# Unaudited Abridged Financial Statements

metbank
Registered Commercial Bank

## For the half year ended 30 June 2017

## CHAIRMAN'S STATEMENT

I am pleased to present the financial performance of the Bank for the half year ended 30 June 2017.

**Operating Environment**
The country's GDP for the year 2017 has been revised upwards by both the International Monetary Fund (IMF) and World Bank following a higher than anticipated Command Agriculture output. The Government has projected a GDP growth of 3.7% being driven by Agriculture, Mining and Tourism.

However, the operating environment has remained subdued by foreign currency shortages, emerging inflationary pressures and persistent budget deficits. Year-on-year inflation moved into the positive region in February 2017 to reach a 43 month high of 0.75% in May 2017. Cash shortages have continued to put pressure on banks despite a rise in the adoption of plastic money.

The country remains a net importer of goods and services. Nonetheless, the trade balance deficit improved by 9.24% as at 31 May 2017 as compared to the same 5 (five) month period last year. The improvement has been due to effective foreign currency management by the RBZ and operation of Statutory Instrument 64 of 2016. Government efforts in promoting beneficiation and incentivising exporters continue to yield positive results.

**Financial Sector Developments**
Broad money supply (annual) stood at US$6.2 billion as at 30 May 2017, at an annual growth rate of 23.24%. The supply being mainly driven by transitory deposits which constituted 71%. Annual domestic credit grew by 21.1% to US$8.45 million in May 2017. The Zimbabwe Asset Management Company (ZAMCO) played a pivotal role in reducing the industry's Non Performing Loans (NPL) ratio to 7.98% as at 30 June 2017.

The Government has rolled out Export and Horticulture facilities in excess of US$100 million in support of local production for export. The move is aimed at generating the much needed foreign currency and to stimulate economic growth. On the other hand, the AFTRADES facility has been extended to 2019 in a bid to promote interbank trading.

**Financial Performance**
The Bank reported a profit of US$0.4 million in the period under review, up 39% from the comparative period in 2016. Through continuous monitoring of the loan book with the aim to maintain asset quality, the Bank managed to restrict the NPLs ratio to 1.5% which is within the regulatory threshold of 5%. The Bank also increased its asset base overall by 16%. The Bank continues to be aggressive in its loan collection and recovery efforts whilst also underwriting a new book with caution.

The Bank's business development efforts continue to bear fruit as evidenced by the surge in the deposit base from US$53.44 million as at 31 December 2016 to US$93.39 million as at 30 June 2017. Our balance sheet continues to strengthen with a solid base for sustainable profits going forward.

**Capitalisation**
The Bank continues to pursue its re-capitalization efforts in order to achieve minimum capital of US$100 million by the year 2020 in line with its five-year recapitalization plan.

**Risk Management**
Effective risk management policies and procedures will continue to be pursued through Board approved committees namely Loans Review Committee, Asset and Liability Committee (ALCO), Credit Committee, Remuneration Committee (REMCO) and other Operational Risk Management Committees. The Bank has a comprehensive risk management framework supported by well documented policies and procedures to assist in the management of all forms of risk exposures namely credit risk, market risk, liquidity risk, legal risk, compliance risk and other types of risks.

**Corporate Governance Statement**
The Board is committed to high standards of corporate governance and believes that a sound governance structure engenders a successful company.

Metbank's Board recognises the critical importance of having an effective Board of Directors. The Board places high importance on active engagement with its shareholders and as such, regular meetings are held with shareholders in order to get their input.

As at 30 June 2017, the Board comprised an Independent Non-Executive Chairman, two Executives and three Non-Executive Directors. The Board meets at least at least once every quarter. The Non-Executive Directors bring judgement which is independent to that of management to Board deliberations. The Executive Directors are responsible for the day-to-day business operations of the Bank.

The Board is responsible for the overall management, strategic direction, maintaining sound risk management and internal control systems, succession planning and performance of the Bank. It discharges its responsibilities through regularly scheduled meetings and ad hoc meetings, as may be required. The Board has formally reserved specific matters to itself for determination and approval which include strategic issues, the Bank's risk profile, the annual budget, changes in share capital, approval of the Bank's financial statements, approval of material contracts and succession planning for senior management. In addition, the Board reviews the Bank's internal controls and risk management policies and approves its Code of Ethics. It also monitors and evaluates the performance of the Bank as a whole, through engaging with the Managing Director, Chief Finance Officer and members of the Executive Team, as appropriate. Matters not formally reserved to the Board are delegated to Board Committees.

Board members receive detailed information from the Executive Directors, the Company Secretary, and other Principal Officers to enable them to discharge their responsibilities effectively. All Directors have access to employees in the Bank and to the advice and guidance from the Principal Officers and are encouraged to seek independent advice at the Bank's expense, where they feel it is appropriate. The Board is of the opinion that each of its members has the relevant skills, knowledge, aptitude and experience to perform the functions required of a commercial bank.

The offices of Chairman, Vice Chairman and Managing Director are held by different individuals whose roles and responsibilities are clearly defined and have been approved by the Board. The Chairman is responsible for the conduct of the Board and ensures that Board discussions are conducted in such a way that all views are taken into account and so that no individual Director or small group of Directors dominates proceedings. The Vice Chairman's role is to provide support and guidance to the Chairman and to deputize for the Chairman as required. The Managing Director has the overall responsibility for running the business on a day-to-day basis and chairs the Executive Committee Meetings.

**Outlook**
The Bank continues to pursue its five-year strategic plan through focusing on property development, mortgage financing and commercial banking. The strategy allows the bank to satisfy its customers, increase shareholder value, and improve service delivery through roll-out of a full range of e-banking and financial inclusion products.

**Appreciation**
The Bank will always be indebted to its clients and stakeholders for their invaluable support. I also take this opportunity to appreciate the effort and dedication of the Bank's Board of Directors, Executives, Management and Staff. Thank you and may you please continue with your dedicated efforts to steer the Bank to unparalleled success.

**W.T. MANASE**
**CHAIRMAN**

### STATEMENT OF FINANCIAL POSITION
**AS AT 30 JUNE 2017**

| | Note | Unaudited 30 June 2017 US$ | Audited 31 Dec 2016 US$ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | 2 806 495 | 21 390 196 |
| Financial assets held through profit or loss | 8 | 9 532 734 | 5 016 248 |
| Loans and advances to customers | 9 | 53 106 482 | 21 477 748 |
| Property and equipment | 10 | 2 696 554 | 2 455 095 |
| Investment property | 11 | 152 364 601 | 145 579 587 |
| Investment in subsidiary | 12 | 105 870 | 105 870 |
| Deferred taxation | 13 | 2 175 788 | 2 315 706 |
| Other assets | 14 | 9 483 623 | 2 931 965 |
| **TOTAL ASSETS** | | **232 272 147** | **201 272 415** |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY AND RESERVES** | | | |
| Share capital | 18 | 31 512 400 | 31 512 400 |
| Retained earnings | | 11 467 933 | 11 064 480 |
| Capital reserves | | 15 929 772 | 15 929 772 |
| **TOTAL EQUITY AND RESERVES** | | **58 910 105** | **58 506 652** |
| **LIABILITIES** | | | |
| Deposits from customers | 15 | 93 389 902 | 53 441 115 |
| Debentures | 16 | 28 300 781 | 29 815 203 |
| Other liabilities | 17 | 51 671 359 | 59 509 445 |
| **TOTAL LIABILITIES** | | **173 362 042** | **142 765 763** |
| **TOTAL LIABILITIES, EQUITY AND RESERVES** | | **232 272 147** | **201 272 415** |

**23 August 2017**

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
**FOR THE HALF YEAR ENDED 30 JUNE 2017**

| | Note | Unaudited 30 June 2017 US$ | Unaudited 30 June 2016 US$ |
|---|---|---|---|
| Interest income | 3 | 3 505 462 | 4 729 078 |
| Interest expense | 3 | (2 942 175) | (4 127 008) |
| **Net interest income** | | **563 287** | **602 070** |
| Commission, fee income and other operating income | 4.1 | 5 859 239 | 928 124 |
| **Operating income** | | **6 422 526** | **1 530 194** |
| Operating expenditure | 5 | (5 488 472) | (4 499 054) |
| Impairment (loss) / reversal on loans and advances | 9.6 | ( 390 683) | 3 358 623 |
| **Profit before taxation** | | **543 371** | **389 763** |
| Taxation | 6 | ( 139 918) | ( 100 364) |
| **Profit for the period after taxation** | | **403 453** | **289 399** |
| **Other comprehensive income** | | **-** | **-** |
| **Total comprehensive income for the period** | | **403 453** | **289 399** |

### STATEMENT OF CHANGES IN EQUITY
**FOR THE HALF YEAR ENDED 30 JUNE 2017**

| | Share capital US$ | Retained earnings US$ | Non distributable reserves US$ | Total US$ |
|---|---|---|---|---|
| **Year ended 31 December 2016** | | | | |
| **Balance at beginning of the year** | **26 181 975** | **10 752 093** | **15 929 772** | **52 863 840** |
| Issue of irredeemable non-cumulative preference shares | 5 086 307 | - | - | 5 086 307 |
| Issue of convertible cumulative redeemable preference shares | 244 118 | - | - | 244 118 |
| Total comprehensive income for the year | - | 521 895 | - | 521 895 |
| Dividends on irredeemable non-cumulative preference shares | - | ( 209 508) | - | ( 209 508) |
| **Balance at end of the year** | **31 512 400** | **11 064 480** | **15 929 772** | **58 506 652** |
| **Half year ended 30 June 2017** | | | | |
| **Balance at beginning of the year** | **31 512 400** | **11 064 480** | **15 929 772** | **58 506 652** |
| Total comprehensive income for the half year | - | 403 453 | - | 403 453 |
| **Balance at end of the period** | **31 512 400** | **11 467 933** | **15 929 772** | **58 910 105** |

### STATEMENT OF CASH FLOWS
**FOR THE HALF YEAR ENDED 30 JUNE 2017**

| | Note | Unaudited 30 June 2017 US$ | Unaudited 30 June 2016 US$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before taxation | | 543 371 | 389 763 |
| **Adjustments for non-cash items:** | | | |
| Depreciation | 10 | 299 043 | 552 280 |
| Amortisation | 14 | 97 130 | - |
| Impairment charge / (reversal) | 9 | 390 683 | (3 358 623) |
| Other non cash items | | - | ( 16) |
| **Profit before changes in operating assets and liabilities** | | **1 330 227** | **(2 416 596)** |
| **Changes in operating assets and liabilities** | | | |
| Increase in advances and other assets | | (49 941 810) | (8 763 904) |
| Increase in deposits and other liabilities | | 30 596 279 | 10 963 553 |
| | | **(18 015 304)** | **( 216 947)** |
| Taxation paid | | - | - |
| **Net cash outflow from operating activities** | | **(18 015 304)** | **( 216 947)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment and intangible assets | | ( 568 397) | ( 114 068) |
| Proceeds from sale of equipment | | - | 5 344 |
| **Net cash utilised in investing activities** | | **( 568 397)** | **( 108 724)** |
| **Net decrease in cash and cash equivalents** | | **(18 583 701)** | **( 325 671)** |
| Cash and cash equivalents at beginning of the year | 7 | 21 390 196 | 4 064 605 |
| **Cash and cash equivalents at end of the period** | **7** | **2 806 495** | **3 738 934** |
| **Comprising** | | | |
| Balances with the Reserve Bank of Zimbabwe | | 2 165 298 | 685 200 |
| Balances with other banks and cash | | 641 197 | 3 053 734 |
| | | **2 806 495** | **3 738 934** |

## Abridged Notes to Financial Statements
For the half year ended 30 June 2017

**1. CORPORATE INFORMATION**
Metbank Limited provides commercial banking services in Zimbabwe.

It is a limited liability company which was incorporated in Zimbabwe in 1998. Its registered office is at 3 Central Avenue, Central House, Harare, Zimbabwe. The company changed its name from Metropolitan Bank of Zimbabwe Limited to Metbank Limited with effect from 30 April 2012.

**2. ACCOUNTING POLICIES**
**2.1 Basis of preparation**
The financial statements have been prepared based on statutory records that are maintained under the historical cost convention except for investment properties and financial instruments that have been measured at fair value.

**Statement of compliance**
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB); the Companies Act (Chapter 24:03); the Banking Act (Chapter 24:20) and Banking Regulations; Statutory Instruments SI33/99 and SI62/99; the Exchange Control Act (Chapter 22:05), the Bank Use Promotion and Suppression of Money Laundering Act (Chapter 24:24) as well as all Reserve Bank of Zimbabwe directives.

**Functional and presentation currency**
The financial statements are presented in United States of America dollars ('US$') which is the Bank's functional and presentation currency. Except as otherwise indicated, financial information is shown as absolute figures.

| | | Unaudited 30 June 2017 US$ | Unaudited 30 June 2016 US$ |
|---|---|---|---|
| **3** | **NET INTEREST INCOME** | | |
| | Interest income from: | | |
| | Loans and advances | 2 403 954 | 4 620 196 |
| | Investment securities | 1 101 508 | 108 882 |
| | | **3 505 462** | **4 729 078** |
| | Interest expense on: | | |
| | Deposits from banks | - | (1 787 953) |
| | Deposits from customers | (2 472 098) | (1 649 915) |
| | Interest accruing on debt instruments issued | ( 470 077) | ( 689 140) |
| | | **(2 942 175)** | **(4 127 008)** |
| | **Net interest income** | **563 287** | **602 070** |
| **4** | **NON-INTEREST INCOME** | | |
| **4.1** | **Commission, fee income and other operating income** | | |
| | Commission and fee income | 4 719 727 | 840 176 |
| | Other operating income | 1 139 512 | 87 948 |
| | | **5 859 239** | **928 124** |
| **5** | **OPERATING EXPENDITURE** | | |
| | Staff costs | 2 594 169 | 2 000 464 |
| | Administrative expenses | 2 432 130 | 1 874 310 |
| | Auditor's fees | 54 000 | 54 000 |
| | Directors' fees | 12 000 | 12 000 |
| | Depreciation and armotisation | 396 173 | 558 280 |
| | | **5 488 472** | **4 499 054** |

Included in staff costs are contributions to the National Social Security Authority, a defined contribution scheme and the Bank's separate trustee administered fund amounting to US$86,183 (2016: US$80,205).

**6 TAXATION**
The following constitutes the major components of income tax expense recognised in the statement of comprehensive income.

| | | | |
|---|---|---|---|
| **6.1** | **Major components of tax expense** | | |
| | Deferred tax | 139 918 | 100 364 |
| | | **139 918** | **100 364** |
| | **Taxation credit reconciliation** | | |
| | Profit before taxation | 543 371 | 389 763 |
| | Tax charge calculated at a rate of 25.75% | 139 918 | 100 364 |
| **6.2** | **Tax rate reconciliation** | | |
| | Notional tax | 25.00% | 25.00% |
| | AIDS levy | 0.75% | 0.75% |
| | | **25.75%** | **25.75%** |
| **7** | **CASH AND CASH EQUIVALENTS** | | |
| | Balances with the Reserve Bank of Zimbabwe | | |
| | **Current account balances** | **2 165 298** | **17 828 658** |
| | Balances with other banks and cash | | |
| | Placements with local banks | 83 329 | 30 924 |
| | Cash and Nostro account balances | 557 868 | 3 530 614 |
| | | **641 197** | **3 561 538** |
| | | **2 806 495** | **21 390 196** |
| **8** | **FINANCIAL ASSETS THROUGH PROFIT OR LOSS** | | |
| **8.1** | **Analysis of movement** | | |
| | Opening balance | 5 016 248 | 1 250 558 |
| | Additions | 4 516 486 | 7 776 462 |
| | Disposals | - | (4 010 772) |
| | **Closing balance** | **9 532 734** | **5 016 248** |
| **8.2** | **Maturity analysis** | | |
| | Maturity within 1 month | 81 078 | 81 078 |
| | Maturity after 1 month but within 6 months | 2 097 161 | 1 299 030 |
| | Maturity after 6 months but within 1 year | 830 443 | 8 622 |
| | Maturity after 1 year but within 5 years | 6 524 052 | 3 627 518 |
| | | **9 532 734** | **5 016 248** |
| **9** | **LOANS AND ADVANCES TO CUSTOMERS** | | |
| **9.1** | **Analysis** | | |
| | Loans | 22 441 907 | 16 622 782 |
| | Advances | 31 692 511 | 5 492 197 |
| | | **54 134 418** | **22 114 979** |
| **9.2** | **Allowances for credit losses** | | |
| | Allowances for credit losses (note 9.6) | (1 011 460) | ( 620 777) |
| | Suspended interest on doubtful debts | ( 16 476) | ( 16 454) |
| | | **(1 027 936)** | **( 637 231)** |
| | **Net loans and advances** | **53 106 482** | **21 477 748** |
| **9.3** | **Maturity analysis** | | |
| | Maturity within 1 month | 1 074 999 | 795 040 |
| | Maturity after 1 month but within 6 months | 4 089 769 | 1 792 938 |
| | Maturity after 6 months but within 1 year | 2 422 565 | 15 848 130 |
| | Maturity after 1 year but within 5 years | 45 519 149 | 3 041 640 |
| | | **53 106 482** | **21 477 748** |

Maturity is based on the remaining period from 30 June 2017 to contractual maturity.

## Abridged Notes to Financial Statements

For the half year ended 30 June 2017

| | Unaudited 30 June 2017 US$ | Audited 31 Dec 2016 US$ |
|---|---|---|
| **9.4 Sectoral analysis of loans and advances** | | |
| Agriculture | 24 462 873 | 1 582 614 |
| Construction | 4 832 531 | 1 309 288 |
| Distribution | 4 489 795 | 1 944 753 |
| Individuals | 2 098 085 | 771 507 |
| Manufacturing | 1 744 309 | 6 099 931 |
| Services | 10 556 775 | 10 151 565 |
| Mining | 1 497 349 | 251 |
| Communications | 751 899 | 1 196 |
| Transport | 3 700 802 | 253 874 |
| | 54 134 418 | 22 114 979 |
| Allowances for credit losses and suspended interest | (1 027 936) | ( 637 231) |
| | **53 106 482** | **21 477 748** |
| **9.5 Non performing loans** | | |
| Total loans and advances on which interest is suspended | **802 671** | **686 834** |

| | Specific US$ | General US$ | Total US$ |
|---|---|---|---|
| **9.6 Allowances for credit losses** | | | |
| Balance at 1 January 2016 | 3 528 008 | 317 035 | 3 845 043 |
| Charge against profits | (3 275 120) | 50 854 | (3 224 266) |
| **Balance at 31 December 2016** | **252 888** | **367 889** | **620 777** |
| Charge against profits | 86 537 | 304 146 | 390 683 |
| **Balance at 30 June 2017** | **339 425** | **672 035** | **1 011 460** |

**10 PROPERTY AND EQUIPMENT**

| | Leasehold Buildings US$ | Motor Vehicles US$ | Computer & Office Equipment US$ | Furniture & Fittings US$ | Computer Networks US$ | Total US$ |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| Balance at 1 January 2016 | 1 995 472 | 910 254 | 2 819 292 | 495 925 | 416 472 | 6 637 415 |
| Additions | 268 950 | 151 391 | 134 156 | 12 480 | 7 900 | 574 877 |
| Disposals | - | ( 44 100) | ( 3 910) | ( 870) | - | ( 48 880) |
| **Balance at 31 December 2016** | **2 264 422** | **1 017 545** | **2 949 538** | **507 535** | **424 372** | **7 163 412** |
| Balance at 1 January 2017 | 2 264 422 | 1 017 545 | 2 949 538 | 507 535 | 424 372 | 7 163 412 |
| Additions | 161 441 | 156 737 | 196 995 | 17 623 | 7 706 | 540 502 |
| **Balance at 30 June 2017** | **2 425 863** | **1 174 282** | **3 146 533** | **525 158** | **432 078** | **7 703 914** |
| DEPRECIATION AND IMPAIRMENT LOSSES | | | | | | |
| Balance at 1 January 2016 | 566 452 | 777 598 | 2 084 905 | 251 608 | 368 200 | 4 048 763 |
| Depreciation for the year | 91 858 | 126 096 | 409 611 | 50 394 | 24 769 | 702 728 |
| Disposals | - | ( 39 507) | ( 3 051) | ( 616) | - | ( 43 174) |
| **Balance at 31 December 2016** | **658 310** | **864 187** | **2 491 465** | **301 386** | **392 969** | **4 708 317** |
| Balance at 1 January 2017 | 658 310 | 864 187 | 2 491 465 | 301 386 | 392 969 | 4 708 317 |
| Depreciation for the period | 67 702 | 26 659 | 171 127 | 25 647 | 7 908 | 299 043 |
| **Balance at 30 June 2017** | **726 012** | **890 846** | **2 662 592** | **327 033** | **400 877** | **5 007 360** |
| CARRYING AMOUNT | | | | | | |
| At 1 January 2016 | 1 429 020 | 132 656 | 734 387 | 244 317 | 48 272 | 2 588 652 |
| **At 31 December 2016** | **1 606 112** | **153 358** | **458 073** | **206 149** | **31 403** | **2 455 095** |
| At 1 January 2017 | 1 606 112 | 153 358 | 458 073 | 206 149 | 31 403 | 2 455 095 |
| At 30 June 2017 | **1 699 851** | **283 436** | **483 941** | **198 125** | **31 201** | **2 696 554** |

| | Unaudited 30 June 2017 US$ | Audited 31 Dec 2016 US$ |
|---|---|---|
| **11 INVESTMENT PROPERTY** | | |
| **11.1 Analysis of movement** | | |
| Opening balance | 145 579 587 | 116 433 699 |
| Additions | 6 785 014 | 28 788 980 |
| Fair value adjustment | - | 356 908 |
| | **152 364 601** | **145 579 587** |

**11.2** Investment property comprises of buildings and undeveloped stands. Investment property is stated at fair value, which has been determined based on valuations performed by an accredited independent and professional valuer as at 31 December 2016. The valuation was carried out in accordance with the Royal Institute of Chatered Surveyors Appraisal and Valuation Manual and the Real Estate Institute of Zimbabwe Standards.

In determining the market values of the subject properties, the professional independent valuer considered the following:
- Comparable market evidence based on purchase transactions of similar buildings and residential stands;

- Professional judgement was exercised to take cognisance of of the fact that properties in the transactions were not exactly comparable in terms of size, quality and location to the properties owned by the Bank;
- The reasonableness of the market values of commercial properties so determined as per the above information, was assessed by reference to the properties in the transaction; and
- The value per square meter of lettable space and land resources for subject properties and comparables were analysed.

With regards to valuation of residential properties, the comparison method was used. This method entails carrying out a valuation by directly comparing the subject property, which has beed sold or rented out. The procedure was performed as follows:
- Surveys and data collection on similar past transactions;
- Analysis of the collected data; and
- Comparison of the analysis with the subject properties and then carrying out the valuation of the subject properties.

Adjustments were made to the following aspects:
- Age of property
- state of repair and maintenance;
- Aesthetic quality - quality of fixtures and fittings;
- Structural condition - location; and
- Accomodation offered - size of land.

**11.3** During the half year period, the Bank acquired investment properties valued at US$6.8 million through the settlement of various loan exposures.

**11.4** Included in the investment property is property with a carrying amount of US$38 million ceded as security to the Bank's Debentures and Preference Shares Trust. The Bank seeks to add value to the land through property development,thereby creating capacity to settle creditors when the debt instruments mature in 2018.

| | Unaudited 30 June 2017 US$ | Audited 31 Dec 2016 US$ |
|---|---|---|
| **12 INVESTMENT IN SUBSIDIARY** | | |
| **12.1 Analysis** | | |
| MCP Microfinance (Private) Limited | **105 870** | **105 870** |
| **12.2 The Bank owns 100% sahreholding in MCP Microfinance (Private)** Limited. The investment is shown at cost. | | |
| **13 DEFERRED TAXATION** | | |
| Deferred tax related to items charged or credited to statement of profit or loss and other comprehensive income during the year is as follows: | | |
| Additions to property and equipment | ( 552 554) | ( 552 554) |
| Investment property at fair value | ( 174 062) | ( 174 062) |
| Tax effect on tax losses and allowances for credit losses | 2 902 404 | 3 042 322 |
| | **2 175 788** | **2 315 706** |

## Abridged Notes to Financial Statements

For the half year ended 30 June 2017

| | Unaudited 30 June 2017 US$ | Audited 31 Dec 2016 US$ |
|---|---|---|
| **14 OTHER ASSETS** | | |
| **14.1 Analysis** | | |
| Prepayments | 448 930 | 227 107 |
| Work-in-progress - Property development | 3 833 056 | 1 953 300 |
| Income receivable | 826 274 | 187 941 |
| Sundry accounts receivables | 4 375 363 | 563 617 |
| | **9 483 623** | **2 931 965** |
| **14.2 Included in other assets are intangible assets as analysed below:** | | |
| At cost | 1 710 856 | 1 682 961 |
| Accumulated amortisation and impairment | (1 532 710) | (1 435 580) |
| | **178 146** | **247 381** |
| **Movement in intangible asset** | | |
| Opening balance | 247 381 | 534 673 |
| Additions | 27 895 | - |
| Reclassification of fan embarkment to prepayment | - | ( 46 000) |
| Amortisation charge | ( 97 130) | ( 241 292) |
| **Closing balance** | **178 146** | **247 381** |
| **14.3 Included in other assets is a related party balance as analysed below:** | | |
| **SME Bank Limited** | **61 851** | **61 851** |

**14.4 Nature of related party relationship**
The Bank has common shareholding with SME Bank Limited and the Bank incurred expenses on behalf of the other party.

| | | |
|---|---|---|
| **15 DEPOSITS FROM CUSTOMERS** | | |
| **15.1 Analysis of balances** | | |
| Current and savings accounts | 62 692 958 | 20 824 856 |
| Due to banks | 831 825 | 1 570 986 |
| Term deposits | 29 865 119 | 31 045 273 |
| | **93 389 902** | **53 441 115** |
| **15.2 Maturity** | | |
| Withdrawals on demand and within one month | 75 674 553 | 3 682 178 |
| 1 month and up to 3 months | 3 712 | 29 758 937 |
| 3 months and up to 1 year | 12 911 637 | 20 000 000 |
| Maturity after 1 year but within 5 years | 4 800 000 | - |
| | **93 389 902** | **53 441 115** |
| **15.3 Sectoral anlysis of customer depostis** | | |
| Construction | 374 417 | 341 229 |
| Agriculture | 20 828 089 | 4 400 853 |
| Financial institutions and offshore lines of credit | 1 347 233 | 8 770 972 |
| Distribution | 7 379 663 | 1 001 327 |
| Mining | 29 475 | 6 487 |
| Transport | 30 840 | 161 507 |
| Private | 1 179 214 | 1 301 638 |
| Manufacturing | 10 703 132 | 1 530 223 |
| Commercial | 27 232 512 | 6 197 514 |
| Communications | 237 952 | 86 021 |
| Quasi-government institutions | 24 047 375 | 29 643 344 |
| | **93 389 902** | **53 441 115** |
| **16 DEBENTURES** | | |
| **16.1 Analysis of balances** | | |
| Debentures issued | **28 300 781** | **29 815 203** |

**16.2** During the year ended 31 December 2015, the Bank successfully entered into compromise arrangements with some depositors whose balances were above US$100 000. This arrangement, on the back of signed proxies, led to the holding of an Extra-ordinary General Meeting (EGM) on 2 March 2015 which paved way for the issuance of preference shares and/or debentures, effectively convertingshort term creditors to long term (3 years) instrument holding investors. A total of US$28 300 781 worth of debentures were outstanding at the end of the period.
These debentures carry a coupon rate of 2% per annum and are secured by investment property worth US$38 million as disclosed on note 11.4.

| | | |
|---|---|---|
| **17 OTHER LIABILITIES** | | |
| **17.1 Analysis of balances** | | |
| Accrued expenses | 8 420 378 | 12 008 730 |
| Treasury bills | 20 420 000 | 22 800 000 |
| Due to ZAMCO | 17 195 868 | 19 953 167 |
| Other provisions | 5 635 113 | 4 747 548 |
| | **51 671 359** | **59 509 445** |
| **17.2 Included in other liabilities is a related party balances as analysed below:** | | |
| SME Bank Namibia (note 14.4) | **400 000** | **400 000** |
| **18 SHARE CAPITAL** | | |
| **18.1 Authorised** | | |
| 195 000 000 ordinary shares of US$0,10 each | 19 500 000 | 19 500 000 |
| 20 000 000 (2015: 15 000 000) preference shares of US$1 each | 20 000 000 | 20 000 000 |
| | **39 500 000** | **39 500 000** |
| **18.2 Issued and fully paid** | | |
| 125 000 000 ordinary shares of US$0,10 each | 12 500 000 | 2 500 000 |
| "15 911 637 irredeemable non-cumulative preference shares of US$1 each" | 15 911 637 | 15 911 637 |
| "3 100 763 convertible cumulative redeemable preference shares of US$1 each" | 3 100 763 | 3 100 763 |
| | **31 512 400** | **31 512 400** |

metbank Registered Commercial Bank

**18.3 Non-cumulative preference shares**
During the year ended 31 December 2015, the Bank successfully entered into compromise arrangements with some depositors whose balances were above US$100 000. These arrangements, on the back of signed proxies, led to the holding of an Extra-ordinary General Meeting (EGM) on 2 March 2015 which paved way for the issuance of preference shares and/or debentures effectively converting short term creditors to long term (3 years) instrument holding investors.

During the preceding year, the Bank's Shareholders approved to increase the number of authorised preference shares from 15 000 000 to 20 000 000 to create room for issuance of additional preference shares, a process which was still being regularised with the Registrar of Companies as at 30 June 2017. The Board of Directors was given a mandate to effect the issuance of the preference shares.

| | Unaudited 30 June 2017 US$ | Unaudited 30 June 2016 US$ |
|---|---|---|
| **19 RELATED PARTY TRANSACTIONS** | | |
| **19.1 Benefits to Key Management Personnel** | | |
| Key Management Personnel | | |
| Short term and long term benefits | 837 030 | 693 999 |
| Post employment benefits | 70 318 | 35 760 |
| | **907 348** | **729 759** |

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. These include the Managing Director, Executive Director Banking, Chief Finance Officer, Head Human Resources, Company Secretary, Head of Compliance, Chief Internal Auditor, Head Treasury, Head Operations, Head Information Technology, Head Retail Banking and Head Corporate Banking.

| | | |
|---|---|---|
| **19.2 Non Executive Directors' Fees** | | |
| Directors' fees | **12 000** | **12 000** |

**19.3 Holding Company Transactions and Balances**
Following the acquisition of 60% of the ordinary share capital of the Bank on 01 July 2007, Metbank Limited is a subsidiary of Loita Finance Holdings Limited, incorporated in Mauritius.
There were no transactions between Metbank and the holding company during the period.

| | | |
|---|---|---|
| **19.4 Included in sundry creditors is a related party balance** | | |
| Amount owed to SME Bank Limited | **400 000** | **400 000** |

**19.5** SME Bank Limited - Common shareholding
MCP Microfinance (Private) Limited - Subsidiary. The subsidiary is still being set up and has not been consolidated into the Bank's financial statements.

**20. CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS**

| | Unaudited 30 June 2017 US$ | Audited 31 Dec 2016 US$ |
|---|---|---|
| **Contingent Liabilities** | | |
| Guarantees and performance bonds | 10 090 823 | 3 094 007 |
| Legal claims | 600 000 | 34 994 |
| | **10 690 823** | **3 129 001** |

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees and letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank (see note 21.1.1 - credit risk).

Letters of credit and guarantees commit the bank to make payments on behalf of the customers in the event of a specific act, generally related to import of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

**Legal Claims**
Litigation is a common occurrence in the Banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At 30 June 2017, the Bank had several unresolved legal claims.

The Bank has been advised by its legal advisors that it is possible, but not probable, that the legal actions against the bank will succeed. Accordingly, no provisions have been made in these financial statements for those claims where the bank has been advised that the legal claims are not probable to succeed. The possible outflow which could result from such litigation, based on the current status of the legal proceedings, is estimated to be no more than US$600 000 (2016: US$34 994) while the timing of the outflow is uncertain.

**21.RISK MANAGEMENT**

**21.1 Introduction**
Risk is inherent in the Bank's activities and is managed through an ongoing process of identification, measurement, monitoring, controlling, and reporting. The risk management approaches deployed by the Bank are aligned with the strategic objective of increasing shareholder value. To that effect the Bank continues to improve its bank-wide risk management framework. Each Unit of the Bank has assumed ownership of the risks inherent in its processes and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. Due to the nature of banking business, the Bank is exposed mainly to credit risk, market risk, operational risk and liquidity risk. The Bank has resolved to mitigate these risks not in silos but in a holistic manner.

**Risk Management Structure**
The Board of Directors is responsible for the overall risk management process of the Bank through the appointed Board Risk, Compliance and Capital Management Committee which has the responsibility to monitor the overall risk process within the Bank. The Board Risk Committee has the overall responsibility for the development of the risk strategy and provides oversight to the Bank-wide risk management process.

The Risk Management Department is responsible for driving the implementation process and reporting on all matters pertaining to the risk profile of the Bank. The department works closely with Units of the Bank to ensure that the risk strategy is implemented and desired goals are realized. Each department within the Bank is responsible for the control of its risks in line with the Bank's risk guidelines, policies and procedures. This includes monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions.

The Finance Department and Treasury Department are responsible for managing the Bank's assets and liabilities and the overall financial structure. They are primarily responsible for the funding and liquidity risks of the Bank. The Bank's policy is that risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Finance and Audit Committee.

The Bank's Asset and Liabilities Management Committee adopts a proactive risk management approach to ensure that all risk profiles fall within an acceptable balance between risk and return. The Bank has over the years developed a comprehensive risk management framework together with policies, procedures and guidelines as a management tool to accomplish stated objectives and strategies.

**21.1.1 Credit Risk**
Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank also ensures that applicants for credit facilities are assessed using an internal credit rating system before the facility is granted and their performance is continuously monitored so as to maintain a quality loan book. The credit mitigation techniques include collateral, netting arrangements, guaranties and insurance. The internal rating process and the credit risk mitigation techniques have been incorporated in the Bank's credit



Directors: W.T. Manase (Chairman), B.N. Ndebele*(Managing Director), O. Bvute, E. Chawoneka*, P.F. Chingoka, Dr. M. Maulana *Executive

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For the half year ended 30 June 2017

risk policy and procedures.

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table shown in note 21.1.12 shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the bank's internal credit rating system. The amounts presented are gross of impairment allowances.

**21.1.2 Interest Rate Risk**

The Bank is exposed to the risks associated with the effects of fluctuations in levels of interest rates on its financial position and cashflows. Managing interest rate risk in the bank is done through three analytical techniques namely gap analysis, simulation and duration. These analytical tools contribute towards identifying the risk exposure as well as the sensitivity to interest rate risk (refer to note 21.1.14).

**21.1.3 Liquidity Risk**

Liquidity risk is defined as the risk that the Bank may fail to fund increases in assets or meet obligations as they fall due without incurring unacceptable losses. This may be caused by the Bank's inability to liquidate assets or to obtain funding to meet its liquidity needs. Liquidity risk could be a result of a market disruption or liquidity squeeze whereby the Bank may only be able to unwind specific exposures at significantly discounted values. To limit this risk, management, through the Assets and Liabilities Committee (ALCO) has arranged diversified funding sources for the Bank in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the loans to deposit ratio, which compares loans and advances to customers as a percentage of customer current and savings accounts, together with term funding with a remaining term to maturity in excess of one year (refer to note 21.1.15).

**21.1.4 Foreign Exchange Risk**

Foreign exchange risks arise from future commercial transactions and recognised assets and liabilities. This is the risk from movement in the relative rates of exchange between currencies. The risk is controlled through control of open position as per ALCO directives, Reserve Bank of Zimbabwe requirements and analysis of the market. The Bank manages this risk through monitoring long and short positions and assessing the likely impact of forecasted movements in exchange rates on the Bank's profitability (refer to note 22).

**21.1.5 Operational Risk**

Operational risk is the risk of loss due to inadequate or failed internal processes, people, systems, external and legal events. Operational risk can have financial, non-financial impact of varying degrees to the Bank. Like any other risk category, operational risk can also have severe impact on the reputation of the bank. The Bank endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit. The measurement of operational risk involves the analysis of operational loss data and continuous on-site assessments of performance of operational controls for all business processes.

**Stress testing**

The Bank carries out stress testing on a regular basis in order to investigate potential vulnerabilities of the institution to exceptionally severe but plausible events pertaining to credit risk, interest rate risk, foreign exchange risk and liquidity risk. The stress testing carried out enables the bank to assess its resilience to severe shocks from within or from the market. Severe shocks are events with a low likelihood of occurrence but with high impact on the financial condition of the Bank. The bank shall continue to use stress testing as an early warning system and to compliment other risk management initiatives. Stress testing helps to determine the preparedness of the bank to absorb losses resulting from shock events. The stress testing methodology applied enables comparison of pre-shock capital levels and prudential ratios with corresponding post-shock values leading to the conclusion that the bank is resilient or not.

**21.1.6 Market Risk**

Market risk is the risk that adverse changes in the market value of a portfolio of financial instruments may result in losses to the bank. Market risk exposures relating to dealing positions are housed and managed in the Treasury division within a framework of pre-approved portfolio limits.

The Bank's Risk Management department is responsible for daily monitoring of limits and pricing, thereby ensuring that any errors or unauthorised transactions are promptly identified.

**21.1.7 Reputational Risk**

Reputational risk is the risk that the Bank could lose its market share due to perception by the market that the Bank is not conducting business in a sound manner. The Bank has in place customer complaints monitoring procedures for ensuring continuous improvements in the bank's service standards.

**21.1.8 Legal Risk**

Legal risk is the risk that a transaction or contract cannot be consummated because of some legal barrier, such as inadequate documentation, a regulatory prohibition on a specific counter-party and the non-enforceability of contracts such as netting and collateral arrangements in bankruptcy.

The Bank's legal department safe keeps, maintains and approves all existing and new legal documents of the bank.

**21.1.9 Compliance Risk**

Compliance risk is the risk of financial loss or otherwise arising from violations of regulatory laws and rules which may result in adverse judgements in lawsuits or regulatory sanctions such as penalties, negatively affecting the Bank's ability to achieve its operational objectives.

The Bank has in place an independent compliance function that regularly monitors and reports on the compliance risk exposure of the Bank.

**21.1.10 Strategic Risk**

Strategic risk is the risk of an unattractive or adverse impact on capital and earnings due to business policy decisions (made or not made), changes in the economic environment, deficient or insufficient implementation of decisions, or a failure to adapt to changes in the environment.

The Board is ultimately responsible for the development, approval and application of the Bank's strategic risk policies. The Board approves the Bank's strategy, whilst management is responsible for implementation and ensuring that regular reviews are done in line with changes in operating conditions.

**21.1.11 Capital adequacy**

Capital adequacy measurement is designed to assess the stability of a financial institution with emphasis being placed on the credit risk of the Bank vis-à-vis its capital base. As per Banking Regulations 2000, capital supporting banking and trading activities is split into two classes namely core capital (tier 1) and supplementary capital (tier 2) (refer to note 24).

The minimum total risk based capital ratio for a banking institution as per the regulations is 10%. The risk weightings depend on the credit, market and associated risks. The higher the exposures the more the capital needed.

**21.1.12 CREDIT RISK ANALYSIS**

**21.1.12.1 Maximum Exposure to Credit Risk by Grade**

| | 2017 US$ Gross maximum exposure | 2017 US$ Value of security | 2017 US$ Net maximum exposure | 2016 US$ Gross maximum exposure | 2016 US$ Value of security | 2016 US$ Net maximum exposure |
|---|---|---|---|---|---|---|
| Total pass | 46 456 046 | - | 46 456 046 | 13 774 282 | - | 13 774 282 |
| Total special mention | 6 875 701 | - | 6 875 701 | 7 653 863 | - | 7 653 863 |
| Total substandard | 42 492 | 1 181 | 41 311 | 37 965 | 1 160 | 36 805 |
| Total doubtful | 587 624 | 270 182 | 317 442 | 536 279 | 270 182 | 266 097 |
| Total loss | 172 555 | 113 | 172 442 | 112 590 | 111 | 112 479 |
| | **54 134 418** | **271 476** | **53 862 942** | **22 114 979** | **271 453** | **21 843 526** |

**21.1.12.2 Maximum Exposure to Credit Risk by Sector**

| | 2017 US$ Gross maximum exposure | 2017 US$ Value of security | 2017 US$ Net maximum exposure | 2016 US$ Gross maximum exposure | 2016 US$ Value of security | 2016 US$ Net maximum exposure |
|---|---|---|---|---|---|---|
| Agriculture | 24 417 574 | 41 299 | 24 376 275 | 1 582 614 | 41 298 | 1 541 316 |
| Construction | 4 832 534 | - | 4 832 534 | 1 309 286 | - | 1 309 286 |
| Distribution | 4 492 610 | 230 000 | 4 262 610 | 1 943 238 | 230 000 | 1 713 238 |
| Individuals | 2 137 993 | 112 | 2 137 881 | 1 771 507 | 112 | 1 771 395 |
| Manufacturing | 1 746 154 | - | 1 746 154 | 6 099 931 | - | 6 099 931 |
| Services | 11 307 992 | 65 | 11 307 927 | 9 153 081 | 43 | 9 153 038 |
| Mining | 1 497 348 | - | 1 497 348 | 251 | - | 251 |
| Communications | 1 405 | - | 1 405 | 1 196 | - | 1 196 |
| Transport | 3 700 808 | - | 3 700 808 | 253 875 | - | 253 875 |
| | **54 134 418** | **271 476** | **53 862 942** | **22 114 979** | **271 453** | **21 843 526** |

**21.1.13 Credit quality by sector and grading**

**Total Position as at 30 June 2017**

| | 2017 US$ Total pass | 2017 US$ Total special mention | 2017 US$ Total substandard | 2017 US$ Total doubtful | 2017 US$ Total loss | 2017 US$ Total |
|---|---|---|---|---|---|---|
| Agriculture | 24 138 117 | 71 493 | 5 790 | 190 995 | 11 179 | 24 417 574 |
| Construction | 4 820 505 | - | 5 305 | - | 6 724 | 4 832 534 |
| Distribution | 4 144 636 | 5 766 | 47 | 322 402 | 19 759 | 4 492 610 |
| Individuals | 1 880 203 | 49 163 | 21 235 | 68 025 | 119 367 | 2 137 993 |
| Manufacturing | 1 744 119 | 64 | - | 1 886 | 85 | 1 746 154 |
| Services | 4 533 718 | 6 749 146 | 9 411 | 4 316 | 11 401 | 11 307 992 |
| Mining | 1 497 348 | - | - | - | - | 1 497 348 |
| Communications | 1 351 | - | 54 | - | - | 1 405 |
| Transport | 3 696 049 | 69 | 650 | - | 4 040 | 3 700 808 |
| | **46 456 046** | **6 875 701** | **42 492** | **587 624** | **172 555** | **54 134 418** |

**Total Position as at 31 December 2016**

| | 2016 US$ Total pass | 2016 US$ Total special mention | 2016 US$ Total substandard | 2016 US$ Total doubtful | 2016 US$ Total loss | 2016 US$ Total |
|---|---|---|---|---|---|---|
| Agriculture | 1 331 498 | 49 576 | 4 395 | 189 678 | 7 467 | 1 582 614 |
| Construction | 1 297 709 | - | 5 194 | - | 6 383 | 1 309 286 |
| Distribution | 1 641 760 | 1 274 | - | 282 536 | 17 668 | 1 943 238 |
| Individuals | 1 606 205 | 15 147 | 18 226 | 61 792 | 70 137 | 1 771 507 |
| Manufacturing | 6 099 874 | 37 | - | - | 20 | 6 099 931 |
| Services | 1 545 753 | 7 587 661 | 9 360 | 2 273 | 8 034 | 9 153 081 |
| Mining | 251 | - | - | - | - | 251 |
| Communications | 1 137 | - | - | - | 59 | 1 196 |
| Transport | 250 095 | 168 | 790 | - | 2 822 | 253 875 |
| | **13 774 282** | **7 653 863** | **37 965** | **536 279** | **112 590** | **22 114 979** |

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For the half year ended 30 June 2017

**21.1.14 INTEREST RATE REPRICING AND GAP ANALYSIS**

**21.1.14.1 Total position at 30 June 2017**

| | Up to 1 month US$ | 1 month to 6 months US$ | 6 months to 1 year US$ | Over 1 year US$ | Non-interest bearing US$ | Total US$ |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Bank and cash balances | 2 723 166 | - | 83 330 | - | - | 2 806 496 |
| Loans and advances to customers | 1 074 999 | 4 089 769 | 2 422 565 | 45 519 149 | - | 53 106 482 |
| Financial assets held through profit or loss | 81 078 | 2 097 161 | 830 443 | 6 524 052 | - | 9 532 734 |
| Deferred taxation | - | - | - | - | 2 175 788 | 2 175 788 |
| Property and equipment | - | - | - | - | 2 696 554 | 2 696 554 |
| Investment property | - | - | - | - | 152 364 601 | 152 364 601 |
| Investment in subsidiary | - | - | - | - | 105 870 | 105 870 |
| Other assets | - | - | - | - | 9 483 623 | 9 483 623 |
| | **3 879 243** | **6 186 930** | **3 336 338** | **52 043 201** | **166 826 436** | **232 272 147** |
| **EQUITY AND LIABILITIES** | | | | | | |
| Shareholders' equity | - | - | - | - | 58 910 105 | 58 910 105 |
| Deposits from customers | 50 685 428 | 17 904 474 | 20 000 000 | 4,800,000.00 | - | 93 389 902 |
| Debentures | - | - | - | 28 300 781 | - | 28 300 781 |
| Other liabilities | - | - | - | 51 671 360 | - | 51 671 360 |
| | **50 685 428** | **17 904 474** | **20 000 000** | **84 772 141** | **58 910 105** | **232 272 147** |
| Interest rate re-pricing gap | **(46 806 185)** | **(11 717 544)** | **(16 663 662)** | **(32 728 940)** | **107 916 331** | |
| Cumulative gap as at 30 June 2017 | **(46 806 185)** | **(58 523 728)** | **(75 187 391)** | **(107 916 331)** | **-** | |

**Total position at 31 December 2016**

| | Up to 1 month US$ | 1 month to 6 months US$ | 6 months to 1 year US$ | Over 1 year US$ | Non-interest bearing US$ | Total US$ |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Bank and cash balances | 21 359 272 | - | 30 924 | - | - | 21 390 196 |
| Loans and advances to customers | 795 040 | 1 792 938 | 15 848 130 | 3 041 640 | - | 21 477 748 |
| Financial assets held through profit or loss | 81,078.00 | 1,299,030.24 | 8 622 | 3 627 518 | - | 5 016 248 |
| Deferred taxation | - | - | - | - | 2 315 706 | 2 315 706 |
| Property and equipment | - | - | - | - | 2 455 095 | 2 455 095 |
| Investment property | - | - | - | - | 145 579 587 | 145 579 587 |
| Investment in subsidiary | - | - | - | - | 105 870 | 105 870 |
| Other assets | - | - | - | - | 2 931 965 | 2 931 965 |
| | **22 235 390** | **3 091 968** | **15 887 676** | **6 669 158** | **153 388 223** | **201 272 415** |
| **EQUITY AND LIABILITIES** | | | | | | |
| Shareholders' equity | - | - | - | - | 58 506 652 | 58 506 652 |
| Deposits from customers | 15 536 641 | 17 904 474 | 20 000 000 | - | - | 53 441 115 |
| Debentures | - | - | - | 29 815 203 | - | 29 815 203 |
| Other liabilities | - | - | - | 59 509 445 | - | 59 509 445 |
| | **15 536 641** | **17 904 474** | **20 000 000** | **89 324 648** | **58 506 652** | **201 272 415** |
| Interest rate re-pricing gap | **6 698 749** | **(14 812 506)** | **(4 112 324)** | **(82 655 490)** | **94 881 571** | |
| Cumulative gap as at 31 December 2016 | **6 698 749** | **(8 113 757)** | **(12 226 081)** | **(94 881 571)** | **-** | |

**21.1.15 LIQUIDITY RISK**

**21.1.15.1 Total position at 30 June 2017**

| | Up to 1 month US$ | 1 month to 6 months US$ | 6 months to 1 year US$ | Over 1 year US$ | Total US$ |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Bank and cash balances | 2 723 166 | - | 83 330 | - | 2 806 496 |
| Loans and advances to customers | 1 074 999 | 4 089 769 | 2 422 565 | 45 519 149 | 53 106 482 |
| Financial assets held through profit or loss | 81 078 | 2 097 161 | 830 443 | 6 524 052 | 9 532 734 |
| Deferred taxation | - | - | - | 2 175 788 | 2 175 788 |
| Property and equipment | - | - | - | 2 696 554 | 2 696 554 |
| Investment property | - | - | - | 152 364 601 | 152 364 601 |
| Investment in subsidiary | - | - | - | 105 870 | 105 870 |
| Other assets | - | - | - | 9 483 622 | 9 483 622 |
| | **3 879 243** | **6 186 930** | **3 336 338** | **218 869 636** | **232 272 147** |
| **EQUITY AND LIABILITIES** | | | | | |
| Shareholders' equity | - | - | - | 58 910 105 | 58 910 105 |
| Deposits from customers | 50 685 428 | 17 904 474 | 20 000 000 | 4 800 000 | 93 389 902 |
| Debentures | - | - | - | 28 300 781 | 28 300 781 |
| Other liabilities | - | - | - | 51 671 359 | 51 671 359 |
| | **50 685 428** | **17 904 474** | **20 000 000** | **143 682 245** | **232 272 147** |
| **Net liquidity gap** | **(46 806 185)** | **(11 717 544)** | **(16 663 662)** | **75 187 391** | |
| **Cumulative gap as at 30 June 2017** | **(46 806 185)** | **(58 523 729)** | **(75 187 391)** | | |

**Total position at 31 December 2016**

| | Up to 1 month US$ | 1 month to 6 months US$ | 6 months to 1 year US$ | Over 1 year US$ | Total US$ |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Bank and cash balances | 21 359 272 | - | 30 924 | - | 21 390 196 |
| Loans and advances to customers | 795 040 | 1 792 938 | 15 848 130 | 3 041 640 | 21 477 748 |
| Financial assets held through profit or loss | 81 078 | 1 299 030 | 8 622 | 3 627 518 | 5 016 248 |
| Deferred taxation | - | - | - | 2 315 706 | 2 315 706 |
| Property and equipment | - | - | - | 2 455 095 | 2 455 095 |
| Investment property | - | - | - | 145 579 587 | 145 579 587 |
| Investment in subsidiary | | | - | 105 870 | 105 870 |
| Other assets | - | - | - | 2 931 965 | 2 931 965 |
| | **22 235 390** | **3 091 968** | **15 887 676** | **160 057 381** | **201 272 415** |
| **EQUITY AND LIABILITIES** | | | | | |
| Shareholders' equity | - | - | - | 58 506 652 | 58 506 652 |
| Deposits from customers | 15 536 641 | 17 904 474 | 20 000 000 | - | 53 441 115 |
| Debentures | - | - | - | 29 815 203 | 29 815 203 |
| Other liabilities | | | | 59 509 445 | 59 509 445 |
| | **15 536 641** | **17 904 474** | **20 000 000** | **147 831 300** | **201 272 415** |
| **Net liquidity gap** | **6 698 749** | **(14 812 506)** | **(4 112 324)** | **12 226 081** | |
| **Cumulative gap as at 31 December 2016** | **6 698 749** | **(8 113 757)** | **(12 226 081)** | | |

**22 FOREIGN EXCHANGE GAP ANALYSIS**

**Total position as at 30 June 2017**

| **Base currency** / **US$ equivalent** | ZAR US$ | EUR US$ | BWP US$ | GBP US$ | AUD US$ | TOTAL US$ |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 389 | 34 | 6 | 71 | 46 | 546 |
| Nostro balances | 76 140 | 392 | - | 3 092 | - | 79 624 |
| Loans and overdrafts | 10 224 | 4 155 | 730 | 15 005 | - | 30 114 |
| **Total assets** | **86 753** | **4 581** | **736** | **18 168** | **46** | **110 284** |
| **Liabilities** | | | | | | |
| Deposits from customers | 47 411 | 1 534 | 139 | 185 | - | 49 269 |
| **Total liabilities** | **47 411** | **1 534** | **139** | **185** | **-** | **49 269** |
| **Net Currency Position** | **39 342** | **3 047** | **597** | **17 983** | **46** | **61 015** |

**Total position as at 31 December 2016**

| **Base currency** / **US$ equivalent** | ZAR US$ | EUR US$ | BWP US$ | GBP US$ | AUD US$ | TOTAL US$ |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 5 484 | 3 007 | 492 | 10 043 | - | 19 026 |
| Nostro balances | 231 099 | 7 806 | - | - | - | 238 906 |
| Loans and Overdrafts | 217 | 32 | 6 | 12 | 43 | 310 |
| **Total assets** | **236 800** | **10 845** | **498** | **10 055** | **43** | **258 242** |
| **Liabilities** | | | | | | |
| Deposits from customers | 46 032 | 1 415 | 133 | 175 | - | 47 755 |
| **Total liabilities** | **46 032** | **1 415** | **133** | **175** | **-** | **47 755** |
| **Net Currency Position** | **190 768** | **9 430** | **365** | **9 880** | **43** | **210 487** |

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For the half year ended 30 June 2017

| | Unaudited 30 June 2017 US$ | Unaudited 30 June 2016 US$ |
|---|---|---|
| **23 POST EMPLOYMENT BENEFITS** | | |
| **23.1 The amounts recognised in the income statement are as follows:-** | | |
| Metbank Pension Fund contributions | 29 227 | 35 137 |
| National Social Security Authority contributions | 86 183 | 80 205 |
| | **115 410** | **115 342** |

**23.2 Metropolitan Bank Pension Fund**

Post employment benefits are provided for all permanent employees by a separate pension fund to which the Bank contributes. The fund is a defined contribution plan under which retirement benefits are determined by reference to the employee's contributions and the performance of the fund.

**23.3 National Social Security Authority Pension Fund**

This is a separately funded defined benefit plan established under the National Social Security Act of 1987.The Bank contributes 3.5% of pensionable emoluments of eligible employees upto a maximum of US$700 per employee.

**24. CAPITAL MANAGEMENT**

The Bank has adopted the Internal Capital Adequacy Assessment Policy which articulates the Bank's approach, assessment and management of risk and capital from an internal perspective.

The objective of the Bank's capital management process is to ensure that it complies with the Reserve Bank of Zimbabwe (RBZ) requirements. In implementing the current capital requirements, the RBZ requires the Bank to maintain a prescribed ratio of total capital to total risk weighted assets.

The Bank's objectives, when managing capital are:

- To comply with the capital requirements set by the Reserve Bank of Zimbabwe;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its businesses.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee as implemented by the Reserve Bank of Zimbabwe (the "RBZ"), for supervisory purposes for the Bank. The required information is filed with the RBZ on a quarterly basis.

The Bank's Regulatory capital consists of:

- Tier 1 capital, which includes ordinary share capital and premium, retained profits, non-distributable reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes;
- Tier 2 capital, which includes qualifying subordinated liabilities, revaluation reserve, collective impairment allowances and the element of the fair value reserve relating to unrealized gains on equity instruments classified as available-for-sale; and
- Tier 3 capital or market and operational risk capital include market risk capital and operational risk capital. Operational risk includes legal risk. Market risk capital is allocated to the risk of losses in the on and off statement of financial position arising from movements in market prices.

The Bank's regulatory capital position as at 30 June 2017 was as follows:

| | Unaudited 30 June 2017 US$ | Audited 31 Dec 2016 US$ |
|---|---|---|
| **24.1 CAPITAL ADEQUACY** | | |
| Ordinary share capital | 12 500 000 | 12 500 000 |
| Non redemable preference shares | 15 911 637 | 15 911 637 |
| Retained profit | 11 467 933 | 11 064 480 |
| Core Capital | 39 879 570 | 39 476 117 |
| | 39 879 570 | 39 476 117 |
| less Capital allocated for operational risk | (5 767 239) | (2 034 607) |
| **Tier 1 capital** | **34 112 331** | **37 441 510** |
| General provisions | 672 035 | 367 889 |
| Capital reserves | 15 929 772 | 15 929 772 |
| **Tier 2 capital** | **16 601 807** | **16 297 661** |
| Tier 3 capital :-Sum of market and operational risk capital | 5 767 239 | 2 034 607 |
| **Total regulatory capital** | **56 481 377** | **55 773 778** |
| Capital adequacy ratio | 21.6% | 19.0% |
| Tier I Ratio | 15.1% | 14.8% |
| Tier II Ratio | 7.3% | 6.4% |
| Tier III Ratio | 2.6% | 0.8% |

**25. FAIR VALUES**

In the application of the Company's accounting policies, management is 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, the work of independent professional valuers and other factors that are considered to be relevant. Actual outcomes may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Investment property**

The values of the investment properties are reviewed annually by independent professional valuers where the results of the movement of the values are adjusted for in the profit or loss as fair value adjustments under investment income or impairment. Independent professional valuers base their valuations on the open market values being the price at which a willing seller and a willing buyer, who are both well informed about the market conditions, are prepared to transact acting at arm's length. Independent professional valuers adjust the open market value for part of the property that will have been sold or committed to third parties and/or associates.

**26.GOING CONCERN**

The Bank's Board of Directors has made an assessment of the Bank's ability to continue operating as a going concern amid liquidity challenges the Bank is facing.

The Bank has put in place a raft of measures to address the potential impact of the liquidity challenges, key amongst them being the restructuring of the Bank's statement of financial position and refocusing the Bank's business model towards Property Development and Mortgage Financing. Key achievements which have significantly improved the stability of the Bank includes the successful issuance of long term debt instruments, the restructuring of the Bank's loan book to improve collections, the establishment of new lines of credit, and the successful debt to equity swap. The Bank has also planned the disposal of investment properties considering the significant portfolio of real estate on the Bank's statement of financial position to unlock liquid capital.

The Bank has also further streamlined its branch network and rationalized staff numbers in the process to create a more sustainable overhead structure.

All these efforts have resulted in the significant improvement in the Bank's profitability to the current profit level of US$0.4 million.

Given the initiatives above, the Directors believe that the Bank has adequate resources and capacity to continue in operational existence for the foreseeable future. The Bank therefore continues to adopt the going concern basis in preparing its financial statements.

**27. RISK AND CREDIT RATINGS INFORMATION**

**CAMELS Ratings**

The Reserve Bank of Zimbabwe Conducts regular examinations of Banks and Financial Institutions it regulates. The results of the last inspection conducted by the Reserve Bank as at 31 March 2017 are as follows:-

**March 2017 CAMELS* Ratings**

| Capital | Asset Quality | Management | Earnings | Liquidity | Sensitivity to Market Risk | Overall Rating |
|---|---|---|---|---|---|---|
| 3 – Fair | 3 – Fair | 3 – Fair | 4 – Weak | 4 – Weak | 2 – Satisfactory | 3 – Fair |

CAMELS is an acronym for capital adequacy, asset quality management, earnings, liquidity and sensitivity to market risk. CAMELS Rating System uses a rating scale of 1 to 5 where '1'; strong; '2' is satisfactory; '3' is fair '4' is weak and '5' is critical.

The Reserve Bank instructed the bank to address its illiquid balance sheet structure which comprises predominantly of fixed assets. The bank has in place a fixed assets reduction plan aimed at reducing fixed assets to within the recommended acceptable benchmark of 25% of total assets.

**External Credit Ratings**

| Rating Agent | Global Credit Rating Company (GCR) |
|---|---|
| Date Issued | Long Term Credit Rating |
| September 2010 | BB+ |
| September 2011 | BB+ |
| September 2012 | BB+ |
| September 2013 | BB |
| November 2014 | LD |
| December 2015 | CCC |
| October 2016 | CCC |

## Abridged Notes to Financial Statements

For the half year ended 30 June 2017

**28. Corporate Governance report**

**28.1The Board**

The Board is responsible to the shareholders for setting the direction of the Bank through the establishment of strategies, objectives, key policies and management structures. It monitors the implementation of these strategies and policies through a structured approach to reporting and accountability and recognizes that it is responsible for developing relationships with its various stakeholders and it actively manages those relationships.

The Board is committed to high standards of corporate governance and believes that a sound governance structure engenders a successful company. Throughout the period ended 30 June 2017 the Bank has, in the Directors' opinion, complied fully with the tenets of good corporate governance. Metbank's Board recognizes the critical importance of having an effective Board of Directors. The Board also places the highest importance on active engagement with its shareholders; meetings are held regularly with shareholders and the Board takes account of shareholders' views.

In the period to 30 June 2017, the Board met two times in line with Bank policy. The record of attendance by Directors is as follows:

| | Meetings held | | |
|---|---|---|---|
| Member | 1 | 2 | % Attendance |
| Mr. W. Manase | √ | √ | 100 |
| Mr. B. N. Ndebele | √ | √ | 100 |
| Mr. O. Matore | √ | R | 100 |
| Mr. O. Bvute | √ | √ | 100 |
| Mr. P. Chingoka | √ | √ | 100 |
| Mr. E. Chawoneka | √ | √ | 100 |
| Dr. M. Maulana | √ | √ | 100 |

**KEY**

√ : Present

R : Retired

**28.2 Audit and Finance Committee**

The Audit and Finance Committee consists of three members all of whom are independent nonexecutive directors.

The committee meets at least four times a year to review the following:

- The adequacy and appropriateness of the Bank's accounting and internal control system.
- The Bank's strategy and budgets.
- Efficiency and effectiveness in the utilization of operational and capital resources.
- The Bank's financial statements and accounting policies.

The record of attendance by members of the Committee is as follows:

| | Meetings held | | |
|---|---|---|---|
| Member | 1 | 2 | % Attendance |
| Mr. O. Matore | √ | R | 100 |
| Mr. P. Chingoka | √ | √ | 100 |
| Dr. M. Maulana | √ | √ | 100 |

**KEY**

√ : Present

R : Retired

**28.3 Risk, Compliance and Capital Management Committee**

The Committee's terms of reference are to:

- Define the policy framework and processes for risk management;
- Ensure continuous risk monitoring by management; receive assurance regarding the adequacy and effectiveness of the risk policies, procedures, practices and controls applied within the Bank in the day-to-day management of its business.
- Identify and assess the risks to which the Bank is exposed.
- Assess and evaluate appropriateness of risk mitigation strategies to ensure that the Bank optimally manages the risks to which it is exposed.
- Ensures that the Bank undertakes a formal internal risk assessment at least annually.

The record of attendance by members of the Risk and Compliance Committee is as follows:

| | Meetings held | | |
|---|---|---|---|
| Member | 1 | 2 | % Attendance |
| Mr. P. Chingoka | √ | √ | 100 |
| Mr. O. Matore | √ | R | 100 |
| Mr. B. N. Ndebele | √ | √ | 100 |
| Dr. M. Maulana | √ | √ | 100 |

**KEY**

√ : Present

R : Retired

**28.4 Loans Review Committee**

The Committee is responsible for ensuring that:

- Loans portfolio and lending function conforms to the approved lending policy approved and adopted by the Board.
- Portfolio risk is properly assessed, identified and categorized in accordance with the Reserve Bank of Zimbabwe regulations.
- Potential losses are adequately and properly provided for in the correct accounting period.

The record of attendance by members of the Loans Review Committee is shown below:

| | Meetings held | | |
|---|---|---|---|
| Member | 1 | 2 | % Attendance |
| Mr. W. Manase | √ | √ | 100 |
| Mr. P. Chingoka | √ | √ | 100 |

**KEY**

√ : Present

**28.5 Human Resources and Remuneration Committee**

The responsibilities of the Committee are as follows:

- Determine the policy framework of the remuneration of employees of the Bank.
- Retain and attract the right calibre of management and staff by ensuring that they are appropriately remunerated for their contribution to the performance of the Bank and also to oversee the issue of key succession planning.
- Determine the scope of pension arrangements and performance related pay schemes.

The Committee met two times in the period under review. The record of attendance by members of the Human Resources and Remuneration Committee is shown below:

| | Meetings held | | |
|---|---|---|---|
| Member | 1 | 2 | % Attendance |
| Mr. W. Manase | √ | √ | 100 |
| Mr. O. Bvute | √ | √ | 100 |
| Mr. P. Chingoka | √ | √ | 100 |
| Mr. B. N. Ndebele | √ | √ | 100 |
| Mr. E. Chawoneka | √ | √ | 100 |

**KEY**

√ : Present

**28.6 Nomination Committee**

The Committee's terms of reference are;

- To review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Bank's corporate strategy;
- To identify individuals suitably qualified to become Directors and select, or make recommendations to the Board on the selection of, individuals nominated for directorships;
- To assess the independence of Independent Non-executive Directors and
- To make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors.

The Committee met two times in the period under review. The record of attendance by members of the Nomination Committee is shown below:

| | Meetings held | | |
|---|---|---|---|
| Member | 1 | 2 | % Attendance |
| Mr. W. Manase | √ | √ | 100 |
| Mr. O. Bvute | √ | √ | 100 |
| Mr. P. Chingoka | √ | √ | 100 |

The effectiveness of individual Board members and the Board is assessed via peer to peer assessment, assessment of the chairman by the directors, chairman's assessment of individual Board members, as well as an overall assessment of the Board by an independent consultant.

BY ORDER OF THE BOARD

K. ZAWANDA
COMPANY SECRETARY



Directors: W.T. Manase (Chairman), B.N. Ndebele*(Managing Director), O. Bvute, E. Chawoneka*, P.F. Chingoka, Dr. M. Maulana *Executive