2012	825 000	20 625 000	5 888 147	-	16 459	26 642 699	53 997 305
Profit for the year	-	-	-	-	-	17 360 492	17 360 492
Other comprehensive income	-	-	-	9 147 077	(16 459)	-	9 130 618
Dividend paid	-	-	-	-	-	(15 000 000)	(15 000 000)
<b>Balance at 31 December 2012</b>	<b>825 000</b>	<b>20 625 000</b>	<b>5 888 147</b>	<b>9 147 077</b>	<b>-</b>	<b>29 003 191</b>	<b>65 488 415</b>

# Statement of Cash Flows

for the year ended 31 December 2012

	2012 USD	2011 USD
<b>Cash flow from operating activities</b>		
Profit before tax	23 524 149	29 257 493
Adjustments for:		
Gains from investment property fair valuation	(670 000)	(1 230 000)
Profit on disposal of investment property and other assets	(68 311)	(969 701)
Impairment of property	246 121	-
Depreciation	1 188 261	767 000
Loan impairment charges	5 082 579	1 681 191
Net loss arising from marking to market	26 368	102 021
Other non cash items	(48 534)	(14 216)
	<u>29 280 632</u>	<u>29 593 788</u>
<b>Changes in operating assets and liabilities:</b>		
Increase in loans and advances to customers	(85 275 043)	(10 091 367)
Increase in financial assets available for sale	(27 361 609)	(10 900 000)
Decrease/(Increase) in balances due from banks	8 864 570	(98 657)
(Increase)/ decrease in other assets	(871 539)	5 705 154
Increase in deposits from customers	45 088 855	31 247 864
Increase/(decrease) in deposits from banks	1 155 375	(565 780)
Increase in provisions	1 038 918	471 710
Increase/(decrease) in other liabilities	4 366 613	(8 843 238)
	<u>(23 713 228)</u>	<u>36 519 474</u>
Corporate tax paid including capital gains tax	(7 852 667)	(8 234 199)
<b>Net cash flow (used)/from operating activities</b>	<b><u>(31 565 895)</u></b>	<b><u>28 285 275</u></b>
<b>Cash flow from investing activities</b>		
Dividend paid	(15 000 000)	-
Proceeds on disposal of investment property and other assets	100 118	4 349 701
Purchase of property and equipment	(2 170 678)	(644 018)
<b>Net cash flow (used in)/from investing activities</b>	<b><u>(17 070 560)</u></b>	<b><u>3 705 683</u></b>
Net (decrease)/increase in cash and cash equivalents	(48 636 455)	31 990 958
Cash and cash equivalents at the beginning of year	<u>137 515 616</u>	<u>105 524 658</u>
<b>Cash and cash equivalents at end of year</b>	<b><u>88 879 161</u></b>	<b><u>137 515 616</u></b>

# Notes to the Financial Statements

for the year ended 31 December 2012

## 1 INCORPORATION AND ACTIVITIES

Standard Chartered Bank Zimbabwe Limited is a commercial bank registered and domiciled in Zimbabwe and is owned by Standard Chartered Bank, Standard Chartered Holdings Africa (BV) and Standard Chartered Holdings International (BV). The address of the Company's registered office is 2nd Floor, Old Mutual Centre, corner Jason Moyo Avenue and Third Street, Harare. The Bank offers a wide range of financial services.

## 2 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in United States dollars, which is the Bank's functional currency. Except where indicated, financial information presented has been rounded to the nearest dollar.

## 3 BASIS OF PREPARATION

### 3.1 Statement of Compliance

The financial statements have been prepared in a form applicable to a commercial bank registered in terms of the Banking Act (Chapter 24:20), and in conformity with International Financial Reporting Standards (IFRS's), and the International Financial Reporting Interpretations Committee (IFRIC) interpretations.

Furthermore, the Bank complied with the following statutes inter alia: - The Banking Act (Chapter 24:20) and the Banking Regulations, Statutory Instrument 205 of 2000, the Exchange Control Act (Chapter 22:05), the Bank Use, Promotion and Suppression of Money Laundering Act (Chapter 24:24), the National Payments Systems Act (Chapter 24:23) and the Companies Act (Chapter 24:03).

In addition, the Bank also complied with the Reserve Bank of Zimbabwe directives on liquidity management, capital adequacy as well as prudential lending guidelines.

The following revisions, issues and amendments set out below became effective for the current year:

- IFRS 7 - Financial Instruments: Disclosures - Amendments enhancing disclosures about transfers of financial assets (effective for annual financial statements for periods beginning on or after 1 July 2011)
- Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12). Applicable to annual periods beginning on or after 1 January 2012

The adoption of these revised standards and interpretations in the current year has not led to any significant changes in the Bank's accounting policies. These standards do not have any financial effect on the recognition or measurement of transactions and events, nor the financial position or performance of the Bank. Their effects are limited to the nature and extent of disclosure to be made by the Bank.

### 3.2 Accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

### 3.3 Basis of measurement

The financial statements have been prepared on the historical cost basis, except for investment property, available for sale assets, and property and equipment whose values have been stated at fair value.

### 3.4 Use of estimates and judgements

In the application of the Bank's accounting policies, which are described in note 4, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily



# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 3.4 Use of estimates and judgements (continued)

apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period and future periods if the revision affects both current and future periods.

The main estimates and judgements are made in relation to the following:

- Useful lives and residual values of property and equipment (as explained in note 4.2)
- Loan impairment provisioning (as explained in note 4.7)
- Fair valuation of investment property (explained in note 4.3)

## 3.5 Going concern

The financial statements are prepared on a going concern basis. In the opinion of the Directors the Bank's business is sound and adequate resources exist to support this basis.

## 4 SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies applied by the Bank are consistent with those used in the previous years, except those highlighted in note 3.1.

### 4.1 FINANCIAL INSTRUMENTS

#### Classification

All financial instruments are classified as either "at fair value through profit and loss", "available for sale", "held to maturity" or "loans and receivables".

Trading instruments which are classified as "at fair value through profit and loss" are those that the Bank principally holds for the purpose of short term profit taking. Originated loans and receivables are loans and receivables created or bought by the Bank providing money to a debtor other than those created with the intention of short term profit taking. Originated loans and receivables comprise loans and advances to banks and customers. Held to maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

These include certain debt instruments. Available for sale assets are financial assets that are not held for trading purposes originated by the Bank or held to maturity. Available for sale instruments include certain debt and equity investments.

#### Recognition

The Bank initially recognises loans and advances, deposits, debt securities and subordinated liabilities on the date that they are originated at fair value. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes party to the contractual provisions of the instrument.

#### Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 4.1 FINANCIAL INSTRUMENTS (continued)

transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in a transferred financial asset that is created or retained by the Bank is recognised as a separate asset or liability. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

### Offsetting

Financial assets or liabilities are set off and the net amount presented in the statement of financial position when, and only when the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

### Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

### Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the Central Bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by the Bank in the management of its short term commitments.

### Loans and receivables and financial liabilities

Loans and receivables and financial liabilities are financial assets or liabilities with fixed or determinable payments that are not quoted in an active market. Such assets or liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

### Fair value measurement

The determination of fair value of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for the financial instrument traded in the market. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present values technique, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Bank uses widely recognised valuation models for determining fair value.

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit and loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 4.2 PROPERTY AND EQUIPMENT

### Owned assets

Items of property and equipment are stated at cost or valuation less accumulated depreciation and impairment losses.

### Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

### Depreciation

Depreciation is provided to write off the cost less estimated residual value of motor vehicles, furniture and fittings, computers and office equipment, and buildings on a straight line basis over their estimated remaining useful lives. The change in residual values and useful lives is treated as a change in accounting estimate.

The depreciation rates for assets are as follows:

Buildings	2.5%
Premises fixed equipment	10%
Motor vehicles	33.33%
Office equipment	33.33%
Furniture, fixtures and fittings	33.33%

Properties in the course of construction for administrative or other uses are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and are ready for intended use. Depreciation on these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

### Impairment

The carrying amount of the Bank's assets is reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

### Residual values

Asset residual values and useful lives are reviewed and adjusted as appropriate at each statement of financial position date.

### Revaluation

Land and buildings used for administrative purposes are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity, after every three years, by external independent valuers, less subsequent depreciation for buildings, such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

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## 4.2 PROPERTY AND EQUIPMENT (continued)

each period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Subsequent depreciation is based on the revalued amount.

The open market method of valuation was used for land and buildings. Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit and loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

## 4.3 INVESTMENT PROPERTY

Investment property is stated at fair value determined annually by an independent registered valuer. Fair value is based on current prices in the market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for under other income. Upon disposal of the property, the gain or loss is included in the profit or loss in the period in which the property is disposed. When the use of property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

### Reclassification to investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on the derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

## 4.4 EMPLOYEE BENEFITS

The Bank operates both defined contribution and defined benefit schemes for its employees.

### Defined contribution plan

Contributions to the defined contribution scheme are recognised as an expense in the income statement when incurred. The Bank has no further payment obligation once the contribution has been paid.

### Defined benefit plan

The Bank's net obligation in respect of the defined benefit scheme is calculated separately by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That future benefit is discounted to determine its present value and compared against fair value of existing plan assets. The calculation is performed by a qualified actuary every three years using the projected unit credit method.

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 4.4 EMPLOYEE BENEFITS (continued)

When the benefits of the plan change, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

### Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without a realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly.

## 4.6 REVENUE

### Interest and similar income

Interest and similar income and expenses are recognised in the income statement as they accrue, taking into account the effective yield of the financial asset or an applicable floating rate using the effective interest rate method. Interest and similar income and expenses include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

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

### Fees and commission

Other fees and commission income, including account servicing fees, investment management fees, sales commission and placement fees are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expenses relate mainly to transaction and services fees, which are expensed as the services are received.

### Net trading income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably).

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 4.7 LOAN IMPAIRMENT CHARGES

Loan impairment charges are held in respect of loans and advances. Loan impairment charges are provided for in accordance with the provisions of the Banking Act (Chapter 24:20) and International Financial Reporting Standards (IFRS). Specific provisions covering identified doubtful debts are based on periodic evaluation of advances and take account of past loss experience, economic conditions and changes in the nature and level of risk.

Interest on loans and advances is accrued to income until such time a reasonable doubt exists with regard to its collectability. Thereafter and until all or part of the loan is written off, interest continues to accrue on customers' accounts, but is not included in income. Such suspended interest is deducted from loans and advances.

### Past due but not impaired loans

These are loans and advances where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

### Non-performing loans

Interest on loans and advances is accrued to income until reasonable doubt exists about its collectability. Thereafter, interest is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment. A loan is considered non-performing where interest has been suspended and where the customer has failed to repay interest and/or capital at agreed intervals.

### Acceptances

The exposure arising from the acceptance of bills of exchange that are sold into the market is brought to account as a liability. A contra asset (customers' indebtedness for acceptances) is recognised to reflect the Bank's claim against each drawer of bills. Bills that have been accepted by the Bank and are retained in its own portfolio or have been purchased from the market are included in the statement of financial position under bills receivable.

## 4.8 FOREIGN CURRENCY

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

## 4.9 LEASE PAYMENTS

Payments made under operating lease are recognised in the profit or loss on a straight line basis over the term of the lease.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Bank does not have any finance leases.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 4.9 LEASE PAYMENTS (continued)

### Finance leases

Assets held under finance leases are initially recognised as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Bank's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

### Operating leases

Operating lease payments are recognized as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leases asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

## 4.10 TAXATION

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except when it relates to items recognised in other comprehensive income or directly in equity, in which case the income tax is also recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year using rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for; goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxation profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 4.11 GUARANTEES AND ACCEPTANCES

Financial guarantees are contracts that require the Bank to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of the debt instrument. Financial guarantee liabilities recognised initially are set off against the created assets.

## 4.12 RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank has related party relationships with fellow subsidiaries, the parent company and key management employees. Transactions and balances with related parties are shown in note 29.

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 4.13 ASSETS UNDER CUSTODY

The Bank commonly acts as a trustee and in other fiduciary capacities that result in the holding and placing of assets on behalf of individuals, trusts and other institutions. These assets and income arising thereon are not recognised in the Bank's statements of comprehensive income and financial position, as they are not assets of the Bank but are disclosed in the notes to the financial statements. (Note 30)

## 5 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

### 5.1 New and revised IFRSs not applied with no material effect on the financial statements

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012 and have not been applied in preparing these financial statements:

- IFRS 7 - Financial Instruments: Disclosures - Amendments enhancing disclosures about offsetting of financial assets and financial liabilities (effective for annual financial statements for periods beginning on or after 1 January 2013).
- IFRS 7 Financial Instruments: Disclosures - Amendments requiring disclosures about the initial application of IFRS 9 (effective for annual financial statements for periods beginning on or after 1 January 2015).
- IFRS 9 Financial Instruments - Classification and measurement of financial assets (effective for annual financial statements for periods beginning on or after 1 January 2015).
- IFRS 9 Financial Instruments - Accounting for financial liabilities and derecognition (effective for annual financial statements for periods beginning on or after 1 January 2015).
- IFRS 10 Consolidated Financial Statements (effective for annual financial statements for periods beginning on or after 1 January 2013).
- IFRS 11 Joint Arrangements (effective for annual financial statements for periods beginning on or after 1 January 2013).
- IFRS 12 - Disclosure of Interests in Other Entities (effective for annual financial statements for periods beginning on or after 1 January 2013).
- IFRS 13 – Fair Value Measurement (effective for annual financial statements for periods beginning on or after 1 January 2013).
- Revised IAS 1 - Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented (effective for annual financial statements for periods beginning on or after 1 July 2012).
- Revised IAS 19 - Employee Benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects (effective for annual financial statements for periods beginning on or after 1 July 2012)
- Revised IAS 27 - Consolidated and Separate Financial Statements - Reissued as IAS 27 Separate Financial Statements (as amended in 2011) (effective for annual financial statements for periods beginning on or after 1 January 2013).
- Revised IAS 28 - Investments in Associates -Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) (effective for annual financial statements for periods beginning on or after 1 January 2013).
- Revised IAS 32 - Financial Instruments: Presentation - Amendments to application guidance on the offsetting of financial assets and financial liabilities (effective for annual financial statements for periods beginning on or after 1 January 2014).
- IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine (effective for annual financial statements for periods beginning on or after 1 January 2014).



# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

	2012 USD	2011 USD
<b>6 INTEREST AND SIMILAR INCOME</b>		
Loans and advances to banks	38 094	38 375
Loans and advances to customers	16 209 116	14 255 511
Bonds, bills and other debt securities	2 059 907	235 383
	18 307 117	14 529 269
<b>6.1 Fees and commission income</b>		
Account service fees and charges	5 259 543	5 195 614
Lending fees	8 804 706	5 722 083
Transaction related commissions	27 423 451	21 315 568
Commission expenses	(3 080 875)	(2 054 517)
Other fees and commissions	3 259 959	7 395 273
	41 666 784	37 574 021
<b>6.2 Gains less losses - foreign currencies</b>		
Dealing income	5 719 440	5 624 276
<b>7 INTEREST AND SIMILAR EXPENSES</b>		
Customer accounts		
-Current and demand deposits	1 052	2 680
-Savings deposits	3 965	3 277
-Time deposits	31	34 966
-Commercial bills	1 413	7 155
	6 461	48 028
<b>8 OTHER INCOME</b>		
Gains from investment property revaluation	670 000	1 230 000
Rental income from investment property	253 231	375 421
Profit on sale of investment property and other assets	68 311	969 701
Other miscellaneous income	900	4 770
	992 442	2 579 892

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

	2012 USD	2011 USD
<b>9 OPERATING EXPENSES</b>		
Audit fees	135 000	124 074
Depreciation	1 188 261	767 000
Staff costs (Note 9.1)	22 407 809	21 916 344
Revaluation loss	246 121	-
Directors' emoluments (Note 9.2)	628 700	309 209
Other operating costs	13 524 049	12 520 193
	38 129 940	35 636 820
<b>9.1 Staff costs</b>		
Salaries and allowances	14 496 261	11 828 805
Compulsory social security contributions	55 074	190 776
Contributions to pension funds	1 839 658	4 141 295
Other costs	6 016 816	5 755 468
	22 407 809	21 916 344
The average number of employees during 2012 was 783 (2011:697).		
<b>9.2 Directors' emoluments</b>		
Fees for services as directors	49 059	42 000
Other emoluments	579 641	267 209
	628 700	309 209

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

	2012 USD	2011 USD
<b>10. TAXATION</b>		
<b>10.1 Analysis of tax charge</b>		
Charge for taxation based on taxable income for the year	7 013 437	7 382 469
Provision for aids levy	210 403	221 474
	<u>7 223 840</u>	<u>7 603 943</u>
Capital gains tax	-	235 000
Prior year over provision current tax	-	12 144
Deferred tax credit	(1 060 183)	(583 362)
	<u>6 163 657</u>	<u>7 267 725</u>
<p>The income tax rate applicable to the Bank's 2012 taxable income is 25.75% (2011: 25.75%)</p>		
<b>10.2 Reconciliation of tax charge</b>		
Notional tax charge based on profit for the year	6 057 469	7 533 804
Effect of:		
Permanent differences	245 213	(513 223)
Prior year under provision - income tax	-	12 144
Capital gains tax	-	235 000
Income taxed at different rates	(139 025)	-
Total tax charge	<u>6 163 657</u>	<u>7 267 725</u>
<b>10.3 Deferred tax liability</b>		
<p>The deferred tax liabilities are attributable to the following:</p>		
Property and equipment	6 033 032	3 766 378
Fair valuation of investment property	304 500	271 000
Loan impairment provision	(2 158 127)	(906 955)
Other assets	34 083	27 920
Available for sale assets	-	5 708
	<u>4 213 488</u>	<u>3 164 051</u>
Balance at the beginning of the year	3 164 051	3 741 705
Recognised in profit and loss	(1 060 183)	(583 362)
Recognised in other comprehensive income	2 109 620	5 708
	<u>4 213 488</u>	<u>3 164 051</u>

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

	2012 USD	2011 USD
<b>11. CAPITAL AND RESERVES</b>		
<b>11.1 Authorised share capital</b>		
1 000 000 ordinary shares of USD1 each	1 000 000	1 000 000
<b>11.2 Issued share capital</b>		
825 000 ordinary shares of USD1 each	825 000	825 000
Subject to the provisions of section 183 of the Companies Act (Chapter 24:03), unissued shares are under the control of the Directors. This is in accordance with the Articles and Memorandum of Association of the Bank.		
<b>11.3 Capital reserves</b>		
Share premium	20 625 000	20 625 000
Non distributable reserves (note 11.4)	5 888 147	5 888 147
	26 513 147	26 513 147
<b>11.4 Non distributable reserves</b>		
The reserves arose from the change in functional currency exercise carried out as at 1 January 2009. Upon conversion to United States dollars, a special reserve was created to account for the net of the converted assets and liabilities.		
<b>11.5 Revaluation reserve</b>		
The revaluation reserve arises from the revaluation of land and buildings, net of deferred tax. When revalued land and buildings are sold, the portion of the property revaluation reserve that relates to that asset is transferred directly to retained earnings. Items of other comprehensive income included in the revaluation reserve will not be reclassified subsequently to profit or loss.		
<b>11.6 Retained earnings</b>		
Retained earnings	29 003 191	26 642 699
<b>11.7 Minimum capital requirements</b>		
The minimum capital requirement set by the regulator as at 31 December 2012 is USD100 million for commercial banking institutions. The target attainment of the minimum is phased as follows:		
<ul style="list-style-type: none"> <li>• \$25 million by 31 December 2012</li> <li>• \$50 million by 30 June 2013</li> <li>• \$75 million by 31 December 2013</li> <li>• \$100 million by 30 June 2014</li> </ul>		

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

	2012 USD	2011 USD
<b>11. CAPITAL AND RESERVES (continued)</b>		
<b>11.7 Capital &amp; Reserves</b>		
Tier 1 capital		
Ordinary paid-up share capital	825 000	825 000
Share premium	20 625 000	20 625 000
Non-distributable reserve	5 888 147	5 888 147
Retained earnings	29 003 191	26 642 699
Less capital allocated for market and operational risk	(7 909 816)	(5 917 725)
	<u>48 431 522</u>	<u>48 063 121</u>
Tier 2 capital		
Revaluation reserve	9 147 077	-
General provisions (Tier 2) (limited to 1.25% of risk weighted assets)	4 359 992	3 036 111
Available for sale reserve	-	16 459
	<u>13 507 069</u>	<u>3 052 570</u>
Total Capital - Tier 1 & 2	61 938 591	51 115 691
Tier 3 capital		
Capital allocated for market and operational risk	7 909 816	5 917 725
Total capital base	<u>69 848 407</u>	<u>57 033 416</u>
Risk weighted assets	348 799 389	242 888 915
Tier 1 capital ratio	13.89%	19.79%
Tier 2 capital ratio	3.87%	1.26%
Tier 3 capital ratio	2.27%	2.44%
Capital adequacy	20.03%	23.48%
<b>12. BASIC EARNINGS PER SHARE</b>		
The calculation of basic earnings per share is based on earnings and a weighted average number of ordinary shares.		
Earnings	17 360 492	21 989 768
Weighted average number of ordinary shares	825 000	825 000
There are no dilutive potential ordinary shares as at the statement of financial position date.		
Basic earnings per share (USD)	21.04	26.65

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

	2012 USD	2011 USD
<b>13 CASH AND CASH EQUIVALENTS</b>		
Cash and balances with banks	83 504 862	102 356 000
Unrestricted balances with the Central Bank	5 273 783	5 159 016
Money market placements	100 516	30 000 000
	88 879 161	137 515 616
<b>14 BALANCES DUE FROM CENTRAL BANK</b>		
Restricted balances with the Central Bank	25 039 185	33 903 755
Restricted balances with the Central Bank relate to customer foreign currency account funds that were transferred to the Central Bank during the Zimbabwe dollar era in line with exchange control regulations in force at the time. These are not available for use in the Bank's day to day operations. The 2011 numbers included statutory reserves which have been converted into Bonds and are reflected under Note 15.		
<b>15 FINANCIAL ASSETS AVAILABLE FOR SALE</b>		
Debt and other fixed-income instruments		
Bonds and notes issued by government	11 661 615	5 026 662
Money market instruments issued by other issuers	26 664 365	5 915 542
Fair value adjustment	-	22 167
	38 325 980	10 964 371
Maturities		
5 years or less but over 1 year	19 178 570	-
1 year or less but over 3 months	15 379 916	10 964 371
3 months or less including payable on demand	3 767 494	-
	38 325 980	10 964 371

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

	2012 USD	2011 USD
<b>16 LOANS AND ADVANCES TO CUSTOMERS</b>		
<b>16.1 Loans and advances</b>		
Loans and advances to customers	206 466 645	120 584 190
Less:		
Specific and general doubtful debt provision (note 16.4)	(8 381 079)	(3 446 927)
Interest in suspense	(961 077)	(205 238)
	<u>197 124 489</u>	<u>116 932 025</u>
 Maturities		
Repayable on demand	-	-
With a residual maturity of:		
3 months or less	162 788 935	112 128 664
Between 3 months and 1 year	9 792 473	8 455 526
Between 1 and 5 years	<u>33 885 237</u>	<u>-</u>
	206 466 645	120 584 190
Less:		
Specific and general doubtful debt provision (note 16.4)	(8 381 079)	(3 446 927)
Interest in suspense	(961 077)	(205 238)
	<u>197 124 489</u>	<u>116 932 025</u>

## 16.2 Sectoral analysis of utilisations

	2012 USD	%	2011 USD	%
Agriculture and horticulture	32 043 567	15.52%	22 265 420	18.46%
Construction and property	4 137 703	2.00%	139 000	0.12%
Commerce	60 595 484	29.35%	40 156 351	33.30%
Mining	1 042 331	0.50%	60 000	0.05%
Manufacturing	65 524 698	31.74%	45 091 984	37.39%
Transport and communications	3 115 091	1.51%	1 762 347	1.46%
Other	<u>40 007 771</u>	<u>19.38%</u>	<u>11 109 088</u>	<u>9.21%</u>
	<u>206 466 645</u>	<u>100%</u>	<u>120 584 190</u>	<u>100%</u>

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 16 LOANS AND ADVANCES TO CUSTOMERS (continued)

### 16.3 Risk concentrations

There are material concentrations of loans and advances to the manufacturing sector of 31.74% (2011 – 37.39%) and commerce of 29.35% (2011 – 33.30%).

### 16.4 Loan impairment charges

	Specific USD	2012 Portfolio USD	Total USD	Specific USD	2011 Portfolio USD	Total USD
Balance at 1 January	67 962	3 378 965	3 446 927	-	1 840 965	1 840 965
Loan impairment charge	183 683	4 898 896	5 082 579	143 191	1 538 000	1 681 191
Applied against debts	(148 427)	-	(148 427)	(75 229)	-	(75 229)
Balance at 31 December	103 218	8 277 861	8 381 079	67 962	3 378 965	3 446 927

### 16.5 Non performing loans and advances to customers

	2012 USD	2011 USD
Total loans and advances on which interest is suspended	4 506 232	1 309 295
Interest in suspense	(961 077)	(205 238)
Balance at 31 December	3 545 155	1 104 057

#### 16.5.1 Ageing of non performing loans as at 31 December 2012

	2012 USD	
	Gross	Net
Past due up to 30 days	-	-
Past due up to 60 days	-	-
Past due up to 90 days	-	-
Past due up to 180 days	-	-
Past due up to 365 days	4 506 232	3 545 155
Balance at 31 December	4 506 232	3 545 155

### 16.6 Loans to executive directors

	2012 USD	2011 USD
Loans to executive directors*	80 707	21 921

\*Loans to executive directors are on the same terms and conditions as relating to all other staff.



# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

	2012 USD	2011 USD
<b>17 OTHER ASSETS</b>		
Accrued interest receivable	598 611	62 034
Internal accounts	1 964 236	1 629 274
	2 562 847	1 691 308
<b>18 INVESTMENT PROPERTY</b>		
Balance at 1 January	5 420 000	7 570 000
Disposals	-	(3 380 000)
Fair value gain	670 000	1 230 000
Balance at 31 December	6 090 000	5 420 000

The entire Bank's investment property is held under freehold interests.

The fair value of the Bank's investment property as at 31 December 2012 and 31 December 2011 has been arrived at on the basis of a valuation carried out on the respective dates by Messrs C.B Richard Ellis, independent valuers not related to the Bank. Messrs C.B Richard Ellis are members of the Real Estate Institute of Zimbabwe, the Estate Agency Council of Zimbabwe and the Valuers Council of Zimbabwe, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuations were arrived at by reference to an open market value basis.

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 19. PROPERTY AND EQUIPMENT

### 19.1

	Premises USD	Furniture & fittings USD	Motor vehicles USD	Office equipment USD	Total USD
<i>Cost/Valuation</i>					
Balance at 1 January 2012	18 467 000	5 511	1 428 282	1 058 720	20 959 513
Additions	-	227 738	859 204	1 083 736	2 170 678
Depreciation eliminated on revaluation	(1 239 284)	-	-	-	(1 239 284)
Disposals	-	-	(65 400)	-	(65 400)
Gains on property revaluation	11 262 405	-	-	-	11 262 405
Loss on property revaluation	(246 121)	-	-	-	(246 121)
Balance at 31 December 2012	<u>28 244 000</u>	<u>233 249</u>	<u>2 222 086</u>	<u>2 142 456</u>	<u>32 841 791</u>
<i>Accumulated Depreciation</i>					
Balance at 1 January 2012	773 954	1 371	1 142 895	362 159	2 280 379
Charge for the year	465 330	30 218	325 567	367 146	1 188 261
Disposals	-	-	(33 593)	-	(33 593)
Eliminated on property revaluation	<u>(1 239 284)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1 239 284)</u>
Balance at 31 December 2012	<u>-</u>	<u>31 589</u>	<u>1 434 869</u>	<u>729 305</u>	<u>2 195 763</u>
Net book value at 31 December 2012	<u>28 244 000</u>	<u>201 660</u>	<u>787 217</u>	<u>1 413 151</u>	<u>30 646 028</u>
Net book value at 1 January 2011	<u>17 693 046</u>	<u>4 140</u>	<u>285 387</u>	<u>696 561</u>	<u>18 679 134</u>

There were no changes in accounting estimates, residual values, depreciation methods and useful lives for property and equipment.

The valuation of the Bank's land and buildings was performed by Messrs C.B Richard Ellis, independent valuers not related to the Bank, to determine the fair value of the land and buildings as at 31 December 2012 and 31 December 2011. The valuation was determined by reference to recent market transactions on arm's length term.

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 19 PROPERTY AND EQUIPMENT (continued)

### 19.2

	Premises USD	Furniture & fittings USD	Motor vehicles USD	Office equipment USD	Total USD
<i>Cost</i>					
Balance at 1 January 2011	18 467 000	24	1 199 332	649 139	20 315 495
Additions	-	5 487	228 950	409 581	644 018
Balance at 31 December 2011	<u>18 467 000</u>	<u>5 511</u>	<u>1 428 282</u>	<u>1 058 720</u>	<u>20 959 513</u>
<i>Depreciation</i>					
Balance at 1 January 2011	369 675	-	1 035 378	108 326	1 513 379
Charge for the year	404 279	1 371	107 517	253 833	767 000
Balance at 31 December 2011	<u>773 954</u>	<u>1 371</u>	<u>1 142 895</u>	<u>362 159</u>	<u>2 280 379</u>
Net book value at 31 December 2011	<u>17 693 046</u>	<u>4 140</u>	<u>285 387</u>	<u>696 561</u>	<u>18 679 134</u>
Net book value at 1 January 2010	<u>18 097 325</u>	<u>24</u>	<u>163 954</u>	<u>540 813</u>	<u>18 802 116</u>

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

	2012 USD	2011 USD
<b>20 DEPOSITS FROM CUSTOMERS</b>		
<b>20.1 Deposits by type</b>		
Payable on demand	279 839 872	236 455 472
Savings deposits	18 321 460	16 589 337
Term deposits	130 425	158 093
	298 291 757	253 202 902
<b>20.2 Maturity analysis</b>		
Repayable on demand	298 161 332	236 455 472
With agreed maturity dates or period of notice, by residual maturity:		
3 months or less	130 425	16 747 430
	298 291 757	253 202 902
<b>21 DEPOSITS FROM OTHER BANKS</b>		
Deposits from other banks	1 884 309	728 934
<b>22 OTHER LIABILITIES</b>		
Accrued interest payable	1 474 760	94 630
Remittances in transit	351 499	362 987
Other	11 423 011	8 425 040
	13 249 270	8 882 657

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 23 PROVISIONS

	Performance Pension USD	Other accrued bonus USD	expenses USD	Total USD
Balance at 1 January 2012	-	2 826 135	2 100 180	4 926 315
Provisions made during the year	-	2 165 332	4 757 172	6 922 504
Provisions paid/reversed during the year	-	(2 500 088)	(3 383 498)	(5 883 586)
Balance at 31 December 2012	-	2 491 379	3 473 854	5 965 233
Balance at 1 January 2011	-	3 197 952	1 256 653	4 454 605
Provisions made during the year	2 000 000	2 703 825	3 090 904	7 794 729
Provisions paid/reversed during the year	(2 000 000)	(3 075 642)	(2 247 377)	(7 323 019)
Balance at 31 December 2011	-	2 826 135	2 100 180	4 926 315

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 24 INTEREST RATE REPRICING AND LIQUIDITY GAP ANALYSIS

### 24.1 Interest rate repricing gap analysis as at 31 December 2012

	Up to 1 month USD	1 month to 3 months USD	3 months to 1 year USD	Over 1 year USD	Non-interest bearing USD	Total USD
<b>Assets</b>						
Cash and cash equivalents	-	-	-	-	88 879 161	88 879 161
Financial assets available for sale	-	3 767 494	15 379 916	19 178 570	-	38 325 980
<b>Loans and advances</b>						
to customers	65 431 984	97 356 951	9 792 473	24 543 081	-	197 124 489
Current tax asset	-	-	-	-	424 782	424 782
Balances due from banks	-	-	-	25 039 185	-	25 039 185
Property and equipment	-	-	-	-	30 646 028	30 646 028
Investment property	-	-	-	-	6 090 000	6 090 000
Other assets	-	-	-	-	2 562 847	2 562 847
	<u>65 431 984</u>	<u>101 124 445</u>	<u>25 172 389</u>	<u>68 760 836</u>	<u>128 602 818</u>	<u>389 092 472</u>
<b>Liabilities</b>						
<b>Deposits from</b>						
customers	298 161 332	130 425	-	-	-	298 291 757
Deposits from banks	-	-	-	-	1 884 309	1 884 309
Deferred tax liabilities	-	-	-	-	4 213 488	4 213 488
Other liabilities	-	-	-	10 827 393	2 421 877	13 249 270
Provisions	-	-	-	-	5 965 233	5 965 233
Shareholders' funds	-	-	-	-	65 488 415	65 488 415
	<u>298 161 332</u>	<u>130 425</u>	<u>-</u>	<u>10 827 393</u>	<u>79 973 322</u>	<u>389 092 472</u>
Interest rate repricing gap	<u>(232 729 348)</u>	<u>100 994 020</u>	<u>25 172 389</u>	<u>57 933 443</u>	<u>48 629 496</u>	
Cumulative gap	<u>(232 729 348)</u>	<u>(131 735 328)</u>	<u>(106 562 939)</u>	<u>(48 629 496)</u>	<u>-</u>	

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 24 INTEREST RATE REPRICING AND LIQUIDITY GAP ANALYSIS (continued)

### 24.2 Interest rate repricing gap analysis as at 31 December 2011

	Up to 1 month USD	1 month to 3 months USD	3 months to 1 year USD	Over 1 year USD	Non-interest bearing USD	Total USD
<b>Assets</b>						
Cash and cash equivalents	-	-	-	-	137 515 616	137 515 616
Financial assets						
available for sale	22 167	5 915 542	5 026 662	-	-	10 964 371
Loans and advances						
to customers	47 044 499	61 432 000	8 455 526	-	-	116 932 025
Balances due from banks	-	-	-	-	33 903 755	33 903 755
Property and equipment	-	-	-	-	18 679 134	18 679 134
Investment property	-	-	-	-	5 420 000	5 420 000
Other assets	-	-	-	-	1 691 308	1 691 308
	<u>47 066 666</u>	<u>67 347 542</u>	<u>13 482 188</u>	<u>-</u>	<u>197 209 813</u>	<u>325 106 209</u>
<b>Liabilities</b>						
Deposits from customers	253 044 809	158 093	-	-	-	253 202 902
Deposits from banks	-	-	-	-	728 934	728 934
Deferred tax liabilities	-	-	-	-	3 164 051	3 164 051
Current tax liabilities	-	-	-	-	204 045	204 045
Other liabilities	-	-	-	7 303 220	1 579 437	8 882 657
Provisions	-	-	-	-	4 926 315	4 926 315
Shareholders' funds	-	-	-	-	53 997 305	53 997 305
	<u>253 044 809</u>	<u>158 093</u>	<u>-</u>	<u>-</u>	<u>71 903 307</u>	<u>325 106 209</u>
Interest rate repricing gap	<u>(205 978 143)</u>	<u>67 189 449</u>	<u>13 482 188</u>	<u>7 303 220</u>	<u>132 609 726</u>	
Cumulative gap	<u>(205 978 143)</u>	<u>(138 788 694)</u>	<u>(125 306 506)</u>	<u>(132 609 726)</u>	<u>-</u>	

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 24 INTEREST RATE REPRICING AND LIQUIDITY GAP ANALYSIS (continued)

### 24.3 Liquidity gap analysis as at 31 December 2012

	Up to 1 month USD	1 month to 3 months USD	3 months to 1 year USD	Over 1 year USD	Total USD
<b>Assets</b>					
Cash and cash equivalents	88 879 161	-	-	-	88 879 161
Financial assets available for sale	-	3 767 494	15 379 916	19 178 570	38 325 980
Loans and advances to customers	65 431 984	97 356 951	9 792 473	24 543 081	197 124 489
Current tax asset	424 782	-	-	-	424 782
Balances due from banks	-	-	-	25 039 185	25 039 185
Property and equipment	-	-	-	30 646 028	30 646 028
Investment property	-	-	-	6 090 000	6 090 000
Other assets	2 562 847	-	-	-	2 562 847
	<u>157 298 774</u>	<u>101 124 445</u>	<u>25 172 389</u>	<u>105 496 864</u>	<u>389 092 472</u>
<b>Liabilities</b>					
Deposits from customers	298 161 332	130 425	-	-	298 291 757
Deposits from banks	1 884 309	-	-	-	1 884 309
Deferred tax liabilities	-	-	-	4 213 488	4 213 488
Other liabilities	2 421 877	-	-	10 827 393	13 249 270
Provisions	5 965 233	-	-	-	5 965 233
Shareholders' funds	-	-	-	65 488 415	65 488 415
	<u>308 432 751</u>	<u>130 425</u>	<u>-</u>	<u>80 529 296</u>	<u>389 092 472</u>
Liquidity gap	<u>(151 133 977)</u>	<u>100 994 020</u>	<u>25 172 389</u>	<u>24 967 568</u>	<u>-</u>
Cumulative gap	<u>(151 133 977)</u>	<u>(50 139 957)</u>	<u>(24 967 568)</u>	<u>-</u>	<u>-</u>



# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 24 INTEREST RATE REPRICING AND LIQUIDITY GAP ANALYSIS (continued)

### 24.4 Liquidity gap analysis as at 31 December 2011

	Up to 1 month USD	1 month to 3 months USD	3 months to 1 year USD	Over 1 year USD	Total USD
<b>Assets</b>					
Cash and cash equivalents	137 515 616	-	-	-	137 515 616
Financial assets available for sale	22 167	5 915 542	5 026 662	-	10 964 371
Loans and advances to customers	47 044 499	61 432 000	8 455 526	-	116 932 025
Balances due from banks	-	-	-	33 903 755	33 903 755
Property and equipment	-	-	-	18 679 134	18 679 134
Investment property	-	-	-	5 420 000	5 420 000
Other assets	1 691 308	-	-	-	1 691 308
	<u>186 273 590</u>	<u>67 347 542</u>	<u>13 482 188</u>	<u>58 002 889</u>	<u>325 106 209</u>
<b>Liabilities</b>					
Deposits from customers	253 044 809	158 093	-	-	253 202 902
Deposits from banks	728 934	-	-	-	728 934
Deferred tax liabilities	-	-	-	3 164 051	3 164 051
Current tax liabilities	204 045	-	-	-	204 045
Other liabilities	1 579 437	-	-	7 303 220	8 882 657
Provisions	4 926 315	-	-	-	4 926 315
Shareholders' funds	-	-	-	53 997 305	53 997 305
	<u>260 483 540</u>	<u>158 093</u>	<u>-</u>	<u>64 464 576</u>	<u>325 106 209</u>
Liquidity gap	<u>(74 209 950)</u>	<u>67 189 449</u>	<u>13 482 188</u>	<u>(6 461 687)</u>	<u>-</u>
Cumulative gap	<u>(74 209 950)</u>	<u>(7 020 501)</u>	<u>6 461 687</u>	<u>-</u>	<u>-</u>

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 24 INTEREST RATE REPRICING AND LIQUIDITY GAP ANALYSIS (continued)

### 24.5 Effective yields on major financial assets and cost of liabilities as at 31 December 2012

	2012 USD	Yield/cost	2011 USD	Yield/cost
Loans and advances to customers	197 124 489	9.00%	116 932 025	12.42%
Deposits	298 291 757	0.00%	253 202 902	0.01%

## 25 CURRENCY POSITION

At 31 December 2012

### ASSETS

Monetary assets

Non-monetary assets

Total assets

### LIABILITIES AND EQUITY

Monetary items

Non-monetary items

Total liabilities and equity

Net exposure

At 31 December 2011

### ASSETS

Monetary assets

Non-monetary assets

Total assets

### LIABILITIES AND EQUITY

Monetary items

Non-monetary items

Total liabilities and equity

Net exposure

	US dollars USD	Sterling USD	Other USD	Total USD
At 31 December 2012				
ASSETS				
Monetary assets	344 664 662	1 806 456	5 885 326	352 356 444
Non-monetary assets	36 736 028	-	-	36 736 028
Total assets	381 400 690	1 806 456	5 885 326	389 092 472
LIABILITIES AND EQUITY				
Monetary items	339 120 448	1 806 456	5 862 021	346 788 925
Non-monetary items	42 303 547	-	-	42 303 547
Total liabilities and equity	381 423 995	1 806 456	5 862 021	389 092 472
Net exposure	(23 305)	-	23 305	-
At 31 December 2011				
ASSETS				
Monetary assets	293 806 636	1 950 478	5 249 961	301 087 975
Non-monetary assets	24 099 134	-	-	24 099 134
Total assets	317 905 770	1 950 478	5 249 961	325 106 209
LIABILITIES AND EQUITY				
Monetary items	253 616 490	1 950 478	12 448 964	268 015 932
Non-monetary items	57 090 277	-	-	57 090 277
Total liabilities and equity	310 706 767	1 950 478	12 448 964	325 106 209
Net exposure	7 199 003	-	(7 199 003)	-

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 25 CURRENCY POSITION (continued)

The above amounts are stated in United States dollar equivalents.

The rates of exchange to the United States Dollar used are as follows:

	2012 Mid Rate Against USD	2011 Mid Rate Against USD
Currency		
GBP	1.6156	1.5513
EUR	1.3196	1.2953
BWP	0.1269	0.1335
ZAR	0.1218	0.1234
CAD	0.9943	0.9797
AUD	1.0386	1.0171

### 25.1 Sensitivity of equity to the exchange rate

As at the end of 2012, the Bank's net foreign currency position reflected a net asset position resulting in the expected impact on the profit and loss and capital as reported below, assuming a 5% change in exchange rate.

Currency	Assets	Liabilities	Net exposure	Effects of a 5% Increase in exchange rate	Effects of a 5% decrease in exchange rate
GBP	1 806 456	1 806 456	-	-	-
EUR	2 230 704	2 230 704	-	-	-
ZAR	8 523 021	8 523 021	-	-	-
BWP	445 771	445 771	-	-	-
Other	(5 314 170)	(5 337 475)	23 305	3 106	(3 106)

## 26 CONTINGENT LIABILITIES

	2012 USD	2011 USD
Guarantees and irrevocable letters of credit	27 766 119	27 078 514
	27 766 119	27 078 514

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 27 PENSION COSTS

The total expense recognised in profit and loss of USD1 839 658(2011:USD4 141 295) represents contributions payable to these plans by the Bank at rates specified in the rules of the plans. As at 31 December 2012, there were no outstanding contributions into the plans.

	2012 USD	2011 USD
Amounts recognized in profit or loss in respect of these defined benefit plans are as follows:		
Current service costs	1 863 021	2 141 295
Interest costs	900 000	2 800 000
Expected return on plan assets	<u>(923 363)</u>	<u>(800 000)</u>
	<u>1 839 658</u>	<u>4 141 295</u>

The expense for the year is included in the employee benefits expense under staff costs in the profit or loss.

The principal assumptions used for the purposes of the actuarial

Valuations were as follows:

Discount rate(s)	4.7%	9.0%
Expected return on plan assets	2.9%	4.9%
Expected rate(s) of salary increase	4.0%	8%
Expected return on reimbursement rights	in line with inflation	in line with inflation
Return on investments	4.7%	9%

	2012 USD	2011 USD
Present value of future benefits in respect of service		
Total defined contribution past service liabilities	14 500 000	11 930 000
Total defined benefit past service liabilities	6 900 000	6 370 000
Total past service liabilities	<u>21 400 000</u>	<u>18 300 000</u>
Assets	<u>23 500 000</u>	<u>18 641 021</u>
Past service surplus	2 100 000	341 021
Unrecognised actuarial gains	<u>(2 100 000)</u>	<u>(341 021)</u>
Recognised asset for defined benefit obligations	<u>-</u>	<u>-</u>
Plan assets consist of the following:		
Equity	11 072 910	9 806 139
Property	2 835 000	2 165 000
Money market	9 592 090	6 669 882
	<u>23 500 000</u>	<u>18 641 021</u>

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 27 PENSION COSTS (continued)

	2012 USD	2011 USD
Movement in present value of defined benefit obligations		
Defined benefit obligations	6 370 000	14 770 261
Actuarial losses	70 000	869 739
Benefits paid by the plan	(520 000)	(440 000)
Current service costs	3 550 000	3 100 000
Defined benefit obligation at valuation	<u>21 400 000</u>	<u>18 300 000</u>
Movement in plan assets		
Value of plan assets	18 641 021	15 921 021
Contributions into the plan	5 378 979	3 240 000
Benefits paid by the plan	(520 000)	(520 000)
	<u>23 500 000</u>	<u>18 641 021</u>

The assets and obligations of the defined contribution and benefit funds are not held separately. The proportionate size of the defined benefit plan is about 32.5%. On this basis, the excess plan assets relating to this category of the fund is USD7.2 million and the obligations are USD6.9 million with a resultant net asset of USD0.3 million.

## 28 NATIONAL SOCIAL SECURITY AUTHORITY SCHEME

All employees are members of the National Social Security Authority Scheme, to which both the company and the employees contribute. Contributions by the employer are charged to the profit and loss account.

## 29 RELATED PARTIES

Key management comprises the Chief Executive Officer and Heads of Divisions.

	2012 USD	2011 USD
Loans extended to key management	256 470	74 046
Remuneration paid to key management	1 629 444	701 195
	<u>1 885 914</u>	<u>775 241</u>
Balances with group companies		
Owing to group companies	319 771	728 934
Owing by group companies	2 048 359	68 670 468

Transactions with the group companies are done at arm's length. Interest rates are at the same rates offered to all other customers.

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

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## 29 RELATED PARTIES (continued)

### Other related party transactions

There were no related party transactions with key management personnel and entities over which they have control or significant influence in 2012.

From time to time Directors of the Bank, or their related entities, may access banking services and facilities offered by the Bank. The services are on the same terms and conditions as those entered into between the Bank and its customers.

### Borrowing powers

The Directors may exercise all the powers of the Bank to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof and to issue other securities whether outright or as security for any debt, liability obligation of the Bank or of any third party.

## 30 ASSETS UNDER CUSTODY

Assets under custody as at 31 December 2012, were USD139 976 441.20.

## 31 USE OF ESTIMATES AND JUDGEMENTS

Management discusses with the Bank's Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates and the application of these policies and estimates. These disclosures supplement the commentary on risk management (note 31).

The Bank follows the accounting policy of designating any asset at inception into different asset categories in line with the Banks' laid down process. The Bank then relies on markets, valuation experts and valuation methodologies to determine the fair values of its financial instruments in line with IAS 39 (Financial Instruments- Recognition and Measurement) requirements.

### Property revaluation

This is provided by an independent valuer in line with market practice. The Bank revalues its property at least every three years.

## 32 RISK MANAGEMENT FRAMEWORK

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Foreign exchange risk
- Interest rate risk
- Operational risk
- Reputational risk
- Legal and compliance risk
- Strategic risk
- Capital risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk and the Bank's management of capital.

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 32.1 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank's Asset and Liability (ALCO), Credit and Operational Risk Committees, which are responsible for developing and the monitoring the Bank's risk management policies in their specified areas. All Board committees except Audit Committee, have both executive and non executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Bank's Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by internal audit which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

## 32.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises from the Bank's loans and advances (to customers and other banks) and investment securities. The Bank actively manages its credit risk at the individual transaction, counterparty and other portfolio levels, using a variety of qualitative and quantitative measures. The Bank endeavors to minimise risk as far as possible by only granting a loan where the possibility of default is acceptable. The carrying amount of financial assets recorded in the financial statements represents the Bank's maximum exposure to credit risk less the value of collateral.

Based on evaluation of the counterparty's creditworthiness and the type of credit arrangement desired, credit limits are assigned by experienced credit officers and approved by the Board Credit Committee. Loan advances in the agricultural sector are 100% secured by tangible collateral in the form of bonds over properties. The remainder of the loan advances is to the commercial and manufacturing sectors where the lending is to established large multinational corporates which in most instances are multibanked. These are secured by intra group guarantees and Notarial General Covering Bonds over movable assets subject to individual risk profiles.

An estimate of the fair value of collateral and other security enhancements held against loans to customers is as follows:

	2012 USD	2011 USD
Security from customers		
Against collectively impaired loans		
Asset based	18 436 200	92 371 600
Property	87 863 950	140 274 700
Commodity	110 275 750	161 875 000
Total collateral	<u>378 575 900</u>	<u>394 521 300</u>
Against individually impaired loans		
Asset based	<u>2 200 141</u>	<u>1 301 000</u>

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

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## 32.2 Credit risk (continued)

Some loans issued within the corporate banking department are secured by parental guarantees. Collateral would have been lodged with Standard Chartered Bank Group in their respective head offices.

## 32.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulties in meeting the obligations of its financial liabilities. Liquidity risk arises from the fact that assets and liabilities have differing maturities. Liquidity issues are addressed through the Asset and Liability Committee of the Bank (ALCO) comprising the Chief Executive Officer and respective Heads of corporate, consumer banking, treasury and finance and administration. At its meetings, ALCO deals with strategic and policy issues on liquidity, and sets the positions and mismatch levels within which the activities of the next period are conducted. It is the responsibility of ALCO to ensure that the Bank has sufficient liquidity at any given time.

## 32.4 Foreign exchange risk

Foreign exchange risk is the risk to earnings and ultimately to capital, arising from movements in foreign exchange rates. The Bank makes use of dealer management and counterparty positions as the basic management control tool for foreign exchange risk.

## 32.5 Interest rate risk

Interest rate risk refers to the changes in the net interest income of the Bank that could arise owing to adverse variations in interest rates. Combined with liquidity risk, it forms part of those financial risks that are managed by ALCO on the basis of quantitative results. These results stem from a set of tools and techniques used in Asset and Liability management to deal with sensitivity, volatility and extreme deviations of target variables, and ultimately reflect the overall risk profile. By reviewing these monthly, ALCO optimises the risk-reward trade off by; assessing and optimally structuring the profile of the

Bank's financial position, developing and implementing strategies that will adhere to the risk profile requirements, and effectively utilising capital.

Gap analysis is used to determine the exposure and to stimulate techniques to determine the sensitivity to interest rate changes.

## 32.6 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities. The Bank follows a philosophy of pro-actively managing operational risk optimising the risk-reward relationship and maintaining business continuity while preserving the life of and protecting all assets. Operational risk measurement is both quantitative and qualitative and the principle of self assessment is applied. Use is made of Management Information System reports and segregation of duties is built into the systems to ensure compliance with the operational procedures and to manage operational risks. Disaster recovery plans and contingency arrangements, particularly for the Information Technology Department, are in place.

## 32.7 Reputational risk

Reputational risk refers to the risk of damage to the Bank's image, which may affect its ability to retain and generate business. The Bank manages reputational risk by ensuring that business is conducted in accordance with the legal and regulatory requirements. In addition, the Bank's corporate governance structure conforms to international standards. The Bank also has systems in place to monitor customer service satisfaction levels as well as processes to resolve customer queries and complaints.



# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 32 RISK MANAGEMENT (continued)

### 32.8 Legal and compliance risk

Legal and compliance risk is the risk that arises due to the Bank's failure to adhere to legal and regulatory obligations. The Bank manages this risk through dedicated Legal and Compliance units, and deliberations by its Country Operational Risk Committee. The Board Risk Committee also monitors this risk.

### 32.9 Strategic Risk

The Board approves the Bank's strategy as formulated by top management, while the Chief Executive Officer has the overall responsibility of strategy implementation. The Board conducts a quarterly review of the strategy's performance and its continued applicability.

### 32.10 Capital Risk

Capital risk refers to the risk of the Bank's own capital resources being adversely affected by unfavourable external developments.

The Bank's capital resources should therefore be adequate to absorb losses such as operating losses, and capital losses on investments. So long as net losses can be fully offset against capital invested by the Bank's owners, the legal claims of depositors or other creditors are not compromised and the Bank can continue to function without interrupting its operations.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

## 33 ONSITE EXAMINATION

The latest onsite examination of the Bank was as at March 2006 using information as at 31 December 2005 and the Bank was given a "1", that is, strong rating.

### CAMELS RATING

Component ratings	Latest rating 31/12/05
Capital adequacy	1
Asset Quality	1
Management	2
Earnings	1
Liquidity	1
Sensitivity to Market Risk	1
Composite rating	1

### Key

- 1 Strong
- 2 Satisfactory
- 3 Fair
- 4 Weak
- 5 Critical

The Bank's overall composite risk was considered low and the direction stable.

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

## 33 ONSITE EXAMINATION (continued)

Summary Risk Matrix

Type of risk	Level of inherent risk	Adequacy of risk management systems	Overall composite risk	Direction of overall composite risk
Credit	Low	Acceptable	Low	Stable
Liquidity	Low	Acceptable	Low	Stable
Interest rate	Moderate	Strong	Low	Stable
Foreign exchange	Low	Strong	Low	Stable
Strategic risk	Moderate	Acceptable	Low	Stable
Operational risk	Moderate	Acceptable	Moderate	Stable
Legal & Compliance	Low	Strong	Low	Stable
Reputation	Low	Strong	Low	Stable
Overall	Low	Strong	Low	Stable

### Interpretation of the risk matrix

#### Level of inherent risk

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

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

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

#### Adequacy of risk management

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

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

**Strong** -: means that there is evidence of effective management controls on all risks inherent across functional areas. The board and senior management are active participants in managing risk, setting appropriate policy frameworks, defining a bank's risk tolerance levels and ensuring that responsibilities and accountabilities are effectively communicated.

#### Overall Composite Risk

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

**Moderate** -: risk management system appropriately mitigates inherent risk. For a given low risk area, significant weaknesses in the risk management systems may result in a moderate composite risk assessment. On the other hand, a strong risk management system may reduce the risk so that any

# Notes to the Financial Statements (cont'd)

for the year ended 31 December 2012

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## 33 ONSITE EXAMINATION (continued)

potential financial loss from the activity would have only a moderate negative impact on the financial condition of the organization.

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

Direction of Overall Composite risk

Increasing -: based on the current information, risk is expected to increase in the next 12 months.

Decreasing -: based on the current information, risk is expected to decrease in the next 12 months.

Stable -: based on the current information, risk is expected to be stable in the next 12 months.

## 34 EXTERNAL CREDIT RATING

Rating agent	2012	2011	2010
Global Credit Rating	AA-	AA-	AA-

The latest rating is due to expire end of April 2013, by which time the ongoing reviews would have been completed.

