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Chairman's Statement

Operating Environment

The operating environment during 2013 remained challenging. However, the Bank continued to be well capitalised and highly liquid. While profits reduced compared to the prior year, the Bank was able to keep problematic asset classes under control.

Economic growth slowed down to around 3.4% in 2013, attributed to socio-political events, market liquidity challenges, declining commodity prices and infrastructural constraints. Capacity utilisation in the manufacturing sector was reported lower, declining to 39.6% in 2013 from 44.2% in 2012. Average inflation for the year was 1.7%, an indicator of weak demand on the back of low disposable incomes. However, the current good rainfall trends are expected to result in improved crop yields, resulting in a positive impact on the supply of maize, the country's staple food, and tobacco, the country's largest agricultural export.

Banking sector deposits increased by 7% year-on-year to USD4.73 billion, reflecting greater financial inclusion within the banking sector. The perennial challenges of the absence of an effective interbank market against the backdrop of transitory deposits continued to constrain liquidity in the market. Loans and advances, mainly for trade and working capital grew by 6% from USD3.5 billion in December 2012 to USD3.7 billion in December 2013. Unfortunately, the total market ratio of non-performing loans to total loans deteriorated to 15.92% compared to 13.46% in the previous year, reflecting the challenges faced by borrowers to service their obligations in a difficult operating environment.

The Bank remains focused on meeting the needs of its customers and clients.

Financial Performance

The Bank recorded a profit before tax of USD13.2 million for the financial year to December 2013 compared to USD23.5 million for the same period in 2012. The Bank incurred significant costs in repairs and maintenance of its infrastructural facilities in order to align its operating platform with the Group. Operating income remained in line with prior year, marginally reducing as a result of the impact of liquidity constraints and reduced charges in line with the Memorandum of Understanding on bank charges.

Sustainability

The Bank continues to contribute significantly to social and developmental programmes in Zimbabwe, both on its own and in partnership with other organisations.

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 Masvingo Province Eye-Care Programme, the Bank has provided eye-care services through the development of primary and secondary eye-care services. At an Eye Camp held at Chikombedzi Mission Hospital, Chiredzi, over 180 people were screened for sight conditions and 60 people had their sight restored through cataract surgical operations. The Bank also donated USD20,000 worth of state-of-the-art equipment to Morgenster Mission Hospital Eye Care unit which will be used in cataract surgical operations.

A community month programme pioneered by the Bank in Zimbabwe in 2004 now runs annually in our markets around the world. As part of the community month, our staff commit some of their time to the underprivileged such as children, the disabled and the elderly. More than 40 charitable organisations in Zimbabwe continue to benefit from this initiative. Examples of beneficiaries include Ruwa Rehabilitation Centre, Danai Children's Home, Voice of Peace, Matthew Rusike Children's Home, Montgomery Heights, and Lovemore Children's Home.

Chairman's Statement cont'd

In addition to their annual leave, every staff member in the Bank is accorded three 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 2013, Bank staff achieved a record 1 217 Employee Volunteering days in support of community investment programmes. Initiatives undertaken 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 promoting education in Zimbabwe, an aspect 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. Students in various universities around the country benefit from this scholarship. In addition, the Bank continues to run its internship programme which assists 15 students per year in the form of attachments.

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 organisations among others. Oriel Girls High, Roosevelt Girls, Eaglesvale High and Nketa Secondary schools have been beneficiaries of such programmes.

The Bank continues to look for ways to minimise its direct impact on the environment. In partnership with Friends of the Environment, we have sponsored an awareness campaign over the last four years in four regions of Zimbabwe. 20 staff members participated in the environmental awareness walk to Mt. Darwin in 2013. The end of the walk was marked by the official opening of the Standard Chartered Bank Tree Nursery at Madziwa High School, in Mount Darwin. The nursery will see the production of 500 000 tree saplings annually and will benefit both the school and the local community. The Bank planted 1 200 trees on both sides of the Victoria Falls border with Zambia during the UNWTO General Assembly, further demonstrating our commitment to raising awareness and taking action to protect our environment.

Corporate Governance

The Bank and Board of Directors remain committed to the maintenance of the highest standards of corporate governance across all our banking activities. The Board and its Sub-Committees, which are chaired by non-executive directors, oversee and monitor the application of effective risk management processes via the various committees and regular independent audit processes. A Compliance Risk Management Framework is in place to ensure adherence to internal processes and procedures as well as to regulatory requirements.

Outlook

To support the Bank's commitment of maintaining its status as a premium international franchise, the Group recently announced the integration of its two business units, Wholesale Banking and Consumer Banking. The integrated business will be organised into three customer segment groups (Corporate and Institutional Clients; Commercial and Private Banking Clients; and Retail Customers) serviced by five global product groups (Corporate Finance; Financial Markets; Transaction Banking; Wealth Products; and Retail Products). The reorganisation of our business is a critical next step as we implement our refreshed strategy and reinvigorate our growth momentum. The new model will sharpen our focus on distinct customer segments, enable us to deploy capital, liquidity and investment spend more effectively and deliver improvements in both productivity and the quality of the service we offer our customers and clients.

Our strategy has been sharpened to reflect our renewed energy: We bank the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East. This strategy outlines the key aspirations for the

Chairman's Statement cont'd

Group, covering client relationships, trade, wealth, investment, and building scale in priority markets. These aspirations are what we want to do to capture the huge growth opportunities in our markets, with each underpinned by more specific metrics, covering clients and customers, products and geographies.

The Group has a strong presence in high growth markets and is well positioned to support Zimbabwean businesses in pursuing trade corridor opportunities arising in Asia (notably China and India), the Middle-East, and indeed within Africa. The Bank leverages on its strong international relationships to develop new product capabilities and provide skills development and training, thus enhancing its capacity to deliver its services through world-class systems and processes. The Bank will continue to increase its product and service offerings in line with market trends.

Acknowledgement

I would like to thank staff, management and my fellow Directors for their dedication and commitment. Your hard work in 2013 saw us receiving the following accolades:

- Best Bank in Zimbabwe 2013 - Banks and Banking Survey
- Lifetime Investor in the Financial Sector 2013 - Zimbabwe Investment Authority
- Service Champion of the Year 2013 – Megafest
- Bank of the Year in Zimbabwe 2013 - The Banker
- Best Foreign Bank in Zimbabwe 2013 - EMEA Finance
- Best Emerging Markets Bank 2013 - Global Finance

The Bank's brand promise remains the same - to be Here for good and is premised on our vision to be: Here for people, Here for progress and Here for the long run. The above accolades are a testament to our success in keeping this promise. I would therefore like to take this opportunity to reaffirm our commitment and to thank all our stakeholders, especially our customers and clients, for their continued support and confidence in the Bank and wish them well in 2014.



S. V. Rushwaya

CHAIRMAN
20 March 2014

Directors



S. V. Rushwaya
Chairman



T. K. Shee
Non Executive Director



L. T. Manatsa
Non Executive Director



I. J. Mckenzie
Non Executive Director



R. Watungwa
Chief Executive Officer



A. R. T. Manzai
Executive Director



S. Nhakaniso
Executive Director

Report of the Directors

for the year ended 31 December 2013

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 (Chief Executive Officer)*
	S. Nhakaniso*
	I. J. Mackenzie
	A. R. T. Manzai*
	L. T. Manatsa
	T. K. Shee

* Executive

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’ requirements, as well as policies and procedures of the Standard Chartered Bank Group.

Directors’ Attendance at Board Meetings

Director	Date of Meeting			
	7-Mar-13	6-Jun-13	12-Sep-13	28-Nov-13
S. V. Rushwaya*	√	√	√	√
R. Watungwa	√	√	√	√
I. J. Mackenzie	√	√	√	√
A. R. T. Manzai	√	√	√	√
S. Nhakaniso	√	√	√	√
L. T. Manatsa	√	√	√	√
T. K. Shee	√	√	√	√

Key: √ Present | * Chairman

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

Report of the Directors cont'd

for the year ended 31 December 2013

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 2013	Minimum number of meetings to be held in a year
I. J. Mackenzie	5	5	4
L. T. Manatsa	5		

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.

Director	Number of meetings attended	Number of meetings held in 2013	Minimum number of meetings to be held in a year
S. V. Rushwaya	4	4	4
R. Watungwa	4		
S. Nhakaniso	3		

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 2013	Minimum number of meetings to be held in a year
I. J. Mackenzie	4	4	4
A. R. T. Manzai	3		
S. Nhakaniso	3		

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.

Report of the Directors cont'd

for the year ended 31 December 2013

Director	Number of meetings attended	Number of meetings held in 2013	Minimum number of meetings to be held in a year
L. T. Manatsa	4	4	4
R. Watungwa	4		
A. R. T. Manzai	3		

5 STATEMENT OF COMPLIANCE

During the year under review, the composition of the Audit Committee of the Bank was made up of two Independent Non Executive Directors, instead of three as required by the Banking Act. This followed the resignation of Mr. S. V. Rushwaya from the Committee when he was appointed Chairman of the Board. This has now been rectified, following the appointment of Dr. S. Mushiri to the Audit Committee. Save for that, the Bank complied with all statutes regulating financial institutions as well as corporate governance best practice.

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

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 20 March 2014.

By order of the Board



C. Kamba
Company Secretary
20 March 2014

Report of the Independent Auditors



P O Box 267
Harare
Zimbabwe

Deloitte & Touche
Kenilworth Gardens
1 Kenilworth Road
Highlands
Harare

Tel: +263 (0)4 746248/54
+263 (0)4 746271/5
Fax: +263 (0)4 746255
www.deloitte.com

We have audited the accompanying financial statements of Standard Chartered Bank Zimbabwe Limited (“the Bank”) on pages 10 to 52, which comprise the statement of financial position at 31 December 2013, 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 2013, 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
20 March 2014

Statement of Comprehensive Income

for the year ended 31 December 2013

	Notes	2013 USD	2012 USD
Interest and similar income	6	26 139 059	18 307 117
Interest and similar expenses	7	(3 696 900)	(6 461)
Net interest income		22 442 159	18 300 656
Fees and commission income	8.1	41 274 590	44 747 659
Commission expense	8.2	(4 928 741)	(3 080 875)
Gains less losses - foreign currencies	8.3	5 812 824	5 719 440
Other income	8.4	835 811	992 442
Non-interest income		42 994 484	48 378 666
Total operating income		65 436 643	66 679 322
Operating expenses	9	(50 972 547)	(38 129 940)
Profit before loan impairment charges		14 464 096	28 549 382
Specific recovery	16.4	278 161	57 346
Loan impairment charges	16.4	(1 581 213)	(5 082 579)
Net impairment charges		(1 303 052)	(5 025 233)
Profit before taxation		13 161 044	23 524 149
Taxation	10.1	(3 526 695)	(6 163 657)
Profit after taxation		9 634 349	17 360 492
Other comprehensive income:			
Items that are or may be reclassified into profit or loss			
Net change in fair value of available-for-sale assets	15	-	(22 167)
Tax effect thereon	10.4	-	5 708
		-	(16 459)
Items that may never be reclassified into profit or loss			
Gains on property revaluation	19.2	-	11 262 405
Tax effect thereon	10.4	-	(2 115 328)
		-	9 147 077
Total other comprehensive income for the year net of tax		-	9 130 618
Total comprehensive income for the year		9 634 349	26 491 110
Basic earnings per share (USD)	12	11.68	21.04

Statement of Financial Position

as at 31 December 2013

	Notes	2013 USD	2012 USD
ASSETS			
Cash and cash equivalents	13	130 887 392	88 879 161
Financial assets available for sale	15	45 288 934	38 325 980
Loans and advances to customers	16.1	180 684 221	197 124 489
Current tax asset		571 696	424 782
Other assets	17	2 683 801	2 562 847
Balances due from the Central Bank	14	27 908 929	25 039 185
Investment property	18	6 260 000	6 090 000
Property and equipment	19	30 510 305	30 646 028
Total assets		424 795 278	389 092 472
EQUITY AND RESERVES			
Share capital	11.2	825 000	825 000
Share premium	11.3	20 625 000	20 625 000
Non distributable reserve	11.3	5 888 147	5 888 147
Revaluation reserve	11.6	9 147 077	9 147 077
Retained earnings	11.4	38 637 540	29 003 191
Total equity and reserves		75 122 764	65 488 415
LIABILITIES			
Deposits from customers	20.1	313 664 329	298 291 757
Deposits from banks	21	729 440	1 884 309
Other liabilities	22	20 485 735	13 249 270
Provisions and accruals	23	10 995 723	5 965 233
Deferred tax liability	10.3	3 797 287	4 213 488
Total liabilities		349 672 514	323 604 057
Total equity and liabilities		424 795 278	389 092 472



S. V. Rushwaya
Chairman
20 March 2014



R. Watungwa
Chief Executive Officer
20 March 2014



A. R. T. Manzai
Finance Director
20 March 2014

Statement of Changes in Equity

for the year ended 31 December 2013

	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 2013	825 000	20 625 000	5 888 147	9 147 077	-	29 003 191	65 488 415
Profit for the year	-	-	-	-	-	9 634 349	9 634 349
Balance at 31 December 2013	825 000	20 625 000	5 888 147	9 147 077	-	38 637 540	75 122 764
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)
Balance at 31 December 2012	825 000	20 625 000	5 888 147	9 147 077	-	29 003 191	65 488 415

Statement of Cash Flows

for the year ended 31 December 2013

Note	2013 USD	2012 USD
Cash flow from operating activities		
Profit before tax	13 161 044	23 524 149
Adjustments for:		
Fair value gains on investment property	(170 000)	(670 000)
Profit on disposal of property and equipment	(125 764)	(68 311)
Impairment of property	-	246 121
Depreciation	1 817 902	1 188 261
Loan impairment charges	1 303 052	5 082 579
Net change in fair value of available for sale assets	-	26 368
Other non-cash items	-	(48 535)
Operating cash flow before changes in operating assets and liabilities	15 986 234	29 280 632
Changes in operating assets and liabilities:		
Decrease/(increase) in gross loans and advances to customers	15 137 216	(85 275 043)
Increase in financial assets available for sale	(6 962 954)	(27 361 609)
(Increase)/decrease in balances due from the Central Bank	(2 869 744)	8 864 570
Increase in other assets	(120 954)	(871 539)
Increase in deposits from customers	15 372 572	45 088 855
(Decrease)/increase in deposits from banks	(1 154 869)	1 155 375
Increase in provisions and accruals	5 030 490	1 038 918
Increase in other liabilities	7 236 465	4 366 613
Corporate tax paid	(4 089 810)	(7 852 667)
Net cash generated from/(utilised in) operating activities	43 564 646	(31 565 895)
Cash flow from investing activities		
Proceeds on disposal property and equipment	129 320	100 118
Purchase of property and equipment	(1 685 735)	(2 170 678)
Net cash utilised in investing activities	(1 556 415)	(2 070 560)
Cash flow from financing activities		
Dividend paid	-	(15 000 000)
Net cash utilised in financing activities	-	(15 000 000)
Net increase/(decrease) in cash and cash equivalents	42 008 231	(48 636 455)
Cash and cash equivalents at beginning of the year	88 879 161	137 515 616
Cash and cash equivalents at end of the year	130 887 392	88 879 161

Notes to the Financial Statements

for the year ended 31 December 2013

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.

During the year under review, the composition of the Audit Committee of the Bank was made up of two Independent Non Executive Directors, instead of three as required by the Banking Act. This followed the resignation of Mr. S. V. Rushwaya from the Committee when he was appointed Chairman of the Board. This has now been rectified, following the appointment of Dr. S. Mushiri to the Audit Committee. Save for that, the Bank complied with all statutes regulating financial institutions as well as corporate governance best practice.

Furthermore, the Bank complied with the following statutes inter alia:- The Banking Act (Chapter 24:20), the Banking Regulations, Statutory Instrument 205 of 2000, The Exchange Control Act (Chapter 22:05), the Money Laundering and Proceeds of Crime Act (Chapter 9:24) as read together with the Bank Use, Promotion and Suppression of Money Laundering Act (Chapter 24:24) as amended, the National Payment Systems Act (Chapter 24:23) and the Companies Act (Chapter 24:03).

The Bank also complied with the Reserve Bank of Zimbabwe's 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:

- IAS 16 Property, Plant and Equipment – Amendments to classification of servicing equipment (effective for annual financial statements for periods beginning on or after 1 January 2013).
- 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 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).

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

- Revised IAS 19 - Employee Benefits – Reissued as amended IAS 19 Employee Benefits (as amended in 2011) (effective for annual financial statements for periods beginning on or after 1 January 2013).
- 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).

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 except for the changes in IAS 19 Employee Benefits (rev 2011).

The most significant changes to IAS 19 Employee Benefits (rev 2011) impacting the Bank include:

- Introducing a requirement to fully recognise changes in the net benefit liability; and
- Introducing enhanced disclosure about defined benefit plans. Refer to note 27 for more details.

All the above revisions, issues and amendments (except for IAS 19 Employee Benefits (rev 2011)) 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 disclosures 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 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 or 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)
- Fair valuation of investment property (as explained in note 4.3)
- Loan impairment provisioning (as explained in note 4.7)

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.

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

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

4 SIGNIFICANT ACCOUNTING POLICIES

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.

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 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.

Measurement

All financial instruments are measured initially at fair value, including transaction costs with the exception of financial instruments at fair value through profit or loss, which requires expensing of transaction costs. Subsequent to initial recognition all financial instruments designated as either at fair value through profit or loss or available for sale are measured at fair value. Any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment.

Loans and receivables and held-to-maturity assets are measured at amortised cost less impairment. Amortised cost

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Financial liabilities are measured at amortised cost.

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, balances held by other banks, 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 recognised 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 value techniques, the discounted cash flow methods and comparison to similar instruments for which observable market prices exist. The Bank uses widely recognised valuation models for determining fair value.

At each statement of financial position 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 2013

Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the characteristics of those financial instruments. The classification made can be seen in the table below:

Category as defined by IAS 39	Description	Classes as shown on statement of financial position
Financial assets	Loans and receivables	<ul style="list-style-type: none">• Loans and advances to customers• Other assets• Balances due from the Central Bank
	Available for sale financial assets	<ul style="list-style-type: none">• Financial assets available for sale
Financial liabilities	Financial liabilities at amortised cost	<ul style="list-style-type: none">• Deposits from customers• Deposits from banks• Other liabilities• Provisions and accruals

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 statement of comprehensive income 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 recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy. Such properties are classified to the appropriate categories of property 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.

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

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 statement of comprehensive income 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 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 is used for land and buildings. Any revaluation increase arising on the revaluation of such land and buildings is recognised 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 recognised 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 statement of comprehensive income. Rental income from investment property is accounted for under other income. 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 the statement of comprehensive income in the period in which they arise.

An investment property is derecognised 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 derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the period in which the property is derecognised.

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

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.

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 statement of comprehensive income.

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.

4.5 PROVISIONS

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 statement of comprehensive income 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

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

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

Gains and losses arising from foreign currency dealings are recognised in the statement of comprehensive income as the foreign currency dealings are performed.

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 statement of comprehensive income. 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 statement of comprehensive income on a straight line basis over the term of the lease.

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

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.

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 the statement of comprehensive income, 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 recognised 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 leased asset are consumed. Contingent rentals arising under operating leases are recognised 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 statement of comprehensive income except when it relates to items recognised in other comprehensive income, in which case the income tax is also recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using rates enacted or substantially enacted at the statement of financial position date and any adjustment to tax payable in respect of previous years. Deferred tax is recognised 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.

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

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.

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.

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 2013 and have not been applied in preparing these financial statements:

- IAS 1 Presentation of Financial Statements - Clarification of the requirements for comparative information (effective for annual financial statements for periods beginning on or after 1 July 2013).
- IAS 16 Property, Plant and Equipment - Proportionate restatement of accumulated depreciation under the revaluation method (effective for annual financial statements for periods beginning on or after 1 January 2014).
- IAS 38 Intangible Assets - Proportionate restatement of accumulated depreciation under the revaluation method (effective for annual financial statements for periods beginning on or after 1 July 2014).
- IFRS 3 Business Combinations - Amendments excluding joint ventures in the scope of the standard (effective for annual financial statements for periods beginning on or after 1 July 2014).
- IFRS 9 Financial Instruments - Classification and measurement of financial assets (effective date of adoption has been postponed from 1 January 2015 to a date yet to be published).
- IFRS 9 Financial Instruments - Accounting for financial liabilities and derecognition (effective date of adoption has been postponed from 1 January 2015 to a date yet to be published).
- IFRS 9 Financial Instruments - Amendments to Hedge Accounting provisions. The same amendments will also affect IFRS 7 - Financial Instruments: Disclosures and IAS 39 - Financial Instruments: Recognition and Measurement. Effective date of adoption of the amendment is yet to be published.
- IFRS 8 Operating Segments - Amendments to aggregation of operating segments and reconciliation of assets (effective for annual financial statements for periods beginning on or after 1 July 2014).
- IFRS 2 Share-based Payments - Amendments to definition of vesting condition (effective for annual financial statements for periods beginning on or after 1 July 2014).
- IFRS 14 Regulatory Deferral Accounts (effective for annual financial statements for periods beginning on or after 1 January 2016).
- IAS 19 Employee Benefits - Amendments to employee contributions under Defined Benefit Plans (effective for annual financial statements for periods beginning on or after 1 July 2014).

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

- IAS 24 Related Party Disclosures - Disclosures relating to entities providing key management personnel services (effective for annual financial statements for periods beginning on or after 1 July 2014).
- IAS 36 Impairment of Assets - Amendments to disclosure requirements relating to recoverable amount Non Financial Assets (effective for annual financial statements for periods beginning on or after 1 January 2014).
- 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).
- IFRIC 21 - Levies (effective for annual periods beginning on or after 1 January 2014).

None of the new standards, interpretations and amendments, which are not yet effective, are expected to have a material effect on the Bank's future financial statements.

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

	2013 USD	2012 USD
6 INTEREST AND SIMILAR INCOME		
Loans and advances to banks	8 073	38 094
Loans and advances to customers	23 940 593	16 209 116
Bonds, bills and acceptances	2 190 393	2 059 907
	26 139 059	18 307 117
7 INTEREST AND SIMILAR EXPENSES		
Customer accounts		
- Demand deposits	860 008	1 052
- Savings deposits	64 222	3 965
- Time deposits	2 772 670	31
- Commercial bills	-	1 413
	3 696 900	6 461
8 NON-INTEREST INCOME		
8.1 Fees and commission income		
Account service fees and charges	5 595 936	5 259 543
Lending fees	7 231 841	8 804 706
Transaction related commissions	25 096 333	27 423 451
Other fees and commissions	3 350 480	3 259 959
	41 274 590	44 747 659
8.2 Commission expense	4 928 741	3 080 875
8.3 Gains less losses - foreign currencies		
Dealing income	5 812 824	5 719 440
8.4 Other income		
Fair value gains on investment property	170 000	670 000
Rental income from investment property	415 047	253 231
Profit on sale of property and equipment	125 764	68 311
Other miscellaneous income	125 000	900
	835 811	992 442

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

	2013 USD	2012 USD
9 OPERATING EXPENSES		
Audit fees	144 221	135 000
Depreciation	1 817 902	1 188 261
Staff costs (Note 9.1)	23 436 887	22 407 809
Revaluation loss	-	246 121
Directors' emoluments (Note 9.2)	638 582	628 700
Other operating costs	24 934 955	13 524 049
	50 972 547	38 129 940
9.1 Staff costs		
Salaries and allowances	15 371 189	14 496 261
Compulsory social security contributions	284 084	55 074
Contributions to pension funds	1 921 879	1 839 658
Other costs	5 859 735	6 016 816
	23 436 887	22 407 809
The average number of employees during 2013 was 701 (2012:783).		
9.2 Directors' emoluments		
Fees for services as directors	42 499	49 059
Other emoluments	596 083	579 641
	638 582	628 700

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

	2013 USD	2012 USD
10. TAXATION		
10.1 Analysis of tax charge		
Charge for taxation based on taxable income for the year	3 828 054	7 013 437
Provision for aids levy	114 842	210 403
	<u>3 942 896</u>	<u>7 223 840</u>
Deferred tax credit	(416 201)	(1 060 183)
	<u>3 526 695</u>	<u>6 163 657</u>
<p>The income tax rate applicable to the Bank's 2013 taxable income is 25.75% (2012: 25.75%)</p>		
10.2 Reconciliation of tax charge		
Notional tax charge based on profit for the year	3 388 969	6 057 469
Effect of:		
- Permanent differences	173 001	245 213
- Income taxed at different rates	(35 275)	(139 025)
Total tax charge	<u>3 526 695</u>	<u>6 163 657</u>
10.3 Deferred tax liability		
<p>The deferred tax liabilities are attributable to the following:</p>		
Property and equipment	6 019 081	6 033 032
Fair valuation of investment property	313 000	304 500
Loan impairment provision	(2 493 664)	(2 158 127)
Unrealised foreign exchange revaluation gains	23 622	-
Expensed assets	(204 121)	-
Other assets	139 369	34 083
	<u>3 797 287</u>	<u>4 213 488</u>
10.4 Deferred tax movement during the year		
Balance at 1 January	4 213 488	3 164 051
Recognised in profit and loss	(416 201)	(1 060 183)
Recognised in other comprehensive income		
- Tax effect on fair value loss on available-for-sale assets	-	(5 708)
- Tax effect on gains on property revaluation	-	2 115 328
Net tax movement recognised in other comprehensive income	<u>-</u>	<u>2 109 620</u>
Balance at 31 December	<u>3 797 287</u>	<u>4 213 488</u>

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

	2013 USD	2012 USD
11. CAPITAL AND RESERVES		
11.1 Authorised share capital		
1 000 000 ordinary shares of USD1 each	1 000 000	1 000 000
11.2 Issued share capital		
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.		
11.3 Capital reserves		
Share premium	20 625 000	20 625 000
Non-distributable reserves (note 11.5)	5 888 147	5 888 147
	26 513 147	26 513 147
11.4 Retained earnings		
Retained earnings	38 637 540	29 003 191
11.5 Non-distributable reserves		
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.		
11.6 Revaluation reserve		
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.		
11.7 Minimum capital requirements		
The minimum capital requirement, as revised by the regulator, remains unchanged at USD25 million for commercial banking institutions. However, compliance with the required minimum capital level of USD100 million has been moved forward from 30 June 2014 to 31 December 2020, with each institution expected to submit its plan to the Reserve Bank by 30 June 2014.		
The Bank is already compliant with the minimum capital requirement of USD25 million and plans to build the capital to USD100 million over the next six years through organic growth.		

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

	2013 USD	2012 USD
11. CAPITAL AND RESERVES (continued)		
11.7 Capital & Reserves		
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	38 637 540	29 003 191
Less capital allocated for market and operational risk	(12 881 630)	(7 909 816)
	53 094 057	48 431 522
Tier 2 capital		
Revaluation reserve	9 147 077	9 147 077
Portfolio provisions (Tier 2) (limited to 1.25% of risk weighted assets)	4 513 133	4 359 992
	13 660 210	13 507 069
Total Capital - Tier 1 & 2	66 754 267	61 938 591
Tier 3 capital		
Capital allocated for market and operational risk	12 881 630	7 909 816
Total capital base	79 635 897	69 848 407
Risk weighted assets		
	361 050 613	348 799 389
Tier 1 capital ratio	14.71%	13.89%
Tier 2 capital ratio	3.78%	3.87%
Tier 3 capital ratio	3.57%	2.27%
Capital adequacy	22.06%	20.03%
	2013 USD	2012 USD
12. BASIC EARNINGS PER SHARE		
The calculation of basic earnings per share is based on earnings and a weighted average number of ordinary shares.		
Earnings	9 634 349	17 360 492
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)	11.68	21.04

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

	2013 USD	2012 USD
13 CASH AND CASH EQUIVALENTS		
Cash and balances with banks	102 653 733	83 504 862
Unrestricted balances with the Central Bank	28 129 287	5 273 783
Money market placements	104 372	100 516
Total cash and cash equivalents	130 887 392	88 879 161
14 BALANCES DUE FROM THE CENTRAL BANK		
Restricted balances with the Central Bank	27 908 929	25 039 185
<p>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.</p> <p>The Government has pledged to assume the Central Banks' debt including funds owed for the foreign currency accounts subject to the necessary statute being put in place.</p>		
15 FINANCIAL ASSETS AVAILABLE FOR SALE		
Debt and other fixed-income instruments		
Bonds and notes issued by government	15 850 998	11 661 615
Money market instruments issued by other issuers	29 437 936	26 686 532
Fair value adjustment	-	(22 167)
	45 288 934	38 325 980
Maturities		
5 years or less but over 1 year	4 664 646	19 178 570
1 year or less but over 3 months	27 307 773	15 379 916
3 months or less including payable on demand	13 316 515	3 767 494
	45 288 934	38 325 980

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

	2013 USD	2012 USD
16 LOANS AND ADVANCES TO CUSTOMERS		
16.1 Loans and advances		
Loans and advances to customers	191 738 239	206 466 645
Less:		
- Specific and portfolio doubtful debt provision (note 16.4)	(8 966 309)	(8 381 079)
- Interest in suspense	(2 087 709)	(961 077)
	180 684 221	197 124 489
Maturities		
With a residual maturity of:		
- 3 months or less	121 402 846	162 788 935
- Between 3 months and 1 year	16 134 848	9 792 473
- Between 1 and 5 years	54 200 545	33 885 237
	191 738 239	206 466 645
Less:		
- Specific and portfolio doubtful debt provision (note 16.4)	(8 966 309)	(8 381 079)
- Interest in suspense	(2 087 709)	(961 077)
	180 684 221	197 124 489

16.2 Sectoral analysis of utilisations

	2013 USD	%	2012 USD	%
Agriculture and horticulture	46 278 530	24%	32 043 567	16%
Construction and property	4 017 510	2%	4 137 703	2%
Commerce	43 382 585	23%	60 595 484	29%
Mining	1 408	0%	1 042 331	0%
Manufacturing	50 394 528	26%	65 524 698	32%
Transport and communications	2 638 725	1%	3 115 091	2%
Individual loans	41 607 060	22%	39 066 665	19%
Other	3 417 893	2%	941 106	0%
	191 738 239	100%	206 466 645	100%

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

16 LOANS AND ADVANCES TO CUSTOMERS (continued)

16.3 Risk concentrations

There are material concentrations of loans and advances to the Manufacturing sector of 26% (2012 - 32%), Agriculture and horticulture of 24% (2012 - 16%) and Commercial sector 23% (2012 - 29%).

16.4 Loan impairment charges

	2013			2012		
	Specific USD	Portfolio USD	Total USD	Specific USD	Portfolio USD	Total USD
Balance at 1 January	103 218	8 277 861	8 381 079	67 962	3 378 965	3 446 927
Loan impairment charge	1 397 545	183 668	1 581 213	183 683	4 898 896	5 082 579
Recoveries	(278 161)	-	(278 161)	(57 346)	-	(57 346)
Applied against debts	(717 822)	-	(717 822)	(91 081)	-	(91 081)
Balance at 31 December	504 780	8 461 529	8 966 309	103 218	8 277 861	8 381 079

16.5 Non-performing loans and advances to customers

	2013 USD	2012 USD
Total loans and advances on which interest is suspended	12 235 682	4 506 232
Interest in suspense	(2 087 709)	(961 077)
Specific debt provision	(1 214 314)	(402 016)
Net non-performing loans	8 933 659	3 143 139

16.5.1 Ageing of non-performing loans as at 31 December

	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	12 235 682	8 933 659
	12 235 682	8 933 659

16.6 Loans to executive directors

	2013 USD	2012 USD
Loans to executive directors*	75 305	80 707

*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 2013

	2013 USD	2012 USD
17 OTHER ASSETS		
Accrued interest receivable	736 102	598 611
Internal accounts	1 947 699	1 964 236
	2 683 801	2 562 847
18 INVESTMENT PROPERTY		
Balance at 1 January	6 090 000	5 420 000
Fair value gain	170 000	670 000
Balance at 31 December	6 260 000	6 090 000

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

The fair value of the Bank's investment property as at 31 December 2013 and 31 December 2012 has been arrived at on the basis of a valuation carried out on the respective dates by Dawn Property Consultancy, independent valuers not related to the Bank. Dawn Property Consultancy 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. For residential properties, the fair values were arrived at by reference to recent market transactions at arm's length terms while for commercial properties, the fair values were arrived at by reference to market rental yields.

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

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 2013	28 244 000	233 249	2 222 086	2 142 456	32 841 791
Additions	661 684	102 265	666 543	255 244	1 685 735
Disposals	-	-	(172 143)	-	(172 143)
Balance at 31 December 2013	28 905 684	335 514	2 716 486	2 397 700	34 355 383
<i>Depreciation</i>					
Balance at 1 January 2013	-	31 589	1 434 869	729 305	2 195 763
Charge for the year	577 203	103 184	502 976	634 540	1 817 903
Disposals	-	-	(168 587)	-	(168 587)
Balance at 31 December 2013	577 203	134 773	1 769 258	1 363 845	3 845 078
Net book value at 31 December 2013	28 328 481	200 741	947 228	1 033 855	30 510 305

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

Valuation of the Bank's land and buildings is performed at least every three years by Dawn Property Consultancy, independent valuers not related to the Bank. The revaluation was carried out as at 31 December 2013 although no adjustments were made as the outcomes were not materially different to the land and buildings' carrying amounts. The next revaluation exercise is due by 31 December 2016.

For residential properties, the revalued amounts were arrived at by reference to recent markets transactions at arms' length terms while for commercial properties the revalued amounts were arrived at by reference to market rental yields.

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

19 PROPERTY AND EQUIPMENT (continued)

19.2

	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	28 244 000	233 249	2 222 086	2 142 456	32 841 791
<i>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	(1 239 284)	-	-	-	(1 239 284)
Balance at 31 December 2012	-	31 589	1 434 869	729 305	2 195 763
Net book value at 31 December 2012	28 244 000	201 660	787 217	1 413 151	30 646 028

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

	2013 USD	2012 USD
20 DEPOSITS FROM CUSTOMERS		
20.1 Deposits by type		
Demand deposits	261 313 991	279 839 872
Savings deposits	24 388 350	18 321 460
Term deposits	27 961 988	130 425
	313 664 329	298 291 757
20.2 Maturity analysis		
Payable on demand	285 702 341	298 161 332
3 months or less	27 961 988	130 425
	313 664 329	298 291 757
21 DEPOSITS FROM BANKS		
Deposits from related banks	383 045	319 771
Deposits from other banks	346 395	1 564 538
	729 440	1 884 309
22 OTHER LIABILITIES		
Accrued interest payable	3 235 222	1 474 760
Remittances in transit	858 959	351 499
Accrued interest on customer balances held at the Central Bank	11 829 071	9 352 633
Other	4 562 483	2 070 378
	20 485 735	13 249 270

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

23 PROVISIONS

	Performance bonus USD	Other accrued expenses USD	Total USD
Balance at 1 January 2013	2 491 379	3 473 854	5 965 233
Provisions made during the year	2 456 836	14 208 312	20 066 478
Provisions paid/reversed during the year	(2 396 879)	(9 237 779)	(15 035 988)
Balance at 31 December 2013	2 551 336	8 444 387	10 995 723
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

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

24 INTEREST RATE REPRICING AND LIQUIDITY GAP ANALYSIS

24.1 Interest rate repricing gap analysis as at 31 December 2013

	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
Assets						
Cash and cash equivalents	-	-	-	-	130 887 392	130 887 392
Financial assets available for sale	7 796 092	5 520 423	27 307 773	4 664 646	-	45 288 934
Loans and advances to customers	47 756 141	62 592 687	16 134 849	54 200 544	-	180 684 221
Current tax asset	-	-	-	-	571 696	571 696
Other assets	-	-	-	-	2 683 801	2 683 801
Balances due from the Central Bank	-	-	-	27 908 929	-	27 908 929
Investment property	-	-	-	-	6 260 000	6 260 000
Property and equipment	-	-	-	-	30 510 305	30 510 305
	55 552 233	68 113 110	43 442 622	86 774 119	170 913 194	424 795 278
Liabilities and equity						
Shareholders' funds	-	-	-	-	75 122 764	75 122 764
Deposits from customers	285 702 341	27 961 988	-	-	-	313 664 329
Deposits from banks	-	-	-	-	729 440	729 440
Other liabilities	-	-	-	11 829 071	8 656 664	20 485 735
Provisions and accruals	-	-	-	-	10 995 723	10 995 723
Deferred tax liability	-	-	-	-	3 797 287	3 797 287
	285 702 341	27 961 988	-	11 829 071	99 301 878	424 795 278
Interest rate repricing gap	(230 150 108)	40 151 122	43 442 622	74 945 048	71 611 316	-
Cumulative gap	(230 150 108)	(189 998 986)	(146 556 364)	(71 611 316)	-	-

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

24 INTEREST RATE REPRICING AND LIQUIDITY GAP ANALYSIS (continued)

24.2 Liquidity gap analysis as at 31 December 2012

	Up to 1 month USD	1 month to 3 months to 3 months USD	1 year USD	Over 1 year USD	Non-interest bearing USD	Total USD
Assets						
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
Other assets	-	-	-	-	2 562 847	2 562 847
Balances due from the Central Bank	-	-	-	25 039 185	-	25 039 185
Investment property	-	-	-	-	6 090 000	6 090 000
Property and equipment	-	-	-	-	30 646 028	30 646 028
	65 431 984	101 124 445	25 172 389	68 760 836	128 602 818	389 092 472
Liabilities and equity						
Shareholders' funds	-	-	-	-	65 488 415	65 488 415
Deposits from customers	298 161 332	130 425	-	-	-	298 291 757
Deposits from banks	-	-	-	-	1 884 309	1 884 309
Other liabilities	-	-	-	10 827 393	2 421 877	13 249 270
Provisions and accruals	-	-	-	-	5 965 233	5 965 233
Deferred tax liability	-	-	-	-	4 213 488	4 213 488
	298 161 332	130 425	-	10 827 393	79 973 322	389 092 472
Interest rate repricing gap	(232 729 348)	100 994 020	25 172 389	57 933 443	48 629 496	-
Cumulative gap	(232 729 348)	(131 735 328)	(106 562 939)	(48 629 496)	-	-

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

24 INTEREST RATE REPRICING AND LIQUIDITY GAP ANALYSIS (continued)

24.3 Liquidity gap analysis as at 31 December 2013

	Up to 1 month USD	1 month to 3 months USD	3 months to 1 year USD	Over 1 year USD	Non-financial items USD	Total USD
Assets						
Cash and cash equivalents	130 887 392	-	-	-	-	130 887 392
Financial assets available for sale	7 796 092	5 520 423	27 307 773	4 664 646	-	45 288 934
Loans and advances to customers	47 756 141	62 592 687	16 134 849	54 200 544	-	180 684 221
Current tax asset	-	571 696	-	-	-	571 696
Other assets	2 683 801	-	-	-	-	2 683 801
Balances due from the Central Bank	-	-	-	27 908 929	-	27 908 929
Investment property	-	-	-	-	6 260 000	6 260 000
Property and equipment	-	-	-	-	30 510 305	30 510 305
	189 123 426	68 684 806	43 442 622	86 774 119	36 770 305	424 795 278
Liabilities and equity						
Shareholders' funds	-	-	-	-	75 122 764	75 122 764
Deposits from customers	285 702 341	27 961 988	-	-	-	313 664 329
Deposits from banks	729 440	-	-	-	-	729 440
Other liabilities	8 656 664	-	-	11 829 071	-	20 485 735
Provisions and accruals	10 995 723	-	-	-	-	10 995 723
Deferred tax liability	-	-	-	-	3 797 287	3 797 287
	306 084 168	27 961 988	-	11 829 071	78 920 051	424 795 278
Liquidity gap	(116 960 742)	40 722 818	43 442 622	74 945 048	(42 149 746)	-
Cumulative gap	(116 960 742)	(76 237 924)	(32 795 302)	42 149 746	-	-

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

24 INTEREST RATE REPRICING AND LIQUIDITY GAP ANALYSIS (continued)

24.4 Liquidity gap analysis as at 31 December 2012

	Up to 1 month USD	1 month to 3 months to 3 months USD	1 year USD	Over 1 year USD	Non-financial items USD	Total USD
Assets						
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
Other assets	2 562 847	-	-	-	-	2 562 847
Balances due from the Central Bank	-	-	-	25 039 185	-	25 039 185
Investment property	-	-	-	-	6 090 000	6 090 000
Property and equipment	-	-	-	-	30 646 028	30 646 028
	156 873 992	101 549 227	25 172 389	68 760 836	36 736 028	389 092 472
Liabilities and equity						
Shareholders' funds	-	-	-	-	65 488 415	65 488 415
Deposits from customers	298 161 332	130 425	-	-	-	298 291 757
Deposits from banks	1 884 309	-	-	-	-	1 884 309
Other liabilities	2 421 877	-	-	10 827 393	-	13 249 270
Provisions and accruals	5 965 233	-	-	-	-	5 965 233
Deferred tax liability	-	-	-	-	4 213 488	4 213 488
	308 432 751	130 425	-	10 827 393	69 701 903	389 092 472
Liquidity gap	(151 558 759)	101 418 802	25 172 389	57 933 443	(32 965 875)	-
Cumulative gap	(151 558 759)	(50 139 957)	(24 967 568)	32 965 875	-	-

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

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 2013

	2013		2012	
	USD	Yield/cost	USD	Yield/cost
Loans and advances to customers	180 684 221	13.25%	197 124 489	9.00%
Deposits from customers	313 664 329	1.18%	298 291 757	0.00%

25 CURRENCY POSITION

	US dollars USD	GPB USD	EUR USD	ZAR USD	Other USD	Total USD
As at 31 December 2013						
Assets						
Monetary assets	375 209 232	2 060 114	2 219 729	7 212 846	539 900	388 024 973
Non-monetary assets	36 770 305	-	-	-	-	36 770 305
Total assets	411 979 537	2 060 114	2 219 729	7 212 846	539 900	424 795 278
Liabilities and equity						
Monetary liabilities	323 382 931	2 060 114	2 219 729	7 212 846	1 216 455	345 875 227
Non-monetary liabilities	78 920 051	-	-	-	-	78 920 051
Total liabilities and equity	411 302 982	2 060 114	2 219 729	7 212 846	1 216 455	424 795 278
Net exposure	676 555	-	-	-	(676 555)	-
As at 31 December 2012						
Assets						
Monetary assets	339 282 144	1 806 456	2 230 704	8 523 021	68 348	352 356 444
Non-monetary assets	36 736 028	-	-	-	-	36 736 028
Total assets	376 018 172	1 806 456	2 230 704	8 523 021	68 348	389 092 472
Liabilities and equity						
Monetary liabilities	306 339 574	1 806 456	2 230 704	8 523 021	45 043	319 390 569
Non-monetary liabilities	69 701 903	-	-	-	-	69 701 903
Total liabilities and equity	376 041 477	1 806 456	2 230 704	8 523 021	45 043	389 092 472
Net exposure	(23 305)	-	-	-	23 305	-

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

25 CURRENCY POSITION (continued)

The above amounts are stated in United States dollar equivalents.

The rates of exchange to the United States Dollar used at 31 December 2013 are as follows:

Currency	2013	2012
	Mid Rate Against USD	Mid Rate Against USD
GBP	1.6484	1.6156
EUR	1.3794	1.3196
BWP	0.1168	0.1269
ZAR	0.0959	0.1218
CAD	0.9394	0.9943
AUD	1.1189	1.0386

25.1 Sensitivity of equity to the exchange rate

As at the end of 2013, the Bank's net foreign currency position reflected a net liability position resulting in the expected impact on the statement of comprehensive income and capital as reported below, assuming a 5% depreciation in exchange rate:

Currency	Assets	Liabilities	Net exposure	Effects of a 5%	Effects of a 5%
				Increase in exchange rate	decrease in exchange rate
GBP	2 060 114	2 060 114	-	-	-
EUR	2 219 729	2 219 729	-	-	-
ZAR	7 212 846	7 212 846	-	-	-
BWP	783 152	783 152	-	-	-
Other	539 900	1 216 455	(676 555)	(82 937)	82 937

26 CONTINGENT LIABILITIES

	2013 USD	2012 USD
Tax assessment under dispute	10 763 942	-
Guarantees and irrevocable letters of credit	67 982 566	27 766 119
	78 746 508	27 766 119

26.1 Tax assessment under dispute

The Zimbabwe Revenue Authority ("ZIMRA") issued assessments during an audit of the Bank for the amount in question for the period covering years 2009 to 2011. The Bank is currently engaged in a legal process with ZIMRA over the assessments. The Bank believes it has a strong case in light of the normal banking practices in the country and internationally relating to the areas creating the different interpretations.

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

27 PENSION COSTS

The Bank operates both defined contribution and defined benefit schemes for its employees whose details are as below.

Defined benefit plan

The Bank sponsors a funded defined benefit plan for qualifying employees. The defined benefit plan is administered by a separate Fund that is legally separated from the entity. The Trustees of the pension fund are composed of an equal number of representatives from both employers and employees. The Trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme i.e. active employees, inactive employees, retired employees and the employer. The Trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund.

Under the plan, the employees are entitled to post-retirement monthly installment amounting to 67% of final salary at the time of retirement with the retirement age being 60. The pensionable salary is not limited. The defined benefit plan typically exposes the Bank to actuarial risks such as, investment risk, interest rate risk, longevity risk, and salary risk as described below.

Risk type	Description
Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, property and money market placements. Due to the long-term nature of the plan liabilities, the Trustees of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in property to leverage the return generated by the fund.
Interest risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's assets.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2013 USD	2012 USD
Discount rate(s)	5.1%	4.2%
Expected return(s) on plan assets	5.1%	4.2%
Expected rate of salary increase	4.0%	4.0%
Expected return on reimbursement rights	in line with inflation	in line with inflation
Return(s) on investments	5.1%	4.2%

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

27 PENSION COSTS (continued)

	2013 USD	2012 USD
Amounts recognised in the statement of comprehensive income		
Current service cost	87 000	247 000
Past service cost	600 000	1 533 000
Interest (income)/cost	(92 000)	900 000
Actuarial loss	92 000	70 000
Administration expenses	7 000	-
Net periodic pension cost	694 000	2 750 000
Analysis of fund status at end of the year		
Plan assets at market value	11 250 000	11 800 000
Defined benefit obligation	(9 646 000)	(9 700 000)
Prepaid pension cost	(1 604 000)	(2 100 000)
Unrecognised prepaid cost	(1 640 000)	(2 100 000)
Recognised in other comprehensive income	-	-
Movement in prepaid pension cost		
Balance at 1 January	2 100 000	341 000
Less net periodic pension cost	(602 000)	(1 011 000)
Less net interest income on the defined benefit liability	(92 000)	-
Add employer contributions for the year	198 000	2 770 000
Balance at 31 December	1 604 000	2 100 000

The prepaid pension cost of USD1 604 000 has not been recognised in other comprehensive income as the associated economic benefits are not expected to accrue to the Bank.

Changes in the present value of the defined benefit obligation over the year

	2013 USD	2012 USD
Balance at 1 January	9 700 000	7 223 000
Current service cost	87 000	247 000
Past service cost	600 000	1 533 000
Employee contributions	87 000	247 000
Interest cost	405 000	900 000
Actuarial (gains)/loss	(1 106 000)	70 000
Benefits paid	(127 000)	(520 000)
Balance at 31 December	9 646 000	9 700 000

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

27 PENSION COSTS (continued)

	2013 USD	2012 USD
Changes in the fair value of the plan assets over the year		
Balance at 1 January	11 800 000	6 941 000
Expected return on plan assets	497 000	923 000
Fair value movement	(1 198 000)	1 686 000
Employer contributions	198 000	2 523 000
Employee contributions	87 000	247 000
Benefits paid	(127 000)	(520 000)
Administration expenses paid	(7 000)	-
Balance at 31 December	11 250 000	11 800 000
Plan assets consist of the following:		
Equity	5 231 000	5 423 000
Property	1 127 000	1 456 000
Money market	4 892 000	4 921 000
	11 250 000	11 800 000

The fair values of the above equity investments are determined based on quoted prices in an active market whereas the fair values of properties are determined by reference to recent market transactions on arm's length terms by an independent valuer. Money market placements are held to maturity at amortised cost.

Significant actuarial assumptions for the determination of the defined obligation plan are discount rate and inflation rate. The sensitivity analysis below have been determined based on reasonable possible changes of the respective assumptions occurring at the end of the reporting period, while holding other assumptions constant.

- If the discount rate is 25 basis points higher (lower), the defined benefit obligation would increase by USD467 000 (decrease by USD450 000).
- If the discount rate is 25 basis points higher (lower), the defined benefit obligation would increase by USD543 000 and USD282 000 respectively.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Defined contribution plan

The amount attributable to the defined contribution plan as at 31 December 2013 was USD18 880 000 (2012 USD11 700 000). The Bank's contributions to the fund in the year to 31 December 2013 was USD1 946 146 (2012 USD1 730 466).

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 statement of comprehensive income.

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

29 RELATED PARTIES

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

	2013 USD	2012 USD
Loans extended to key management	260 798	256 470
Remuneration paid to key management	1 784 837	1 629 444
	2 045 635	1 885 914
Balances with group companies		
Owing to group companies	(383 045)	(319 771)
Owing by group companies	22 270 732	2 048 359
Net amount owing from group companies	21 887 687	1 728 588

Transactions with the group companies are done at arm's length. Interest rates are at the same rates offered to all other customers. During the year the following transactions were carried out with group companies:

	2013 USD	2012 USD
Share services costs paid	(10 232 707)	(470 213)
Offshore loan revenue received	46 539	117 159
	(10 186 168)	(353 054)

Other related party transactions

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.

Loans to companies under the control of key management

	2013 USD	2012 USD
Nectorfield (Private) Limited (company co-owned by S. Nhakaniso)	65 000	63 000
Lusama Fashion Enterprise (Private) Limited (co-owned by L. Chirume)	181 815	174 000
	246 815	237 000
Loans to non executive directors or companies under their control		
L. T. Manatsa	10 820	-

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 2013 were USD200 556 882 (2012: 139 976 441).

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

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 32).

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.

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 monitoring the Bank's risk management policies in their specified areas. The Audit committee comprises of Independent non-executive Directors while all other Board committees have both executive and non-executive members. These committees 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 and maintain 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 Bank'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.

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

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 probability 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 or are backed by commodity structures. The remainder of the loan advances are 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:

Security from customers

Against collectively unimpaired loans

	2013 USD	2012 USD
Asset based	281 422 450	18 436 200
Property	241 293 350	87 863 950
Commodity	47 406 250	110 275 750
Total collateral	570 122 050	216 575 900
Against individually impaired loans		
Asset based	1 456 838	2 200 141

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 and institutional banking, 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.

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

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 simulate 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.

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

Strategic risk refers to the potential for opportunity loss arising from failure to optimise the earnings potential of the Bank. 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.

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

32.10 Capital Risk (Continued)

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", which is a 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.

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

Notes to the Financial Statements (cont'd)

for the year ended 31 December 2013

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

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	2013	2012	2011
Global Credit Rating Company	AA-	AA-	AA-

The latest rating is due to expire at the end of April 2014, by which time the current review would have been completed.