

# ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2017



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## VISION

To reduce non-performing loans in the banking sector to below 5%.

## MISSION

We exist to acquire, manage, restructure and dispose Non Performing Loans of banks in Zimbabwe in order to realise maximum value for all Stakeholders.

## VALUES

Integrity

Innovation

Teamwork

Accountability

Decisiveness



## Chairman's Statement

**Bart Mswaka**

### Dear Shareholder

On behalf of the Board of Directors, it is my pleasure to present to you the annual accounts and report for Zimbabwe Asset Management Corporation (Private) Limited (ZAMCO) for the financial year ended 31 December 2017.

### Overview

ZAMCO has now gone through two of the three phases of its operating lifecycle, that is, the Set-up Phase and the Acquisition Phase. We are now in the final and arguably most important phase, which is the Resolution & Recovery Phase.

As reported in 2016, it was always envisaged that acquisitions could not and would not continue in perpetuity lest we create moral hazard in the banking sector. ZAMCO set a deadline of 31 March 2017 after which there would be no wholesale acquisitions of non-performing loans (NPLs) and the Corporation would thereafter be expected to focus on resolution and recovery.

As of 1 April 2017, the Corporation shifted its focus from acquisition to recovery. However in recognising that ZAMCO is a special purpose vehicle set up by the Central Bank as part of holistic measures to resolve the problem of rising NPLs in the banking sector and assist in the resuscitation of strategic entities from time to time, the Corporation has been called upon to acquire the NPLs of certain entities where the acquisition would serve national interest or contribute to the stability of the financial sector.

### Operations Review

ZAMCO's loan book has grown from the December 2016 figure of \$811.42 million to \$987, 38 million as at 31 December 2017. The Business Review section of this Annual Report gives more detail on the acquired NPL portfolio status.

ZAMCO's intervention, along with other measures put in place by the banks themselves to manage NPLs, has resulted in an NPL ratio of 7.08% as at 31 December 2017, a decrease from 7.87% as at 31 December 2016. Though significant gains have been made to reduce the NPL ratio from the 20.45% that prevailed at the time of ZAMCO's formation in 2014, the sector is still to reach the industry recommended threshold of 5% or less.

The Corporation has been making steady strides to fulfil its mandate of resolving and collecting on acquired NPLs. As with all other Asset Management companies similar to ZAMCO, recovery operations are crucial as the objective in resolving the NPLs is to ensure that as much recovery is extracted from each NPL account.

The Board and management is aware that recovery is also tied to the performance of the economy, the more the economy performs the easier it will be for debtors to make payment, minimising defaults and the creation of new NPLs. Along with the performance of the economy, recovery is premised on the attitude of the debtors themselves and their willingness to repay.



It is a common misconception amongst some of our debtors that ZAMCO was formed to free them of their debt obligations and acquired the loans to warehouse them until eventual write off. The message to such debtors has been made clear, **all loans will be collected** and I am glad to report that the attitudes are shifting. To date ZAMCO has managed to fully resolve NPLs worth \$ 158.22 million, whether through cash payments, debt asset swaps and other resolution methods which represents a 16% recovery rate within eight months of commencement of the resolution phase.

From the cash collections I am especially pleased to report that the Corporation has managed to sustain its operations and most importantly, pay the coupon on the Treasury bills issued to banks as and when they become due. We have also managed to redeem some of the short dated Treasury Bills that were issued. These payments highlight the real progress ZAMCO is making in managing and reducing its liabilities.

During the year 2017, ZAMCO has also played a rehabilitative role to a number of key institutions by assisting them to obtain much needed working capital to enable the companies to trade out of their debts. The continued operation of these and other companies that have been assisted has a downstream effect on the economy as it guarantees continued employment and brings in much needed foreign exchange.

## Financial Highlights

The 2017 audit was conducted by Ernst & Young Chartered Accountants. Key highlights from the Audited Financial Statements include:-

- For the period ended 31 December 2017, ZAMCO recorded a profit before impairment of US\$11,903,091 compared to US\$12,638,255 the previous year. The decrease is largely due to cessation of interest accrual on accounts that have been assessed as impaired.
- ZAMCO made a loss of US\$117,912,607 mainly attributable to an allowance for credit losses of US\$129,815,698 provided for during the period. It should be noted that NPL resolution agencies all over the world are not profit oriented and as such ZAMCO's key objective is to maximise recovery so as to minimise the eventual cost that will be borne by the Government at the end of ZAMCO's tenure.
- Total assets were \$859, 947,093 compared to \$784,655,214 as at December 2016;

- Total liabilities amounted to \$974,663,525 compared to \$784,655,214 as at December 2016;
- Operating expenditure for the year was \$1,180,731.

## Directorate

During the course of the year, the Reserve Bank nominee, Dr Charity Dhliwayo stepped down from the Board of Directors when she retired as Deputy Governor of the Reserve Bank. Her resignation from the Board was with effect from the 31st of July 2017. On behalf of the other directors, I would like to thank her for her invaluable contribution to the Board during her tenure and wish her well in her future endeavours. The Shareholder will appoint another nominee in due course.

The tenures of all other existing Board members ended during the year and were subsequently renewed till the next Annual General Meeting.

## Acknowledgements

On behalf of ZAMCO and the Board, I wish to express my gratitude to the Governor and the Reserve Bank for their continued support and co-operation. A special thank you also goes to my fellow Board members for their time and effort dedicated to ZAMCO throughout the year.

In addition, the Board acknowledges the cooperation of the financial institutions that have dealt with ZAMCO.

On behalf of the Board, I also thank the Management and staff of ZAMCO for their outstanding efforts towards the progress that ZAMCO has made over the past one year. Our achievements outlined in this annual report would not have been possible without their commitment and dedication.



Bart Mswaka  
Chairman

Date: 22 October 2018







## MESSAGE FROM THE CEO

Dr Cosmas Kanhai

2017 is the year when ZAMCO closed off the wholesale acquisitions of Non-Performing loans from banks and officially commenced the final and most important phase of its lifecycle, the Recovery and Resolution Phase. The wholesale acquisition phase officially ended on 31 March 2017 and at the close of 2017 ZAMCO's total book of acquired loans stood at a sizeable \$987.38 million.

ZAMCO was incorporated with a specific mandate to reduce NPLs in the banking sector to below the industry recommended threshold of 5%. At the start of ZAMCO's operations in 2014, the NPL ratio in the banking sector was 20.14% and ZAMCO's intervention contributed immensely to the reduction of NPLs to 7.08% in December 2017, consistent with ZAMCO's pay off line "Contributing to greater financial stability".

Going forward, we will now be focussing on resolution of all acquired loans. We are mindful of the Corporation's need to repay our funders, that is, the Government of Zimbabwe who issued the TBs we used as consideration in the acquisition of NPLs and the money will be raised from collections.

We have beefed up and restructured our Recoveries Team to ensure maximum collection and in conjunction with other departments within the Corporation, we will employ various strategies to ensure maximum collection. Depending on the particular profile of the entity, the resolution strategy may involve plain loan restructuring where the entity has adequate capacity to repay the loan, debt equity conversions, debt asset

swaps or negotiated settlement amongst other strategies. We have always stressed that ZAMCO does not warehouse loans and reiterate that all loans will be collected.

### Highlights of resolution phase

In a short space of eight months since the commencement of the resolution phase (i.e. April to December 2017) tremendous progress has already been made with loans of \$158.22 million having been fully resolved.

During the same short period, a number of borrowers offered their properties to be sold under private treaty with the proceeds used to partially or fully resolve their respective loan balances. Loans with a total value of \$80.84 million have been rehabilitated. Rehabilitated loans are restructured loans that have gone for a sustained performance of six months and who in terms of Banking Regulations qualify for upgrade to performance status.

### Impairment

During the year under review, ZAMCO recorded a profit of US\$11.9 million before impairment charges and US\$118 million loss after impairment. The loss for the year was mainly driven by impairment allowances provided for during the period. The increase in impairment allowances is attributable to various factors which include ZAMCO's focus on resolution of NPLs which quickly identifies assets that are not performing or have inadequate security.



ZAMCO has embarked on an exercise to enhance security as part of the resolution process.

In light of the loss after impairment and in recognition that such losses are to be expected from entities such as ZAMCO, the Shareholder has issued a letter of support indicating that ZAMCO will receive necessary support to fulfil its mandate.

## Human Resources

During the course of the year, save for the Company Secretary, all staff seconded from the Reserve Bank were formally taken on by ZAMCO on a full time basis. This was necessitated by the recognition that to effectively discharge its mandate and also acknowledging the large size of ZAMCO's loan book, we needed to have all staff, particularly management, at ZAMCO on a full time basis and independent from the Reserve Bank. The move also ensured that ZAMCO now has a full scale management team to steer it forward. We have also grown significantly and total staff complement employed by the Corporation now stands at 23.

For operational efficiency, the Corporation continues to re-vamp its structures, systems and procedures. Staff continue to undergo various training programs to equip them with key skills to discharge their responsibilities and to enhance their capacity.

We have started implementation of a new Loan Management System and the system is expected to go live in the third quarter of 2018.

## Outlook and appreciation

Going forward, though our main focus remains collection, we will also continue to assist in the resuscitation of distressed companies of national interest by availing working facilities to


deserving entities thereby preserving employment and contributing to the bringing in of much needed foreign currency.

With our land banks, development of the same whether through partnerships or self-development will contribute to reducing the housing backlog.

Looking forward the Corporation also looks to benefit from policies of the new government we hope will create a more conducive operating environment enabling our debtors to operate, generate income and repay their debts.

In closing, on behalf of management, I wish to record my deepest appreciation and gratitude to the Central Bank, in particular the Governor Dr J.P Mangudya, for the support rendered to the Corporation.

I also wish to convey my deepest gratitude to all our employees for their continuous hard work, dedication and loyalty in driving the Corporation forward. On the same note, I would also like to record my sincere thanks to the Board of Directors for their wisdom, guidance and invaluable insights.



Dr Cosmas Kanhai  
*Chief Executive Officer*

**Date:** 22 October 2018





## CORPORATE GOVERNANCE





2017  
BOARD of  
DIRECTORS



Mr. Bartholomew Mswaka (Chairman)



Mr. Demitri Psillos



Dr. Charity Lindile Dhlwayo  
(Retired 31 July 2018)



Mr. Norman Mataruka



Mr. Azvinandawa Saburi



Mr. Sijabuliso Thabani Biyam



Mr. Edwin Maxwell Zvandasara



Mr. Richard Godfrey Muirimi



Mr. John Mafungei Chikura



Mrs. Vimbai Nyemba

## GOVERNANCE STRUCTURE

The responsibility for the governance of the Corporation lies with the Board of Directors which is ultimately accountable to the Shareholder. The Board of Directors, retains full and effective control over ZAMCO and the procedures and business of the Board of Directors are regulated by a Board Charter which sets out the terms of reference of the Board. The Board has in turn delegated the day to day management of the Corporation to the Chief Executive Officer who executes the powers delegated to him without undue interference and in accordance with agreed guidelines.

To assist with the effective execution of their duties, the Board of Directors have access to the advice and services of the Company Secretary who is responsible for ensuring compliance with procedures and regulations by the Corporation and the Board of Directors itself. The Directors are also entitled to seek independent professional advice on the affairs of ZAMCO, at ZAMCO's expense if they believe that such course of action is in the best interest of ZAMCO.

The Board of directors consists of ten members drawn from various sectors and is chaired by an Independent non-Executive Director. The Board composition is presented as follows:

Name of Board Member	Status	Date of appointment
Bartholomew Mswaka	Independent Non-Executive and Board Chairperson	15 July 2014
**Dr. Charity L. Dhliwayo	Non-Executive	15 July 2014
Norman Mataruka	Non-Executive	15 July 2014
Azvinandaa Saburi	Non-Executive	15 July 2014
Edwin Zvandasara	Non-Executive	4 February 2015
Sijabuliso Thabani Biyam	Independent Non-Executive	15 July 2014
Demetri Psillos	Independent Non-Executive	15 July 2014
Richard Godfrey Muirimi	Independent Non-Executive	15 July 2014
John Chikura	Independent Non-Executive	4 February 2015
Vimbai Nyemba	Independent Non-Executive	1 January 2017

**Note:** \*\* Retired 31 July 2017

The Board meets quarterly and additional meetings are convened as the need arises.

Composition

## BOARD COMMITTEES

In the discharge of its roles and responsibilities, the Board is assisted by three Standing Committees, the Credit Investments and Debt Restructuring Committee, Audit, Risk and Oversight Committee and the Human Resources Committee.

These committees have their clearly defined terms of reference setting out their roles, responsibilities, and functions and reporting procedures to the Board.



## Credit, Investment & Debt Restructuring Committee

The Committee is made up of the following members:

1. Mr. R.G. Muirimi (Chairman)
2. Mr. J. Psillos
3. Mr. S.T. Biyam
4. Mr. N. Mataruka
5. Mr. A. Saburi
6. Mr. B. Mswaka
7. Mrs V. Nyemba

The Credit committee plays a critical role by advising the Board on credit policy and is the decision - making authority responsible for the approval and rejection of credit applications, restructuring proposals and investments decisions.

The principal activities of the Credit, Investment & Debt Restructuring Committee during the year under review were:-

- Assessing credit proposals on NPL acquisitions from various banks and approving NPLs for acquisition;
- Reviewing and considering credit reports and restructuring proposals for the acquired NPLs;
- Assessing and reviewing update reports on NPLs under evaluation, resuscitated companies, property projects and resolved NPL's; and
- Ensuring that the system in place in the acquisition, management and administration of NPLs is effective, efficient and appropriate.

As ZAMCO has closed the window on wholesale acquisitions of NPL and has now entered the third and final phase of resolution and recovery, the committee's main focus will now be NPL resolution, business rescue proposals, investor liaison and investments proposal approvals.

## ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS

The Table below shows the frequency of meetings of the Board of Directors and Board Committees, as well as members attendance for the year ended December 31, 2017:-

Board Member	Board	Credit, Investments & Debt Restructuring Committee	Audit, Risk and Oversight Committee	Human Resources Committee
Bartholomew Mswaka	5	2		2
*Dr. Charity Dhliwayo	3		2	
Norman Mataruka	4	3		2
Azvinandaa Saburi	5	2		2
Edwin Zvandasara	5		4	
Sijabuliso T. Biyam	4	2	4	
Demitri J. Psillos	4	2		
Richard G. Muirimi	3	3		
John Chikura	4		4	
Vimbai Nyemba	5	3		
<b>Total Number of Meetings Held</b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>2</b>

Note: \* Retired 31 July 2017

## Audit, Risk and Oversight Committee

The Committee is made up of the following members:

1. Mr. J.M. Chikura - (Chairman)
2. Mr. E.M. Zvandasara
3. Dr. C.L. Dhliwayo
4. Mr. S.T. Biyam

The Principal activities of the Committee during the year under review were as follows:

- Considered management accounts that were sent for review;
- Reviewed the external auditors' Audit results and report to management and
- Reviewed Internal Audit Plan.

## HUMAN RESOURCES COMMITTEE

1. Mr. B. Mswaka (Chairman)
2. Mr. A. Saburi
3. Mr. N. Mataruka

The Committee is responsible for ensuring effective human resources policies and strategies, overseeing the Corporation's recruitment process, periodically reviewing salaries and incentives for staff in order to attract and retain the services of key employees, reviewing employment agreements and severance agreements and the competitiveness of the Corporation's remuneration policies.

The Committee also oversees the Corporation's plans for management succession and development, reviews and where significant, reports to the Board on best practices, trends, new technologies and current emerging public policy issues in HR matters.



## EXECUTIVE MANAGEMENT



"From left to right – Ruth Chirambadare, Head Credit & Operations; Daisy Zinyemba, Head Legal & Compliance; Tatenda Muzariri, Head Finance & Admin; Dr Cosmas Kanhai, Chief Executive Officer; Edson Shangu, Head Investments & Asset Management; Webster Madera, Company Secretary





## BUSINESS REVIEW



## ZAMCO's Journey to Date

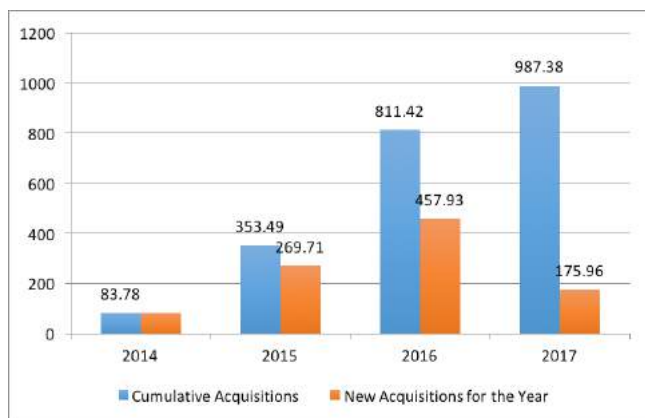
- The operational phases of ZAMCO will evolve as follows: as follows:

SETTING UP July 2014- March 2015	ACQUISITION April 2015- March 2017	RESOLUTION AND RECOVERY from April 2017
<ul style="list-style-type: none"> <li>* Incorporated the company</li> <li>* Appointed board members</li> <li>* Recruit staff</li> <li>* Developed Policies &amp; Procedures</li> <li>* Obtain Technical Assistance from the IMF</li> <li>* Established Funding Strategy</li> </ul>	<ul style="list-style-type: none"> <li>* Received offers by banks to sell NPLs.</li> <li>* Conducted Asset Quality Reviews (AQR) and legal due diligence</li> <li>* Priced NPLs.</li> <li>* Closed NPLs acquisition deals.</li> </ul>	<ul style="list-style-type: none"> <li>* Implementation appropriate resolution mechanisms to recover from the acquired loan portfolio</li> </ul>

- ZAMCO completed the acquisition phase of its operating life cycle during the first quarter 2017 and moved into the last and final phase i.e. Resolution and Recovery.

### Acquired NPL Portfolio

- During the year ended 31 December 2017 ZAMCO acquired additional NPLs amounting to \$175.96 million. The diagram below shows ZAMCO's acquisitions from 2017 up to 31 December 2017:

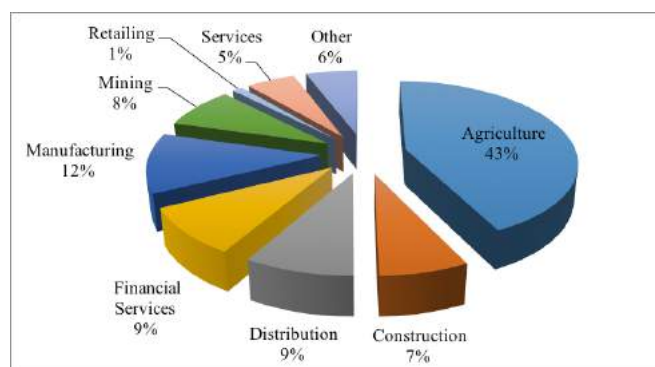


- As at 31 December 2017, ZAMCO's total portfolio of acquired NPLs rose to \$987.38 million, which represented a growth of 22% in comparison to the December 2016 figure of \$811.42 million.
- New acquisition during the year 2017 dropped drastically to \$175.96 million from \$457.93 in the previous year, reflecting conclusion of the acquisition phase.
- The banks that are listed in the table below had disposed some of their NPLs to ZAMCO as at 31 December 2017:

Participating Banks		Participating Banks	
1	Agribank	11	IDBZ
2	NMB	12	Stanchart
3	BancABC	13	Steward
4	CABS	14	Metbank
5	Stanbic	15	Tetrad
6	CBZ	16	Interfin
7	Ecobank	17	Trust
8	FBC	18	AfrAsia
9	ZB Bank	19	Capital Bank
10	POSB	20	Barclays

### Portfolio Distribution

- The sectoral distribution of the acquired non-performing loan portfolio is shown in the diagram below:

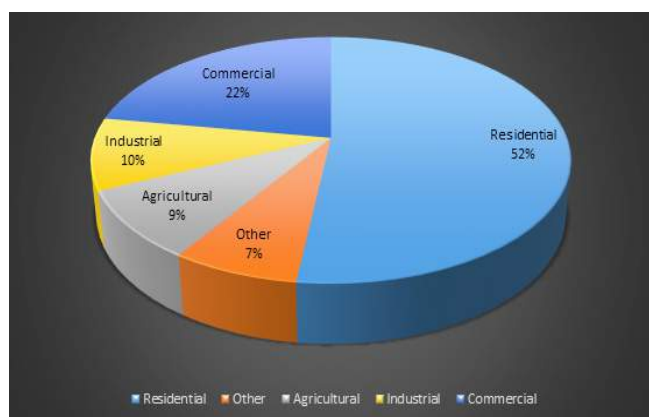


- The agricultural sector remains dominant, contributing 43% to total acquired NPLs as at 31st December, 2017, which was a marginal dilution by 1% in comparison to the same period last year. Manufacturing and Distribution followed behind, contributing 12% and 9% of the acquired NPLs, respectively.



## Collateral for the Acquired Loan Portfolio

9. Upon establishment, ZAMCO undertook to acquire NPLs that are secured by real estate properties. As at 31 December, 2017, ZAMCO held 483 properties as collateral on its loan portfolio. The property types varied from residential, commercial, industrial, agricultural and land banks. Below is a diagram indicating the types of properties held by the Corporation as at the balance sheet date:-



10. The property portfolio was predominantly residential in nature, with 52% of the properties being private homes. Commercial property represented 22% of the property portfolio, followed by Industrial, Agricultural and Other property types at 10%, 9% and, 7%, respectively. Other property types generally represent specialized properties such as ginneries, schools, service stations etc.

## Funding For NPLs

11. The portfolio of acquired loans of \$987.38 million as at 31 December 2017 was funded as shown in the table below:

Funding Source	Amount (\$' Million)	Percentage
TBs	723.89	73%
Private Funding	263.49	27%
<b>Total</b>	<b>987.38</b>	<b>100%</b>

12. The acquisitions were mostly funded using TBs, The TBs used were long dated, with tenors ranging from 10 to 15 years.

## Impact of NPL Acquisitions on the Banking Sector

13. The primary mandate of ZAMCO is to assist banks in removing toxic assets (NPLs) from their balance sheets. In

that respect, ZAMCO aims to contribute in the reduction of NPLs in the banking sector to achieve an NPL ratio below the 5% benchmark which is considered to be a healthy level for the sector.

14. As at 31 December 2017, the NPL ratio in the banking sector had declined to 7.08% from a peak of 20.14% at the time of ZAMCO's establishment in 2014 as shown in the graph below:



(Source: Reserve Bank of Zimbabwe)

15. The ratio as at 31 December 2017 was also down from 7.87% as at 31 December 2016. The disposal of NPLs to ZAMCO by banks has significantly contributed to the reduction of non-performing loans in the banking sector coupled with improvement in banks' credit risk management systems.
16. Whilst the ratio as at 31 December 2017 was above the 5% target, it is expected to continue improving in line with the renewed hope and confidence in the economy ushered in by the new economic dispensation. Going forward, companies are expected to perform better and generate sufficient cash flows that enable timeous repayment of loans, which is expected to reduce the creation of new NPLs.

## Impact of NPL Acquisitions on Borrowers

17. The acquisition of NPLs by ZAMCO remains immensely beneficial to companies as their loans have been restructured over long tenors and are now benefitting from reduced interest rates thereby enhancing viability prospects.
18. In addition, for a number of borrowers, ZAMCO accepted payment of their loans in-kind using real estate properties held as collateral or other properties outside collateral through a debt/asset swap. Under this arrangement, a borrower agrees to transfer ownership of the property (ies) to ZAMCO in return for full or partial settlement

of their loan, depending on the property value. For the borrower, this has the immediate benefit of reducing or extinguishing the loan obligation, thereby reducing or removing the loan interest burden. For property used for business operations, ZAMCO can allow the company to continue operations from their premises and a monthly rental payment will be agreed. This ensures that the debt asset swap does not result in disruption of business.

### Completion of wholesale NPL Acquisition Phase

19. Banking institutions that were willing to dispose their NPLs were required to offer them to ZAMCO by submitting lists of NPLs together with other information necessary to conduct an assessment of whether the NPLs met ZAMCO's acquisition eligibility criteria. ZAMCO closed the window for 31 March 2017 and this date marked the official end of the acquisition phase of the Corporation.
20. Although ZAMCO ended the wholesale NPL acquisition phase at the end of the first quarter, NPL acquisition continued to be conducted throughout the year. This is because a number of banks submitted their NPL disposal offers at the close of the acquisition window and these

were evaluated and more eligible NPLs were acquired after the close of the acquisition window.

21. Banking institutions are now expected to resolve any new NPLs that arise using internal means. However new acquisitions can still be made on the basis of the following two exceptions:
  - a) Financial stability – acquisition of certain NPLs may be necessary to foster the stability of the financial sector; and
  - b) National interest – some companies may be deemed to be of national interest and acquisition and restructuring of their NPLs may be required to enable them to turnaround.
22. These new acquisitions that will be conducted on an exceptional basis will require approval by the Corporation's NPLs together with other information necessary to conduct assessment of whether the NPLs met ZAMCO's acquisition eligibility criteria. ZAMCO closed the window for shareholder i.e. the Reserve Bank of Zimbabwe.
23. The table below shows the performance of ZAMCO compared to its peers at the time of stopping wholesale NPL acquisitions.

Country	AMC	NPL Ratio at Start of Acquisition	NPL Ratio at Close of Acquisition
Korea	KAMCO	17.	70%
Malaysia	Darnaharta	30.	10%
Indonesia	IBRA	48.	60%
Thailand	TAMCO	51.	60%
Nigeria	AMCON	37.	25%
Zimbabwe	ZAMCO	20.	14%

(Sources: World Bank, IMF, National Authorities, and Financial Stability Institute)

24. In other countries, for example Nigeria, there were specific legislation that required all NPLs to be disposed to the Asset Management Corporation of Nigeria (AMCON). In the case of ZAMCO, NPL acquisitions were done on a willing-buyer-willing seller basis which means that banks had to offer only those NPLs that they were willing to dispose to ZAMCO.
25. This NPL acquisition approach where banks were not compelled to dispose NPLs as well as ZAMCO's focus on acquiring NPLs that meet set eligibility criteria are some of the reasons why the NPL ratio was not reduced to the target levels of below 5% at the end of the acquisition phase.
26. However, the main objective of ZAMCO i.e. that of removing toxic assets from the banking sector so as to

free resources for fresh credit creation had been largely achieved at the time the Corporation concluded the NPL Acquisition Phase. Focus has since shifted to asset recovery in the resolution stage.

### Resolution Stage

27. As at 31 March 2017, ZAMCO had completed two phases of its operating cycle namely the Set Up and the Acquisition phases. The next and final phase is the Resolution phase that is devoted to implementing various strategies to resolve and recover the acquired. Thus, with effect from 1 April 2017 ZAMCO has been dedicating its efforts to resolving the acquired non-performing loans.





## Objectives in the Resolution Phase

28. The main mandate of ZAMCO in the resolution stage is to maximise asset recovery i.e. to recover the amounts that were acquired to the largest extent possible through cash collections as well as other recovery methods.
29. As previously highlighted, the NPL acquisitions were mainly funded using long dated Treasury Bills that carry 5% coupon that is paid semi-annually. In that regard, ZAMCO has the following twin objectives in the resolution phase:
- Meeting coupon obligations – the funding structure where coupon carrying TBs were used creates immediate coupon obligation on the part of ZAMCO. ZAMCO should have resources available to meet the periodic coupon payments as they fall due; and
  - Redeeming TBs – setting aside funds to redeem TBs upon maturity.

METHOD	DESCRIPTION	RECOVERY ASSETS
Plain Loan restructuring	Extending the loan repayment period, reducing interest rates and granting capital repayment holidays. This reduces the financing cost burden, allowing companies an opportunity to turnaround.	<ul style="list-style-type: none"> <li>• Cash</li> <li>• Restructured loans</li> </ul>
Debt to equity conversion	Converting the debts into either preference or ordinary shares. This cleans balance sheets of companies making them more attractive	<ul style="list-style-type: none"> <li>• Cash</li> <li>• Securities</li> </ul>
Debt/asset swap	Agreement with debtor to extinguish debt or part debt using assets acceptable to ZAMCO.	<ul style="list-style-type: none"> <li>• Property</li> <li>• Securities</li> </ul>
Negotiated settlement	Agreement with debtor for final settlement often at an acceptable discount to face value of debt.	<ul style="list-style-type: none"> <li>• Cash</li> <li>• Property</li> <li>• Securities</li> </ul>
Schemes of Arrangement	Voluntary schemes formulated by both borrowers and creditors, aiming to restructure the loans.	
NPL Disposal	Sale of NPLs to investors in distressed assets	<ul style="list-style-type: none"> <li>• Cash</li> </ul>
Foreclosure	Forced sale of collateral to settle debt.	<ul style="list-style-type: none"> <li>• Cash</li> </ul>
Private treaty sale	Agreement with debtor to sell mortgaged property on the open market as opposed to foreclosure.	<ul style="list-style-type: none"> <li>• Cash</li> </ul>
Others	Include liquidations, appointment of judicial managers and sale of NPLs to distressed asset investors.	



## Evaluation and Classification of NPLS

30. During the year under review, ZAMCO conducted a detailed assessment of each and every acquired NPL and determined the appropriate resolution route to follow for each loan. The first step in this exercise involved classifying loans into either one of the following two categories:
- Viable NPLs – those that are making required payments to ZAMCO or have shown commitment and capacity to make repayments; and
  - Non-viable NPLs – loans where borrowers do not have commitment or capacity to repay their loans from business cash flows or other means.
31. The above classification will have a bearing on the resolution options to be adopted. Viable NPLs are those where borrowers are making required repayments to ZAMCO or have shown commitment to make repayments or whose underlying business have prospects for turnaround if the loan is restructured. Viable loans have been placed under loan restructuring which allows the borrowers to restructure and rehabilitate their loans in accordance with ZAMCO's loan restructuring principles and guidelines. This is also beneficial to ZAMCO as loan restructuring generally results in higher recovery rates vis-à-vis other recovery methods.
32. The Corporation employs four principal methods of loan restructuring – Plain Loan Restructuring, Negotiated Settlement of Loans, Schemes of Arrangement and Debt to Equity Conversion.
33. Non-viable loans are loans where the borrowers do not have commitment and/or capacity to repay the loans from business or other cash flows. This also includes loans of borrowers who would have failed to comply with ZAMCO's loan restructuring principles and guidelines. Each of the non-viable NPLs will be reviewed to determine the resolution strategy. The options that are

available to resolve non-viable NPLs are to recover the debt through the sale of the underlying collateral of an NPL or sale of the borrower's business.

34. The implementation of the various recovery strategies generates recovery assets into four main categories:
- Cash – Foreclosure: generated from foreclosure-sale of collateral i.e. shares and properties. Non-foreclosure: generated from cash settlements, redemption of collateral, the sale of securities.
  - Restructured loans – made up of restructured or rehabilitated NPLs i.e. a stream of repayments over a period of time.
  - Securities – comprising all kinds of securities e.g., shares or loan stocks that have been issued to ZAMCO as part of settlement schemes.
  - Properties – comprising properties that are offered and accepted as full or partial settlement for NPLs.

## Performance Measurement to Date

35. Since the beginning of the resolution phase in April 2017, ZAMCO has employed a number of resolution strategies on the acquired NPL portfolio. NPLs valued at \$158.22 million were fully resolved as at 31 December 2017 through various resolution methods such as cash settlement, debt asset swaps and equity conversions.
36. Some of the resolution milestones achieved by ZAMCO for the nine months to 31 December 2017 include a rehabilitated loans portfolio of \$80,837,166.48, Debt asset swap arrangements concluded totalling \$97,634,000.00 and total Debt to Equity conversions of \$84,155,641.14. These figures are expected to increase going forward as ZAMCO further undertakes resolution and recovery efforts.
37. Rehabilitated loans are those that have been restructured and are being monitored through normal account relationship management. Debt asset swaps are where a

	Indicator	What It Measures
1	Cumulative recovery in cash only – <b>Cash Recovery Rate</b>	Measures asset recovery performance on a narrow basis.
2	Cumulative recovery in both cash and non-cash assets – <b>Recovery Rate</b>	Measures asset recovery performance on a broad basis.
3	The ratio of cumulative assets resolved to total assets acquired (book value) – <b>Resolved NPLs</b>	Measures what proportion of the NPLs have been dealt with.
4	The ratio of assets disposed over the book value of acquired assets – <b>Disposal Rate</b>	Measures asset disposal performance.



debtor swaps ownership of an asset, usually immovable property, in exchange for a reduction or discharge of their debt to ZAMCO whereas a debt equity conversion is when the debt is transformed into an equity instrument in the debtor company.

38. The cash collections that have been made from borrowers has allowed ZAMCO to meet TB coupon obligations as they fell due. All amounts collected from debtors are deposited into two separate accounts i.e. TB Coupon Sinking Fund and TB Redemption Sinking Fund. The TB Coupon Sinking Fund is used to pay coupons on TBs as and when they fall due whereas the proceeds of the TB Redemption Sinking Fund will be used to redeem TBs at their maturity. For the year 2017, ZAMCO paid

coupons on TBs totalling \$30, 2 million.

### Performance Measurement in general

39. The performance of ZAMCO just like other similar organisation is measured by the extent to which it has maximised recovery from the acquired loans. The indicators that are utilised by ZAMCO are shown in the
40. The above metrics though particularly useful at the sunset period and completion of the resolution stage can also be used on an ongoing basis to track performance. As only eight months have passed since the commencement of the resolution phase, it is too early to utilise these metrics. They will be utilised in 2018 going forward.



A man in a dark suit, white shirt, and red tie is walking a tightrope. He is carrying a black briefcase in his left hand and has his right hand outstretched for balance. The tightrope is a thin, brown rope that stretches diagonally across the lower half of the page. The background is plain white.

## RISK MANAGEMENT REPORT





## Overview

1.1 The Corporation has put in place a risk management framework for identifying, evaluating, reviewing and addressing the principal risks that ZAMCO faces. The identified risks are continuously monitored and appropriate risk mitigatory measures are adopted in order to safeguard the Corporation's assets.

1.2 The risk management framework can be summarized as follows:

1. Risk Identification	2. Risk Evaluation	3. Risk Mitigation	4. Risk Governance and Reporting
<ul style="list-style-type: none"> <li>• Know areas of vulnerability (credit, operational, liquidity etc).</li> <li>• Carry out full portfolio evaluation based on identified risks.</li> <li>• Document risk issues.</li> </ul>	<ul style="list-style-type: none"> <li>• Put appropriate methodologies to measure risk exposure.</li> <li>• Ensure pricing integrity and independent verification.</li> <li>• Quality control and data integrity.</li> </ul>	<ul style="list-style-type: none"> <li>• Set a strategy for the management of specific risks.</li> <li>• Engage risk expertise in decision-making processes.</li> <li>• Implement policies to cover key risks and ensure adherence.</li> <li>• Define control framework.</li> <li>• Dedicate resources to deal with key risk issues.</li> <li>• On-going evaluation and review.</li> </ul>	<ul style="list-style-type: none"> <li>• Implement a risk governance function.</li> <li>• Use key risk indicators to aid monitoring and reporting.</li> <li>• Issue escalation protocol.</li> </ul>

1.3 The Corporation has a Risk Management Function that co-ordinates the risk response and is the custodian for the Corporation's risk management policy, which clearly defines ZAMCO's overall policy in handling the significant risks identified and the strategies to manage these risks.

1.4 Line functions are responsible for establishing and implementing risk and control systems for their areas of responsibilities. The risk management system is at two levels namely strategic and operational.

- At the strategic level this involves the identification and analysis of principal risks by Management as part of the business planning and review process.
- At the operational level, the Risk Management Function is responsible for conducting the independent risk reviews of the loan management papers, asset management papers and investment proposal papers before submission for approval by the relevant Management and/or Board Committees.

1.5 The Risk Management Function is required to conduct these reviews in an effective and efficient manner to provide reasonable independent assurance that significant and pertinent risk issues have been appropriately addressed in the relevant proposal papers. Thus, this forms part of an ongoing process of managing risks.

1.6 Principal areas of risks are subject to reporting by Management and review by the Audit, Risk and Oversight Committee and the Board. Some of the principal risks and their measurement and management methodologies are highlighted hereunder.

### Credit /Recovery Risk

1.7 One of the core mandates of the Corporation is to maximize the recovery from the acquired NPL portfolio hence credit risk management is of paramount importance. Some of the techniques that are brought utilized in measuring and managing credit risk are highlighted in the table below:



Nature of Risk	Measurement	Management Tools
<ol style="list-style-type: none"> <li>1. Failure to meet interest and capital repayment obligations on restructured loan facilities in accordance with the terms of the facility agreement.</li> <li>2. Failure to meet dividend payments on equity instruments.</li> <li>3. Failure to recover full value of loans upon winding of ZAMCO operations.</li> </ol>	<ul style="list-style-type: none"> <li>• Classification of loans into viable and non-viable categories.</li> <li>• Level of arrears in the loan portfolio.</li> <li>• Recovery rate on total acquired NPL portfolio</li> <li>• Proportion of NPLs failing to meet restructured facility terms.</li> <li>• Sectoral concentration of portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>• Pre-acquisition credit assessment.</li> <li>• Focus on acquiring loans secured by mortgage bonds.</li> <li>• Reducing interest rates and extending tenor of loans.</li> <li>• The corporation's focus on acquiring and restructuring loans for obligors with viability prospects will enhance the quality of the loan book.</li> <li>• Instituting measures to influence turnaround of companies such as requiring board seats and management re-organization.</li> <li>• Engaging corporate turnaround experts to advise on corporate restructuring.</li> <li>• On-going monitoring of performance of the companies.</li> <li>• Monthly management Risk Review reports and quarterly reporting to the Board.</li> </ul>

## Operational Risk

- 1.8 Operational risk arises from failed or inadequate internal processes, people and systems or from external events that cause harm to the organization.
- 1.9 Key to the management of operational risks is maintenance of robust internal controls. ZAMCO'S internal control system is based on a clear definition of responsibility and delegation of authority to a number of Board Committees. The roles and responsibilities for these committees are defined in their terms of references. The terms of reference are periodically reviewed to reflect the relevancy and practice.
- 1.10 here are requisite policies and procedures for all the business and support activities. There is also an ongoing review to update the existing policies and procedures to reflect current practices.



1.11 Controls for specific activities and areas are as follows:

Activity	Controls
Operations	<p>The Corporation has approved policies and procedures for all aspects of its operations. These include policies in the areas of loan acquisition, post-loan acquisition assessments, loan resolution strategies, disposal of NPLs to investors and investment of funds.</p> <p>Staff has clearly outlined duties and responsibilities. There is adequate segregation of duties to ensure that incompatible responsibilities are not assigned to one individual. Controls over the movement of funds are robust to prevent fraud risk. There is regular reporting and review of business activities by senior management.</p> <p>The Corporation uses Key Risk Indicators (KRIs) and self-risk assessment to measure and manage operational risks.</p>
Performance of Service Providers	A system to pre-qualify service providers onto ZAMCO's panel and monitoring their performance and quality of service is in place.
Information and Communication technology.	The Corporation is implementing robust management information systems to ensure easy transaction processing and safeguard data integrity. The Corporation has an acceptable Business Continuity Plan (BCP) incorporating a disaster recovery site
Finance and Accounting	A comprehensive budgeting process with an annual plan approved by the Board. The business results are reported monthly and compared to the plan. Forecasts are prepared annually and reviewed regularly throughout the year. The Corporation announces its business results through its published Annual Report.
Employee Conduct	Employees conduct their work activities in accordance with clearly defined approved policies and procedures that meet international standards as defined in the various policy and procedures manuals. This includes the Code of Ethics policy document that sets high ethical business standards and practices for business conduct and the code of behavior for employees to adhere to.
Assurance	<p>Through the Audit, Risk and Oversight Committee, the Board has oversight role in ensuring a sound internal control system and regular review on its adequacy and integrity is conducted.</p> <p>Internal auditors and external auditors conduct independent appraisals on ZAMCO's business operations and support activities and financial records and statements respectively to provide an opinion on the adequacy and integrity of ZAMCO's overall internal control framework.</p>





## Legal And Compliance Risk

1.12 Some of the legal and compliance risk issues and measurement and management methodologies are highlighted below:

Legal & Compliance Risk Issues	Measurement/Mitigation
Defective and/or inadequate documentation for transactions/contracts entered into by ZAMCO leading to litigations.	<ul style="list-style-type: none"> <li>• Maintain system of continuous review and updating of documentation used by the Corporation.</li> <li>• An internal legal team is in place to advise on legal matters.</li> <li>• In appropriate circumstances, reliance will be placed on formal legal opinions from external counsel.</li> <li>• Continuous enhancement in NPL acquisition and resolution processes.</li> </ul>
Non-compliance with laws, legislation and regulations	<ul style="list-style-type: none"> <li>• Proactively identifying new and changed relevant local laws, regulations and standards.</li> <li>• Regular reporting to stakeholders, particularly RBZ and Ministry of Finance.</li> <li>• Compliance with best practice requirements.</li> </ul>
Non-compliance with own policies and procedures	<ul style="list-style-type: none"> <li>• The Corporation's Legal and Compliance function is mandated to monitor compliance to policies and procedures.</li> <li>• The board and senior management monitors compliance on an on-going basis.</li> <li>• Independent assurance by audit.</li> </ul>





## Liquidity Risk

1.13 ZAMCO has an obligation to meet periodic coupons on Treasury Bills (TBs) used to acquire NPLs as well as redemption of the TBs upon maturity. Liquidity risk arises when the Corporation fails to provide funding to meet these obligations.

1.14 This risk arises from the following factors among others:

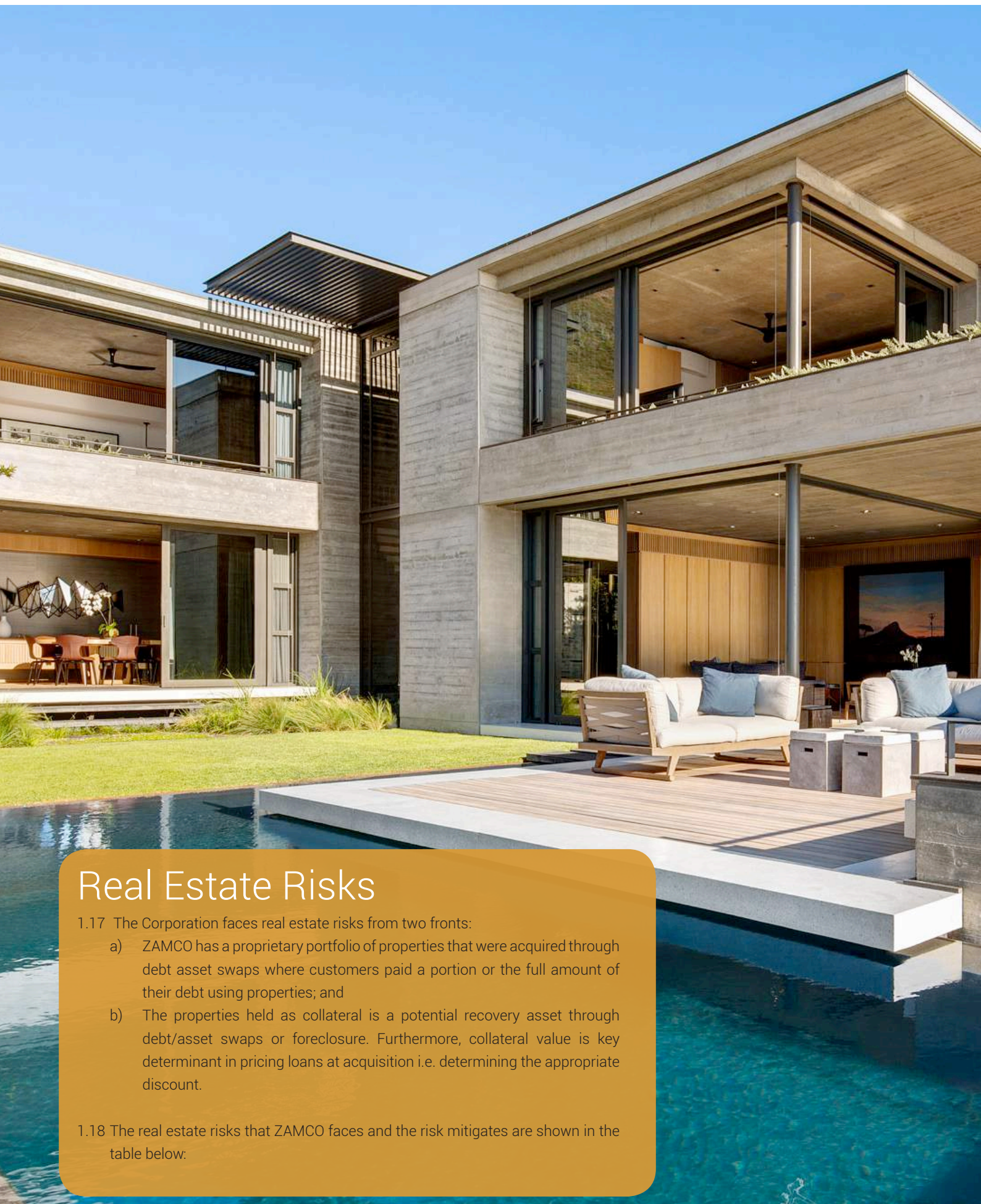
- a) The assets of the Corporation (NPLs) bear very high credit risk such that expected periodic repayments may not materialize;
- b) ZAMCO sometimes grants repayment holidays upon restructuring of loans to give borrowers breathing space and offer opportunities for turnaround. As a result, there will be a mismatch between cash inflows and cash outflows;
- c) Some resolution methods such as debt/asset swaps do not result in immediate realization of cash; and
- d) Full recovery on all the NPLs acquired is not

expected given the high risk nature of the loan portfolio.

1.15 Liquidity risk for the Corporation results primarily from credit risk in that if borrowers do not repay their loans, ZAMCO will not have sufficient resources to meet its obligations on Treasury Bills. Therefore, the concerted efforts that the Corporation is putting towards resolution and recovery will also assist in managing liquidity risk for the Corporation.

1.16 The repayments that are being made by borrowers are allocated to two sinking funds i.e. TB Redemption Sinking Fund and TB Coupon sinking fund. Funds held in the TB Coupon Sinking Fund are being used to pay for the half-year coupon obligations. The funds in the TB Redemption Sinking Fund will be used to redeem the TBs when they mature at the end of their tenors. The TBs used to acquire NPLs have tenors ranging from 12 to 15 years. The TB Redemption Sinking Fund is growing over time as ZAMCO resolves and recovers from the acquired NPLs.





## Real Estate Risks

1.17 The Corporation faces real estate risks from two fronts:

- a) ZAMCO has a proprietary portfolio of properties that were acquired through debt asset swaps where customers paid a portion or the full amount of their debt using properties; and
- b) The properties held as collateral is a potential recovery asset through debt/asset swaps or foreclosure. Furthermore, collateral value is key determinant in pricing loans at acquisition i.e. determining the appropriate discount.

1.18 The real estate risks that ZAMCO faces and the risk mitigates are shown in the table below:



Property Valuations		
Risk Exposure	Risk Implication	Risk Mitigation
Incorrect Valuation	<ul style="list-style-type: none"> <li>Overpaying for properties held as security</li> <li>Debtors may challenge valuation and delay NPL acquisition process</li> </ul>	<ul style="list-style-type: none"> <li>Screening Valuation firms and engaging those on suppliers list.</li> <li>In-house Valuation Reviews</li> <li>Engaging alternative firm for second opinion valuations</li> <li>In-house property surveys and inspections</li> </ul>
	<ul style="list-style-type: none"> <li>Under-insuring of property with regards to replacement cost</li> </ul>	<ul style="list-style-type: none"> <li>Valuation review; Request for plinth areas and surrounding works of property</li> </ul>
Value incorrect property	<ul style="list-style-type: none"> <li>Wrong collateral value</li> </ul>	<ul style="list-style-type: none"> <li>Physical inspection</li> <li>Deeds search</li> <li>Written confirmation &amp; scope from property owner</li> </ul>
Property Management/Sales		
Compliance Risk	<ul style="list-style-type: none"> <li>Non-compliance with Estate Agents Act</li> </ul>	<ul style="list-style-type: none"> <li>Disposal by private treaty or auction to be done by registered Auctioneer/ Estate Agent on the approved suppliers list.</li> </ul>
Transfer Risk	<ul style="list-style-type: none"> <li>Transferring the wrong title</li> <li>Non-compliance with Caveats or liens which may be registered against the title deeds.</li> </ul>	<ul style="list-style-type: none"> <li>Deeds Search, have a copy of the title deeds from the Deeds office and place it in the file.</li> <li>Agreement of Sale</li> <li>Check list to be completed to ensure compliance with due diligence requirements</li> </ul>
Market Risk (Chance of selling at below acquisition value)	<ul style="list-style-type: none"> <li>Financial loss</li> </ul>	<ul style="list-style-type: none"> <li>Disposal of foreclosed property should be done in shortest possible time.</li> <li>Continued market research and trend analysis</li> <li>Develop and continually improve marketing plans</li> <li>Continued assessment of NPL discount rate to cover the market risk</li> </ul>
Bad Debts	<ul style="list-style-type: none"> <li>Financial loss</li> </ul>	<ul style="list-style-type: none"> <li>Eviction procedures should be promptly instigated</li> <li>Negotiations to agree on payment plans</li> <li>Maintain an arrears checklist</li> </ul>
Legal Risk- Dragging of dispute settlement resulting in revenue loss.	<ul style="list-style-type: none"> <li>Breach of lease agreements</li> </ul>	<ul style="list-style-type: none"> <li>Regular lease audits by property managers</li> </ul>
Statutory Controls/Rents Freeze	<ul style="list-style-type: none"> <li>Reduced yield/return or income and ultimately value of the property</li> </ul>	<ul style="list-style-type: none"> <li>Research on any directives and compliance issues</li> </ul>
Sub letting	<ul style="list-style-type: none"> <li>Loss of income</li> </ul>	<ul style="list-style-type: none"> <li>Physical inspections of properties spot checks by Property Managers.</li> </ul>
Physical asset risk	<ul style="list-style-type: none"> <li>Reduced yield/return or income and ultimately value of the property</li> </ul>	<ul style="list-style-type: none"> <li>Engaging a professional third party reports that examine the physical aspects of an asset and highlight abnormal costs</li> </ul>





# AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017



# FINANCIAL REVIEW

## Introduction

The financial statements of the corporation include the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Shareholders Equity, Statement of Cash Flows and the accompanying notes. The following discussion should be read together with the accompanying audited financial statements of the corporation for year ended 31 December 2017, which contain details of factors that influenced the recorded results.



### 1. Statement of Comprehensive Income

ZAMCO made a profit before impairment of US\$11.9 million and a loss after impairment of US\$117.9 million for the period to 31 December 2017.

The overall operating performance for the period is set out in the table below:

Table 1:

Key elements of income and expense	US\$000
Interest and commission income	60,715
Interest and commission expense	(47,726)
Net interest and commission income	12,989
Other Income	94
Operating expenses	(1,180)
Operating profit	11,903
Financial Assets Impairment Allowance	(129,816)
<b>Profit/(Loss) for the year</b>	<b>(117,913)</b>

#### 1.1 Interest and commission income

The interest and commission income recognised in 2017 is broken down as follows:

Table 2:

Interest income	US\$000
Interest received from loans and receivables	54,213
Preference share coupon income	5,407
Facility fees	755
Money Market Investment Income	340
<b>Net interest and commission income</b>	<b>60,715</b>

Interest income from the acquired loans and receivables constitute the largest part of recognised income. The interest is calculated on a monthly/quarterly compounding basis with applicable rates ranging between 5% and 10% per annum. Note 5.1 to the financial statements provides further guidance on the computation of interest income.

Facility fees are charged at 1% of restructured loan on commencement of facility and are recognised on a time apportionment basis over the life span of the facility.

#### 1.2 Interest expense

Interest expense for the year 2017 was US\$ 47.7 million, broken down as follows:



Table 3:

Interest expense	US\$000
Interest on Government Treasury Bills	26,813
Interest expense on CBZ Facility	17,439
Interest expense on PTA Facility	3,366
Other Charges	108
<b>Interest and commission expenses</b>	<b>47,726</b>

The interest expense includes US\$26.8 million accrued on Government Treasury bills. The bills in issue at period end amounted to US\$593 million and attract a coupon of 5% p.a. payable semi-annually.

CBZ Loan Facility with an 8% annual interest rate, gave rise to an interest expense of US\$17.4 million.

US\$3.4 million of the interest expense arose from advances from the PTA Bank. These advances amounted to US\$36.7million as at period end and attracts an interest rate of 8.25% payable quarterly.

### 1.3 Operating expenses

The operating costs incurred by the corporation in 2017 amounted to US\$1.180 million, the distribution of which is as shown below:

Table 4:

Operating expenses	US\$000
Auditors' remuneration	38
Equipment depreciation	83
Utilities	25
Rates & Rates	19
Employee benefits	712
Directors fees	105
Other expenses	198
<b>Total operating expenses</b>	<b>1,180</b>

### 1.4 Impairment

At year end, in accordance with the International Financial Reporting Standards (IFRS), an assessment was carried out on all the assets held by the corporation with a view to establishing if any had deteriorated in value to less than the carrying value in the books (impairment).

In that regard, ZAMCO has decided that it is prudent to make a provision for impairment due to the nature of the acquired assets. A thorough examination of each acquired loan was conducted at year end and it was concluded that there needs to be an allowance for impairment

of the purchased NPLs amounting to \$129,815,698. Interest income has since been suspended on accounts that have been assessed as impaired

## 2. Cash Flow Statement

ZAMCO generated net cash increase of US\$753,260, which mainly arose from operating activities.

## 3. Statement of Financial Position

### 3.1 Loans and advances

During the year, there were significant acquisitions of NPLs that were restructured and currently form part of the ZAMCO income earning asset base. Loans and advances earn interest at rates between 5-10% p.a.

### 3.2 Treasury Bills

These are US Dollar denominated Government of Zimbabwe Treasury Bills issued on behalf of ZAMCO for the acquisition of non-performing loans. The Treasury Bills attract a coupon of 5% p.a payable semi-annually. The 2017 increase in treasury bills of US\$143.7 million resulted from more acquisitions of NPLs being concluded.

The treasury bills issued by end of the period amounted to US\$593 million,

### 3.3 Loans and Borrowings

Funding on some of the assets acquired was provided by external funders, PTA Bank (US\$36.7 million), and IDBZ foreign loans (US\$38.3 million) as well as local funders, CBZ facility (US\$235.4 million).

Other loans and dues (US\$ 64.7) include intercompany loans and interest payable that has been accrued but not yet due for payment. The increase relates mainly to PTA facility repayments done by the RBZ on behalf of ZAMCO.

## 4. Going Concern

Despite recording a net liability position at year end, based on the support from the Reserve Bank, Government of Zimbabwe, cashflow forecasts and ZAMCO's strategic mandate, management concludes that the corporation will continue as a going concern for the foreseeable future.



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Statement of Changes in Equity	42
Statement of Cash Flows	43
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## ZIMBABWE ASSET MANAGEMENT CORPORATION (PRIVATE) LIMITED

### DIRECTORS' REPORT

For the year ended 31 December 2017



The Directors of the Zimbabwe Asset Management Corporation have pleasure in submitting their report for the financial year ended 31 December 2017.

## 1. NATURE OF BUSINESS

1.1 The Zimbabwe Asset Management Corporation ("ZAMCO", "the corporation", "the entity") was established in 2014 as a private entity.

The functions of ZAMCO, in accordance with the Banking Amendment Act (2015), are as follows:

- a) To acquire, reschedule, dispose of, hold, manage, or otherwise settle non-performing loans of banking institutions;
- b) Manage, acquire, restructure and dispose of distressed or problem or failed banking institutions, on the direction of the Reserve Bank; and
- c) To perform other functions related to the acts mentioned in paragraphs a) and b) above.

## 2. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation and integrity of financial statements that present the state of affairs of ZAMCO as at 31 December 2017. These include statements of profit or loss and other comprehensive income, financial position, cash flows and changes in equity for the year then ended and information contained in this report.

In order to meet the above requirements, the Directors are responsible for maintaining adequate accounting records and internal controls to safeguard the assets of ZAMCO and to prevent and detect fraudulent activities.

The internal control systems are implemented and monitored by suitably trained personnel with appropriate segregation of authority and duties. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements of the corporation are prepared in accordance with International Financial Reporting Standards (IFRS). Accordingly, these financial statements have been prepared in accordance with the basis of preparation on 'note 2' and the accounting policies, as determined by the Directors, as set out in 'note 3' to the financial statements. The Directors consider the accounting policies adopted to be suitable for the intended users of the financial statements. The financial statements are prepared under the historical cost convention.

The accounting policies are prepared on the basis of IFRS.

The audited financial statements are presented in United States dollars (US\$). These were audited by our independent auditors, Ernst & Young, who were given unrestricted access to all the accounting records and supporting documentation.

## 3. BOARD MEMBERS AND COMMITTEES

The following is the composition of the ZAMCO Board of Directors, as well as the various board committees. The Board is made up of non-executive directors only.



# ZIMBABWE ASSET MANAGEMENT CORPORATION (PRIVATE) LIMITED

## DIRECTORS' REPORT

For the year ended 31 December 2017



SN	NAME	DESIGNATION	STATUS
1	Mr. B. Mswaka	- Board Chairperson	
		- Chairperson – HR* Committee	
		- Committee Member : Credit Committee	Independent Non-Executive Director
2	Dr. C.L. Dhliwayo	- Committee Member : Audit Committee	Non-Executive Director
			`Retired w.e.f 31 July 2017
3	Mr. A. Saburi	- Committee Member : HR* & Credit and Debt Restructuring Committees	Non-Executive Director
4	Mr. N. Mataruka	- Committee Member : HR* & Credit and Debt Restructuring Committees	Non-Executive Director
5	Mr.E.M. Zvandasara	- Committee Member : Audit Committee	Non-Executive Director
6	Mrs. V. Nyemba	- Committee Member: Credit Committee	Independent Non-Executive Director
		Appointed w.e.f 1 January 2017	
7	Mr. D. Psillos	- Committee Member : Credit Committee	Independent Non-Executive Director
8	Mr. S.T. Biyam	- Committee Member: Audit & Credit and Debt Restructuring Committees	Independent Non-Executive Director
9	Mr. R.G. Muirimi	- Chairperson – Credit and Debt Restructuring Committee	Independent Non-Executive Director
10	Mr. J.M. Chikura	- Chairperson – Audit Committee	Independent Non-Executive Director

### \* Human Resources

The following were the Audit, Risk and Oversight Committee members for the entity.

- Mr. J. Chikura (Chairperson)
- Dr. C.L. Dhliwayo\*
- Mr. E. Zvandasara
- Mr. S. T. Biyam
- \* Retired July 31, 2017.

The Audit, Risk and Oversight Committee committee met regularly with ZAMCO's external auditors and senior management to review accounting, auditing, internal control and financial reporting matters. The external auditors have unrestricted access to the Audit, Risk and Oversight Committee.

### 4. ACCOUNTING POLICIES

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





## ZIMBABWE ASSET MANAGEMENT CORPORATION (PRIVATE) LIMITED

### DIRECTORS' REPORT

For the year ended 31 December 2017



#### 5. RESULTS OF ZAMCO'S OPERATIONS

The corporation recorded a profit before impairment for the year of US\$11,903,091 (2016 Profit: US\$12,638,255), representing a decrease of 6% on prior year. The decrease is largely due to cessation of interest accrual on accounts that have been assessed as impaired. The profit was as a result of normal ZAMCO operations during the period under review.

	2017 US\$	2016 US\$
Profit for the year	11,903,091	12,638,255
Impairment	(129,815,698)	(10,144,874)
(Loss)/ Profit after impairment	(117,912,607)	2,493,381

#### 6. IMPAIRMENT OF FINANCIAL ASSETS

The loss for the year was mainly driven by impairment allowances provided for during the period, which represent an increase of 1180% on prior year allowances. The increase in impairment allowances is attributable to various factors which include ZAMCO's focus on resolution of NPLs which quickly identifies assets that are not performing as well as the unwinding of various repurchase agreements with financial institutions after they were deemed void ab initio. The effect of the unwinding exercise was the immediate recognition of some assets as impaired due to their quality and lack of adequate security.

#### 7. BASIS OF FUNDING

ZAMCO recorded a profit of US\$11.9 million before impairment charges ( US\$118 million loss after impairment) for the year ended 31 December 2017 and as of that date its total liabilities exceeded its total assets by US\$115 million as reflected in these financial statements.

These conditions give rise to a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and, therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business

However, ZAMCO is a wholly owned subsidiary of the Reserve Bank of Zimbabwe and remains core to the Reserve Bank's operations in stabilising the local financial services sector through acquisition and resolution of non-performing loans (NPLs). ZAMCO is a non-profit making institution and relies on the Reserve Bank and Government of Zimbabwe for the funding of purchase of NPLs. However, ZAMCO generates revenue from interest on advances to clients, fees chargeable on facility restructure as well as interest charged on restructured facilities.

The Government, through the Ministry of Finance and Economic Development, continues to support ZAMCO's operational activities, authorising ZAMCO to utilise up to US\$750 million worth of Treasury bills to acquire NPLs. These Treasury bills are self-funding at 5% coupon per annum payable semi-annually.

The Banking Amendment Act of 2015 provides for ZAMCO to operate until it fulfills its mandate and transfer whatever remains on its account to the Reserve Bank. The Act ensures that ZAMCO pursues the mandate as provided without the hindrance of profit making targets.



ZIMBABWE ASSET MANAGEMENT CORPORATION (PRIVATE) LIMITED

## DIRECTORS' REPORT

For the year ended 31 December 2017



Accordingly, based on support from the Reserve Bank, Government of Zimbabwe, cashflow forecasts and ZAMCO's strategic mandate, management concludes that ZAMCO will realise its assets and settle its liabilities in the ordinary course of its statutory mandate. The financial statements have been prepared on the basis that the corporation will continue to be a going concern.

### 8. APPROVAL OF FINANCIAL STATEMENTS

The financial statements which appear on pages 12 to 54 were approved by the Directors on 26 September 2018 and the Directors authorised the following officials to sign the financial statements:

Mr. B. Mswaka  
Chairman of the Board

Dr. C. Kanhai  
Chief Executive Officer

Mr. W. Madera  
Company Secretary

Date: 22 October 2018  
AUDITORS REPORT





**Ernst & Young**  
Chartered Accountants (Zimbabwe)  
Registered Public Auditors  
Angwa City  
Cnr Julius Nyerere Way/  
Kwame Nkrumah Avenue  
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Zimbabwe

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## Independent Auditor's Report

*To the members of Zimbabwe Asset Management Corporation (Private) Limited Report on the Audit of the Financial Statements*

### Opinion

We have audited the financial statements of Zimbabwe Asset Management Corporation (Private) Limited "ZAMCO" set out on pages 12 to 54, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for Opinion

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

### Material Uncertainty Related to Going Concern

We draw attention to note 30 in the financial statements, which indicates that the company incurred a net loss of **\$117 912 607** during the year ended 31 December 2017, and, as of that date, it had a negative equity position of **\$114 716 431**. These events or conditions as set forth in note 30, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

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



Key Audit Matter	How the matter was addressed in the audit
<b>Recoverability of Non-Performing Loans</b>	
<p>The core business of the company is to acquire and recover non-performing loans from the local economy. These loans are more than 90% of the company's total assets. The major risk relating to these types of loans and advances is credit risk and the adequacy of the provision for credit losses.</p> <p>As disclosed in note 4.4, ZAMCO reviews the carrying amount of its loans and advances against estimations of the recoverable amount. In reviewing the estimates of the recoverable amounts, management is guided by the planned resolution methods, the value of security on hand and the extent to which agreed payment plans are being adhered to.</p> <p>The allocation of the resolution method is performed by management. The valuation of the security available is determined by management.</p> <p>The extent of significant input into judgement by management over the process of assessing recoverability of the NPLS, which is a very significant part of the statement of financial position, makes this a Key Audit Matter.</p>	<p>Our procedures to address the identified risk included the following:</p> <p>Review of the company's policy relating to the provision for credit losses;</p> <ul style="list-style-type: none"> <li>Review of management's assessment of the classification of the loans and advances based on their respective planned resolution methods;</li> <li>Inspection of evidence of the borrowers' rate of adherence to the performance levels required by the respective resolution method, including: <ul style="list-style-type: none"> <li>Evidence of security being held;</li> <li>Valuation of security on hand;</li> <li>Trading performance updates for the underlying companies; and</li> <li>Adherence to agreed payment plans.</li> </ul> </li> </ul> <p>Review of post year end events supporting the recoverability of the loans and advances</p>

#### Other information

Other information consists of the information included in the Annual Report, other than the financial statements and our auditors report thereon. The directors are responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act (Chapter 24:03), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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





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

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

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

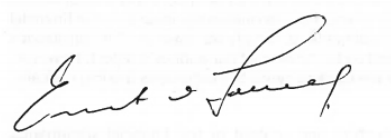
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting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

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

## Report on Other Legal and Regulatory Requirements

In our opinion, the and company financial statements, have in all material respects, been properly prepared in compliance with the disclosure requirements of and in the manner required by the Companies Act (Chapter 24:03). The engagement partner on the audit resulting in this independent auditor's report is David Marange (PAAB Practising Certificate Number 0436).



ERNST & YOUNG  
CHARTERED ACCOUNTANTS (ZIMBABWE)  
REGISTERED PUBLIC AUDITORS  
HARARE  
22 OCTOBER 2018



ZIMBABWE ASSET MANAGEMENT CORPORATION (PRIVATE) LIMITED

## FINANCIAL STATEMENTS

For the year ended 31 December 2017



These financial statements were prepared by the finance department of Zimbabwe Asset Management Corporation, under the direction and supervision of the Chief Finance Officer, Tatenda Muzariri (PAAB Number 04011).

ZIMBABWE ASSET MANAGEMENT CORPORATION (PRIVATE) LIMITED  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
 For the year ended 31 December 2017

	Notes	2017 US\$	2016 US\$
Interest and commission income	5.1	60,715,450	36,540,811
Interest and commission expense	5.2	(47,725,714)	(23,144,974)
Net interest and commission income		12,989,736	13,395,837
Other income	5.3	94,086	-
<b>Operating costs</b>	<b>5.4</b>	<b>(1,180,731)</b>	<b>(757,582)</b>
Profit for the year before impairment of financial assets		11,903,091	12,638,255
Financial assets impairment allowance	6	(129,815,698)	(10,144,874)
Profit/(Loss) for the year		(117,912,607)	2,493,381
Other comprehensive income (OCI)		-	-
<b>Total comprehensive loss for the year</b>		<b>(117,912,607)</b>	<b>2,493,381</b>

ZIMBABWE ASSET MANAGEMENT CORPORATION (PRIVATE) LIMITED  
**STATEMENT OF FINANCIAL POSITION**  
 For the year ended 31 December 2017

	Notes	2017 US\$	2016 US\$
<b>Assets</b>			
Cash and bank balances	7	7,579,775	6,826,515
Receivables	8	443,037	31,389
Debt-asset conversion assets	9	87,867,136	-
Loans and advances	9	650,750,835	699,255,659
Preference shares held	10	72,063,176	40,092,561
Financial securities	11	40,721,028	38,283,003
Property and equipment	15	522,106	166,088
<b>Total Assets</b>		<b>859,947,093</b>	<b>784,655,214</b>
<b>Equity and Liabilities</b>			
Capital and reserves			
Share capital	16	1,000	1,000
Share premium	16	286,521	286,521
Retained earnings	17	(115,003,952)	2,908,655
<b>Profit attributable to equity owners of ZAMCO</b>		<b>(114,716,431)</b>	<b>3,196,176</b>
<b>Liabilities</b>			
Loans and borrowings	18	375,071,031	328,686,751
Treasury bills in issue	19	593,433,757	449,748,736
Deferred income	20	5,475,229	2,611,876
Payables	21	683,507	411,675
<b>Total liabilities</b>		<b>974,663,524</b>	<b>781,459,038</b>
<b>Total equity and liabilities</b>		<b>859,947,093</b>	<b>784,655,214</b>

  
 Mr. B. Mswaka

Chairman of the Board

  
 Mr. W. Madera

Company Secretary

Date: 22 October 2018

  
 Dr. C. Kanhai

Chief Executive Officer



ZIMBABWE ASSET MANAGEMENT CORPORATION (PRIVATE) LIMITED  
**STATEMENT OF CHANGES IN EQUITY**  
 For the year ended 31 December 2017



	Share Capital US\$	Share premium US\$	Accumulated Profit/(Loss) US\$	Total US\$
Balance at 1 January 2016	1,000	286,521	415,274	702,795
Profit for the year	-	-	2,493,381	2,493,381
Balance at 31 December 2016	1,000	286,521	2,908,655	3,196,176
Loss for the year	-	-	(117,912,607)	(117,912,607)
Balance at 31 December 2017	1,000	286,521	(115,003,952)	(114,716,431)



ZIMBABWE ASSET MANAGEMENT CORPORATION (PRIVATE) LIMITED  
**STATEMENT OF CASH FLOWS**  
 For the year ended 31 December 2017



	NOTES	2017 US\$	2016 US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating cash flows			
Profit/(Loss) for the year		(117,912,607)	2,493,381
Adjustment for items not affecting cash flows			
-Depreciation		82,954	29,614
-Receipts from insurance		-	(1,098)
-Loss on disposal of property		-	1,013
Net cash inflow from operating activities		(117,829,653)	2,522,910
Decrease/ (increase) in receivables	12	85,906,683	(5,284,243)
Increase in payables	13	33,115,202	8,385,178
<b>Cash generated from operations</b>		<b>1,192,232</b>	<b>5,623,845</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investing activities			
Proceeds from disposal of property and equipment		-	1,098
Purchase of property and equipment		(438,972)	(131,288)
Acquisition of portfolio investments	14	(160,089,283)	(421,628,431)
<b>Net cash from investing activities</b>		<b>(160,528,255)</b>	<b>(421,758,621)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from long term borrowings	14	160,089,283	421,628,431
<b>Net cash from financing activities</b>		<b>160,089,283</b>	<b>421,628,431</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>753,260</b>	<b>5,493,655</b>
Cash and cash equivalents at beginning of the year		6,826,515	1,332,860
Cash and cash equivalents at end of the year	7	7,579,775	6,826,515



ZIMBABWE ASSET MANAGEMENT CORPORATION (PRIVATE) LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
 For the year ended 31 December 2017



## 1. REPORTING ENTITY

The Zimbabwe Asset Management Corporation is an entity incorporated under the Companies Act [Chapter 24:03]. It is incorporated and domiciled in Zimbabwe. ZAMCO's registered office is 5th Floor, Hardwicke House, 72-74 Samora Machel Avenue, Harare.

### 1.1. Nature of business

The functions of ZAMCO are as follows:

- a) To acquire, reschedule, dispose of, hold, manage, or otherwise settle non-performing loans of banking institutions;
- b) Manage, acquire, restructure and dispose of distressed or problem or failed banking institutions, on the direction of the Reserve Bank; and
- c) To perform other functions related to the acts mentioned in paragraphs a) and b) above.

## 2. BASIS OF PREPARATION

The financial statements of ZAMCO are prepared and presented in accordance with the IFRS as issued by the International Accounting Standards Board. The financial statements are prepared under the historical cost basis except for land, buildings, and available for sale financial instruments which are measured at fair value.

### 2.1 Financial Reporting Framework

ZAMCO presents its statement of financial position in order of liquidity. The accounting policies are prepared on the basis of IFRS.

### 2.2 Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from

other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of revision and future years if the revision affects both current and future years. Management judgment was used in the application of accounting policies that have a significant effect on the financial statements and on estimates with a significant risk of material adjustments in the subsequent year.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4, to the financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Revenue recognition

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

#### 3.1.1 Interest income

Interest income arises from ZAMCO's lending and money market activities. It is accrued on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable to the instrument.

#### 3.1.2 Fee income

ZAMCO recognises fees on an accrual basis from loan restructuring services in accordance with the substance of the underlying transaction.



ZIMBABWE ASSET MANAGEMENT CORPORATION (PRIVATE) LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
 For the year ended 31 December 2017



### 3.1.3 Dividend income

Dividend income from investments is recognised when ZAMCO's rights to receive the dividend have been established.

## 3.2 Foreign currency translation

Items included in the financial statements of the entity are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). These financial statements are expressed in United States Dollars (US\$).

### 3.2.1 Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss.

### 3.2.2 Transactions and balances

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognized in other comprehensive income or the statement of profit or loss is also recognized in other comprehensive income or the statement of profit or loss, respectively).

Transactions in foreign currencies are initially recorded by the entity at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

## 3.3 Employee benefits

### 3.3.1 Retirement benefit costs

ZAMCO contributes towards a defined contribution plan.

Contributions to this plan are recognised as an expense in the statement of profit or loss and other comprehensive income in the periods in which services are rendered by the employees.

### 3.3.2 Pension scheme

ZAMCO and its employees contribute 12% and 6% of pensionable earnings respectively to the Fintrust Pension Fund. Employer and employees contribute towards the mandatory National Social Security's Pension Scheme. The funds are defined contribution funds, the assets of which are held in a separate trustee-administered fund.

### 3.3.3 Termination benefits

Termination benefits are recognised as an expense when ZAMCO is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if ZAMCO has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

### 3.3.4 Short term benefits

Short term benefits consist of salaries, accumulated leave payments and any non-monetary benefits such as medical aid contributions. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under accumulated leave if ZAMCO has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

## 3.4 Taxation

ZAMCO is exempt from Income Tax and Capital Gains Tax in terms of the Income Tax Act (Chapter 23:06) and the Capital Gains Tax Act (Chapter 23:01) respectively.



ZIMBABWE ASSET MANAGEMENT CORPORATION (PRIVATE) LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
 For the year ended 31 December 2017



### 3.5 Property and equipment

Land and buildings held for use in the provision and supply of services, or for administrative purposes, are initially measured at cost and subsequently stated in the statement of financial position at their revalued amounts, being the fair value at the reporting date, determined from market-based evidence by appraisal undertaken by independent professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from the fair value determined at the reporting date. Property and equipment are revalued after three years in accordance with the Audit, Risk and Oversight Committee guidelines. Any revaluation increase arising on the revaluation of buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same assets previously recognised as an expense, in which case the increase is credited to profit or loss to the extent of the decrease previously charged.

A decrease in carrying amount is charged as an expense to the extent that it exceeds the balance, if any, held in revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to the accumulated fund.

Furniture, equipment and motor vehicles are stated at acquisition cost less accumulated depreciation and impairment losses.

Depreciation is charged so as to write off the acquisition cost or valuation of assets, other than land and buildings under construction, over their estimated useful lives to their residual values, using

the straight line method, on the following basis:

Buildings	50 Years
Computer Equipment	4 Years
Computer Software	4 Years
Office Equipment	4 Years
Furniture and Fittings	10 Years
Motor vehicles	5 Years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised as income or expense in profit or loss.

### 3.6 Financial instruments

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

#### 3.6.1 Financial assets and financial liabilities

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

#### 3.6.2 Financial assets

Financial assets are classified into the following categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held to maturity investments', 'available for sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial asset and it is determined at the time of initial recognition.





ZIMBABWE ASSET MANAGEMENT CORPORATION (PRIVATE) LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
 For the year ended 31 December 2017



ZAMCO's main financial assets are debtors and other receivables, loans and advances to customers and investments.

### 3.6.3 Receivables, loans and advances

Receivables, loans and advances that are not quoted on an active market are classified as loans and advances. Loans and advances are classified as held to maturity and they are measured at amortised cost less any impairment losses.

### 3.6.4 Available for sale (AFS) financial assets

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

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and posted in the mark to market reserve until the investment is derecognised, at which time profit or loss is recognised in other operating income. When the investment is determined to be impaired, the cumulative loss is reclassified from the mark to market reserve to the statement of profit or loss as impairment loss. Dividend received whilst holding AFS financial assets is reported as dividend income.

### 3.6.5 Held to maturity investments

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

deposits have been classified as held to maturity.

### 3.6.6 Financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Financial liabilities are recognised when ZAMCO becomes party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value, generally being their issue proceeds net of transaction costs incurred.

The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option-pricing valuation techniques whose variables include only data from observable markets.

ZAMCO's main financial liabilities include loans and borrowings.

Subsequent measurement.

The measurement of financial liabilities depends on their classification as described below

#### 3.6.6.1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 is met. ZAMCO has not designated any financial liability as fair value through profit or loss.



ZIMBABWE ASSET MANAGEMENT CORPORATION (PRIVATE) LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
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### 3.6.6.2 Loans and Borrowings

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

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

This category generally applies to interest bearing loans and borrowings.

### 3.6.7 Offsetting financial instruments

ZAMCO offsets financial assets and financial liabilities and reports the net balance in the statement of financial position where there is a legally enforceable right to set off and there is an intention to settle on a net basis or to realize the financial assets and settle the financial liability simultaneously and the maturity date for the financial assets and liabilities are the same and the financial assets and liabilities are denominated in the same currency.

### 3.6.8 Impairment of financial assets

At each reporting date, ZAMCO assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired.

ZAMCO considers objective evidence of impairment as:

- (i) Insolvency/financial difficulties on the part of a debtor.
- (ii) Delinquency by counterparty.
- (iii) Breach of loan covenants or conditions.
- (iv) Deterioration of borrower's competitive position.
- (v) Deterioration in the value of collateral.
- (vi) Renegotiation of loans to be on terms that ZAMCO would not otherwise consider. A financial asset or

group of financial assets is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that loss event had a negative effect on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably.

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

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

### 3.7 Derecognition of financial assets and financial liabilities

ZAMCO derecognises a financial asset when it loses control over the contractual rights that comprise the financial assets and transfers substantially all the risks and benefits associated with the financial asset. This arises when the rights are either realised, or they expire or are surrendered.

ZAMCO derecognises a financial liability when the



ZIMBABWE ASSET MANAGEMENT CORPORATION (PRIVATE) LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
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obligation specified in the contract is discharged, cancelled or expired.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount of the portion of the asset to be transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed, and (ii) any cumulative gain that had been recorded in other comprehensive income, is recognised in profit or loss.

### 3.8 Investments in subsidiaries and joint ventures

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

A joint venture is a contractual arrangement entered into by ZAMCO and other parties to share control of an economic activity. The strategic financial and operating decisions relating to the economic activity require the consent of ZAMCO and other parties.

Investments in subsidiaries and joint ventures are stated at deemed cost. Subsequent to initial recognition, the investments in subsidiaries or joint ventures are carried at cost less any accumulated impairment.

### 3.9 Provisions

Provisions are recognised when ZAMCO has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

### 3.10 Operating leases

ZAMCO has entered into commercial property leases on its investment property portfolio. ZAMCO has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term

not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases. Rental income and expenditure under operating leases is accounted for through profit or loss on a straight line basis, over the period of the lease.

### 3.11 Fair value measurement

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

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

The principal or the most advantageous market must be accessible by ZAMCO. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. ZAMCO uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1. Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2. Valuation techniques for which the lowest



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level input that is significant to the fair value measurement is directly or indirectly observable.

- Level 3. Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

### 3.12 STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

At the date of authorisation of these financial statements the following standards, amendments to existing standards and interpretations were in issue, but not yet effective up to the date of issuance of ZAMCO's financial statements:

#### IFRS 9 "Financial Instruments"

(effective for annual periods beginning on or after 1 January 2018, with early application permitted), issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

#### Classification and Measurement

IFRS 9 introduces new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements under IAS 39. The new model also results in a single impairment model being applied to all financial instruments.

#### Impairment

IFRS 9 has introduced a new, expected-loss impairment

model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

#### Hedge accounting

IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

#### Own credit

IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

#### Adoption

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

As permitted by the transitional provisions of IFRS 9, ZAMCO will not restate comparative figures at the initial adoption of IFRS 9.

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

The adoption of IFRS 9 will result in changes in ZAMCO's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS





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9 also significantly amends other standards dealing with financial instruments, such as IFRS 7 Financial Instruments: Disclosures.

ZAMCO is currently in the process of performing a gap analysis to ascertain the extent of the changes from IAS 39 to IFRS 9. The extent of financial impact on the statement of financial position is yet to be ascertained.

IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018), published by IASB on 28 May 2014. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts.

The core principle of the new Standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. ZAMCO does not expect the standard to have material financial impact in future financial statements.

#### IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets.

Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. ZAMCO does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

## 4 CRITICAL JUDGMENTS AND KEY SOURCES OF ESTIMATION IN APPLYING ZAMCO'S ACCOUNTING POLICIES

In the process of applying ZAMCO's accounting policies, the Directors have made the following judgments and estimations that have a significant effect on the amounts recognised in the financial statements.

- 4.1 Property and equipment values, useful lives, residual values and depreciation rates ZAMCO's property and equipment are depreciated using depreciation rates, useful lives and residual values estimated by the Directors.
- 4.2 **Going concern**  
 The entity's management has made an assessment of its ability to continue as a going concern and is satisfied that the entity has the resources to continue in business for the foreseeable future. Despite a net liability position presented in these financial statements, the support from the Reserve Bank and Government of Zimbabwe ensures that the corporation will fully discharge its mandate. Therefore, the financial statements continue to be prepared on the going concern basis.
- 4.3 **Fair value of financial instruments**  
 Where the fair values of financial assets and financial



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liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as discount rates, prepayment rates, time to maturity and default rate assumptions for debt securities

#### 4.4 Impairment of financial assets

In assessing impairment, ZAMCO considers the underlying security of a financial asset and the resolution method earmarked for that particular loan. At each reporting date, ZAMCO reviews the carrying amount of its loans and advances against estimations of the recoverable amount.

### 5 INCOME AND EXPENDITURE

#### 5.1 Interest and Fee income comprises:

Interest income

Preference share coupon income

Facility fees

Money market investments income

Sundry income

2017 US\$	2016 US\$
54,212,779	30,948,667
5,406,961	5,309,361
755,675	272,331
340,035	-
-	10,452
<b>60,715,450</b>	<b>36,540,811</b>

Interest Income is interest earned on Loans Acquired and restructured, with rates ranging between 5-10%. Facility fees are charged at 1% of restructured loan on commencement of facility. Management fees are charged where ZAMCO acts as an agent, at 0.5% of transacted amount. Income increased during the period because of an increase in loans restructured as well as the charges being for a full year.

#### 5.2 Interest and Fee expense comprises:

Interest expense on Treasury bills issued

Interest on CBZ Facility

Interest expense on PTA facility

Commission paid

Bank charges

26,813,315	19,371,514
17,439,359	-
3,365,858	3,750,371
103,435	20,944
3,747	2,146
<b>47,725,714</b>	<b>23,144,974</b>

Interest expense consists mainly of interest on Treasury Bills issued for loan acquisitions, which carry a coupon of 5% p.a. payable semi-annually, interest on the CBZ loan facility, starting in the current period, which is at 8% p.a. as well as interest charged on the PTA distressed banks facility which has an interest rate of 8.25% p.a. also payable semi-annually. An increase in acquisition of loans gave rise to more Treasury bills being issued, resulting in higher interest expense charges.

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	2017 US\$	2016 US\$
<b>5 INCOME AND EXPENDITURE (continued)</b>		
5.3 `Other income	94,086	-
Other income refers to rental income from operating leases on ZAMCO properties acquired through debt asset swaps as well as income from non-lending activities.		
5.4 Operating expenses	1,180,731	757,582
Operating expenses include:		
Auditors' remuneration	38,036	38,036
Depreciation of property and equipment	82,954	29,614
Utility bills and telecommunication	24,931	14,713
Rent and rates	19,447	20,400
Other expenses	198,040	133,704
Employee benefits	711,923	423,915
-Salaries and allowances	595,919	389,252
-Pension and medical aid contributions	71,676	21,319
-Leave pay provision	44,328	13,344
Directors Fees	105,400	97,200
<b>6 IMPAIRMENT ALLOWANCE FOR FINANCIAL ASSETS</b>	<b>US\$</b>	<b>US\$</b>
Opening balance 1 January	10,144,874	-
Gross allowance for the year	129,815,698	10,144,874
<b>Closing balance 31 December</b>	<b>139,960,572</b>	<b>10,144,874</b>

In accordance with its mandate and the Banking Amendment Act 2015, ZAMCO purchases non-performing loans from banks. On acquisition, these non-performing loans are impaired in the books of selling Banks and they carry the same state when they move to ZAMCO.

The increase in impairment allowance is attributable to various factors which include ZAMCO's focus on resolution of NPLs which quickly identifies assets that are not performing as well as the unwinding of various repurchase agreements with financial institutions after they were deemed void ab initio. The effect of the unwinding exercise was the immediate recognition of some assets as impaired due to their quality and lack of adequate security. In that regard, ZAMCO has decided that it is prudent to make a provision for impairment due to the nature of the acquired assets. A thorough examination of each acquired loan was conducted at year end and it was concluded that there needs to be an allowance for impairment of the purchased NPLs amounting to \$106,748,576 (2016: \$10,144,874). Interest income has since been suspended on accounts that have been assessed as impaired

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**7 CASH AND BANK BALANCES**

Short term investments  
 Bank balances  
 Cash at hand

2017 US\$	2016 US\$
3,672,442	6,456,600
3,907,314	369,808
19	107
<b>7,579,775</b>	<b>6,826,515</b>

Cash and Bank Balances comprises cash on hand, demand deposits with local banks and short term investments. Short term investments earn interest at rates between 2 – 5% p.a.

**8 RECEIVABLES**

Other receivables

2017 US\$	2016 US\$
443,037	31,389
<b>443,037</b>	<b>31,389</b>

Other receivables include staff loans and prepayments for operating expenses

**9 LOANS, ADVANCES AND DEBT CONVERSION**

**9.1 LOANS AND ADVANCES**

Loans and advances  
 Impairment of financial assets

2017 US\$	2016 US\$
790,711,407	709,400,533
(139,960,572)	(10,144,874)
<b>650,750,835</b>	<b>699,255,659</b>

During the year, there were significant acquisitions of NPLs that were restructured and currently form part of the ZAMCO income earning asset base. Loans and advances earn interest at rates between 5 – 10% p.a.



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**9.2 DEBT ASSET CONVERSION ASSETS**

Debt-asset conversion assets

Debt asset conversion assets refer to loans that have been resolved through debt asset conversions. These assets are at various stages of conveyancing.

**10 PREFERENCE SHARES HELD**

Preference Shares held

The preference shares are held in entities whose debts, owing to ZAMCO, were converted on restructuring.

**11 FINANCIAL SECURITIES**

Treasury Bills (TBs)

Included in financial securities are \$38m TBs received from the Government of Zimbabwe as security on the IDBZ facility. Also included are TBs received from various client as loan repayments.

**12 CHANGE IN RECEIVABLES**

Change in loans and advances  
 Change in debt asset conversion  
 Change in preference shares held  
 Change in financial securities  
 Change in receivables

**Increase in receivables**

Less acquisitions during the year

**Net decrease /(increase) in receivables**

	2017 US\$	2016 US\$
Debt-asset conversion assets	87,867,136	-
Preference Shares held	72,063,176	40,092,561
Treasury Bills (TBs)	40,721,028	38,283,003
Change in loans and advances	(48,504,824)	426,883,222
Change in debt asset conversion	87,867,136	-
Change in preference shares held	31,970,615	-
Change in financial securities	2,438,025	-
Change in receivables	411,648	29,452
<b>Increase in receivables</b>	<b>74,182,600</b>	<b>426,912,674</b>
Less acquisitions during the year	(160,089,283)	(421,628,431)
<b>Net decrease /(increase) in receivables</b>	<b>85,906,683</b>	<b>(5,284,243)</b>



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	2017 US\$	2016 US\$
<b>13 CHANGE IN PAYABLES</b>		
Change in Treasury bills in issue	143,685,021	199,625,371
Change in loans and borrowings	46,384,280	229,775,551
Change in deferred income	2,863,353	583,756
Change in sundry payables	271,831	28,931
<b>Increase in payables</b>	<b>193,024,485</b>	<b>430,013,609</b>
Less TBs and Loans utilised for acquisitions	(160,089,283)	(421,628,431)
<b>Net increase in payables</b>	<b>33,115,202</b>	<b>8,385,178</b>
<b>14 ACQUISITIONS/LONG TERM BORROWINGS</b>		
Closing Balance of Treasury bills	593,433,757	449,748,736
Opening balance of Treasury bills	449,748,736	250,123,365
Change in Treasury bills in issue	143,685,021	199,625,371
Borrowings utilised for acquisitions	16,404,262	222,003,060
<b>Net increase in Acquisitions/ long term borrowings</b>	<b>160,089,283</b>	<b>421,628,431</b>

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15 PROPERTY AND EQUIPMENT

	Computer Hardware US\$	Computer Software US\$	Furniture & Fittings US\$	Office Equipment US\$	Motor Vehicles US\$	Total US\$
<b>COST:</b>						
<b>At 01 January 2016</b>	30,526	5,295	12,017	32,773	-	80,611
Additions	12,881	-	25,259	7,488	85,660	131,288
Disposals	(1,280)	-	-	-	-	(1,280)
<b>At 31 December 2016</b>	42,127	5,295	37,276	40,261	85,660	210,619
Additions	8,502	-	5,090	4,031	421,350	438,972
<b>At 31 December 2017</b>	50,629	5,295	42,366	44,292	507,010	649,592
<b>DEPRECIATION:</b>						
<b>At 01 January 2016</b>	5,619	806	1,202	7,558	-	15,184
Disposals	(267)	-	-	-	-	(267)
Depreciation charge for the year	8,616	1,324	2,351	8,936	8,388	29,614
<b>At 31 December 2016</b>	13,968	2,129	3,552	16,494	8,388	44,531
Depreciation charge for the year	11,576	1,324	3,848	10,348	55,859	82,954
<b>At 31 December 2017</b>	25,544	3,453	7,400	26,841	64,247	127,485
<b>Net Book Value:</b>						
<b>At 01 January 2016</b>	24,907	4,489	10,815	25,215	-	65,427
<b>At 31 December 2016</b>	28,159	3,166	33,724	23,768	77,272	166,088
<b>At 31 December 2017</b>	25,085	1,842	34,966	17,451	442,763	522,106



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	2017 US\$	2016 US\$
<b>16 SHARE CAPITAL</b>		
Authorised share capital 200 000 ordinary shares at \$0.01	2,000	2,000
Issued Share Capital		
100,000 Ordinary Shares @ \$0.01	1,000	1,000
Share premium	286,521	286,521
	<u>287,521</u>	<u>287,521</u>
ZAMCO's issued share capital is held by the Reserve Bank of Zimbabwe. In accordance with the provisions of the Companies Act [Chapter 24:01], the unissued ordinary shares of the corporation are under the control of the Board of Directors.		
<b>17 RETAINED EARNINGS</b>		
Opening balance	2,908,655	415,275
(Loss)/ Profit for the year	(117,912,607)	2,493,381
<b>Balance at year end</b>	<u>(115,003,952)</u>	<u>2,908,656</u>

**18 LOANS AND BORROWINGS**

NAME	RATE	TENURE	SECURITY PLEDGED	2017 US\$	2016 US\$
PTA Bank	8.25	8 Years	-	36,705,987	43,239,153
IDBZ Foreign Loans#	0%	-	-	38,283,003	38,283,003
CBZ Loan Facility	8%	8years	-	235,431,348	217,991,989
Other Loans & Dues*	0-5%	-	-	64,650,693	29,172,606
<b>TOTAL</b>				<u>375,071,031</u>	<u>328,686,751</u>

# The IDBZ foreign loans do not have a defined term as they are dependent on the ability of IDBZ to raise funding to extinguish the debts

\* Other loans and dues include intercompany loans and interest payable that has been accrued but not yet due for payment. The increase relates mainly to PTA facility repayments done by the RBZ on ZAMCO's behalf.



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**18.1 OTHER LOANS AND DUES**

PTA Repayments
TB Coupon & Capital payments – 2016
TB Coupon & Capital payments – 2017
Interest due and payable
Business resuscitation fund (RBZ)

2017 US\$	2016 US\$
28,797,920	7,832,680
14,676,930	14,501,279
10,862,946	-
7,771,013	6,838,647
2,541,884	-
<b>64,650,693</b>	<b>29,172,606</b>
<b>593,433,757</b>	<b>449,748,736</b>
<b>5,475,229</b>	<b>2,611,876</b>

Other loans and dues include Reserve Bank of Zimbabwe intercompany loans arising from PTA repayments and TB coupons paid by the Reserve Bank, interest accrued on the Treasury bills in issue. No tenures have been agreed upon with respect to the intercompany loans. The Treasury bill interest is accrued up to six (6) months.

**19 TREASURY BILLS IN ISSUE**

These are US Dollar denominated Government of Zimbabwe Treasury Bills issued on behalf of ZAMCO for the acquisition of non-performing loans and payments made by the RBZ to foreign creditors for and on behalf of ZAMCO with respect to interest due. The Treasury Bills attract a coupon of 5%p.a payable semi-annually. The increase in treasury bills resulted from more acquisitions of NPLs being concluded.

**20 DEFERRED INCOME**

Refers to facility fees charged by ZAMCO on restructuring a loan. The deferred income is amortised over the lifespan of the facility. The increase in 2017 relate to structured deals with financial institutions that gave rise to recognition of significant amounts as facility fees.



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	2017 US\$	2016 US\$
<b>21 PAYABLES</b>		
Reserve Bank of Zimbabwe Intercompany Balances	258,503	258,503
Other Payables	425,004	153,172
<b>Balance for the year</b>	<b>683,507</b>	<b>411,675</b>
Intercompany balance relates to transactions done by the Reserve Bank of Zimbabwe on behalf of ZAMCO, whilst other payables include legal fees accrued, Audit fees provision and provisions for leave pay.		
<b>21.1 LEAVE PAY PROVISION</b>		
Opening balance 1 January	19,782	8,528
Gross provisions for the year	44,328	13,344
Paid out during the year	(1,728)	(2,090)
<b>Closing balance 31 December</b>	<b>62,382</b>	<b>19,782</b>
<b>21.2 AUDIT FEES PROVISION</b>		
Opening balance 1 January	38,036	30,188
Charge for the year	38,036	38,036
Paid during the year	(38,036)	(30,188)
<b>Closing balance 31 December</b>	<b>38,036</b>	<b>38,036</b>
<b>22 CONTINGENT LIABILITIES, COMMITMENTS AND OTHER CONTINGENCIES</b>		
There were no contingent liabilities at year end.		
<b>23 CAPITAL COMMITMENTS</b>	<b>2017 US\$</b>	<b>2016 US\$</b>
Authorised and contracted:	204,100	-

In October 2017, ZAMCO engaged Fintech International to implement a Loan Management System (LMS) for administration of the ZAMCO loan book, at a cost of US\$204,100. The costs quoted did not include the travel and subsistence costs with respect to expatriate consultants working on the project.

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As at 31 December 2017, the LMS deployment had not commenced and no payments had been made by ZAMCO pursuant to the contract's fulfilment.

## 24 RETIREMENT BENEFIT SCHEMES

### 24.1 National Social Security Authority (NSSA) scheme

The Employees are members of a state-managed retirement benefit plan, NSSA, and the contributions to the scheme are made in terms of the National Social Security Authority Act (Chapter 17:04). During the year ZAMCO contributed US\$7,565 (2016: \$4,348) towards this plan and the cost is included in the staff costs.

### 24.2 Fintrust Pension Fund

In 2017 ZAMCO staff also became members of the RBZ initiated Fintrust Pension Fund, which is managed by Comarton Consultants. The fund is a defined contribution plan, towards which the employee contributes 6% of basic earnings, whilst the employer contributes 12%. During the year ZAMCO contributed \$34,330 towards the fund.

### 24.2 Recognition of contributions

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

### 24.3 Contributions recognized as an expense during the year

National Social Security Authority Scheme  
 Fintrust Pension Fund

2017 US\$	2016 US\$
7,565	4,348
34,330	-
<b>41,895</b>	<b>4,348</b>

## 25 FINANCIAL ASSETS AND RISK MANAGEMENT

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



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25.1 Classification of Financial Assets and Liabilities (2017)

	Held to maturity investments US\$	Financial instruments at amortised Cost US\$	Loans and receivables US\$	Bank and cash US\$	Total US\$
<b>Financial Assets</b>					
Loans and advances	-	-	650,750,835	-	650,750,835
Debt asset conversion assets	-	-	87,867,136	-	87,867,136
Preference shares held	72,063,176	-	-	-	72,063,176
Receivables	-	-	443,037	-	443,037
Financial securities	40,721,028	-	-	-	40,721,028
Cash and bank balances	-	-	-	7,579,775	7,579,775
<b>Total</b>	<b>112,784,204</b>	<b>-</b>	<b>739,061,008</b>	<b>7,579,775</b>	<b>859,424,987</b>
<b>Financial Liabilities</b>					
Treasury bills in issue	-	593,433,757	-	-	593,433,757
Long term loans & borrowings	-	310,420,339	-	-	310,420,339
Other loans and dues*	-	64,650,693	-	-	64,650,693
Payables	-	683,507	-	-	683,507
<b>Total</b>	<b>-</b>	<b>969,188,296</b>	<b>-</b>	<b>-</b>	<b>969,188,296</b>

\* Other loans and dues include intercompany loans and interest accrued on treasury bills in issue

25.1 Classification of Financial Assets and Liabilities (2016)

	Financial Held to maturity investments US\$	instruments at amortised Cost US\$	Loans and receivable US\$	Bank and cash US\$	Total US\$
<b>Financial Assets</b>					
Loans and advances	-	-	699,255,659	-	699,255,659
Preference shares held	40,092,561	-	-	-	40,092,561
Receivables	-	-	31,389	-	31,389
Financial securities	38,283,003	-	-	-	38,283,003
Cash and bank balances	-	-	-	6,826,515	6,826,515
<b>Total</b>	<b>78,375,564</b>		<b>699,287,048</b>	<b>6,826,515</b>	<b>784,489,127</b>
<b>Financial Liabilities</b>					
Treasury bills in issue	-	449,748,736	-	-	449,748,736
Long term loans & borrowings	-	299,514,145	-	-	299,514,145
Other loans and dues	-	29,172,606	-	-	29,172,606
Payables	-	411,675	-	-	411,675
<b>Total</b>	<b>-</b>	<b>778,847,162</b>	<b>-</b>	<b>-</b>	<b>778,847,162</b>





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## 25.2 Market price risk

Market price risk is the risk of loss resulting from changes in market conditions and prices. Market price risk includes interest rate risk, currency risk and equity price risk. In its operations, ZAMCO is obliged to accept certain market-related risks which would not be fully compatible with pure commercial practice. ZAMCO nevertheless manages its market risks responsibly, utilising modern technology and appropriate organisational structures and procedures. Exposures and limits are measured continuously and strategies are routinely reviewed by management

## 25.3 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This is managed at both the board and management level through regular policy and benchmarks which relates to interest rate risk management. The majority of ZAMCO's loans and advances facilities are at concessionary rates. ZAMCO's senior management oversees the management of these risks and they are supported by a committee that advises on such risks and the appropriate risk governance framework for ZAMCO. The committee provides assurance that ZAMCO's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with ZAMCO's policies and risk objectives.

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

	2017 US\$	2016 US\$
<b>Financial assets</b>		
Loans and advances	650,750,835	699,255,659
Preference shares held	72,063,176	40,092,561
Financial securities	40,721,028	38,283,003
<b>Total</b>	<b>763,535,039</b>	<b>777,631,223</b>
<b>Financial Liabilities</b>		
Loans and borrowings	310,420,339	299,514,145
Treasury bills in issue	593,433,757	449,748,736
Other loans and dues	64,650,693	29,172,606
<b>Total</b>	<b>968,504,789</b>	<b>778,435,487</b>

## 25.4 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in exchange rates. ZAMCO's assets and liabilities are held in US\$ (ZAMCO's functional currency) hence. The corporation was not exposed to currency risk at year end.

## 25.5 Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its contractual obligations. Credit risk arises from such activities of ZAMCO as advances to clients and deposits made with other institutions and the settlement of financial market transactions.



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

Credit risk from balances with banks and financial institutions is managed by ZAMCO's Investment and Asset Management department in accordance with ZAMCO's policy.

#### 25.5.1 Concentration of credit risk

ZAMCO deals with a variety of clients and its loans and advances are structured and spread among them. In addition, ZAMCO has procedures and policies in place to limit the amount of credit exposure to any counterparty. ZAMCO reviews, on a regular basis, the performance of counterparties and takes action accordingly to ensure that exposure limits are not exceeded. ZAMCO was not exposed to any concentration risk as at year end.

#### 25.5.2 Credit risk measurement

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

##### Internal Ratings Scale

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



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25.5 Credit risk continued

	Neither Past Due/nor impaired US\$	Past due not impaired US\$	Past due and impaired US\$	Total US\$
<b>Credit risk Analysis 2017</b>				
Cash and bank balances	7,579,775	-	-	7,579,775
Receivables	443,037	-	-	443,037
Loans and advances to clients	616,412,423	34,338,412	-	650,750,835
Debt asset conversion assets	87,867,136	-	-	87,867,136
Preference shares held	72,063,176	-	-	72,063,176
<b>Total non-derivative assets</b>	<b>784,365,547</b>	<b>34,338,412</b>	<b>-</b>	<b>818,703,959</b>
<b>Credit risk Analysis 2016</b>				
Cash and bank balances	6,826,515	-	-	6,826,515
Receivables	31,389	-	-	31,389
Loans and advances to clients	657,514,303	41,741,356	-	699,255,659
Preference shares held	40,092,561	-	-	40,092,561
<b>Total non-derivative assets</b>	<b>704,464,768</b>	<b>41,741,356</b>	<b>-</b>	<b>746,206,124</b>

25.6 Credit risk exposure

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

	2017 US\$	2016 US\$
Cash and bank balances	7,579,775	6,826,515
Receivables	443,037	31,389
Loans and advances	650,750,835	699,255,659
Debt Asset Conversion Assets	87,867,136	-
Preference shares held	72,063,176	40,092,561
Financial Securities	40,721,028	38,283,003
<b>Total</b>	<b>859,424,987</b>	<b>784,489,127</b>

ZAMCO held collateral worth US\$550 million (2016 – US\$524 million) on advances to clients. The collateral held by ZAMCO is in the form of real estate.

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## 25.7 Liquidity risk

Liquidity risk is the risk that an entity may not be able to accommodate decreases in liabilities or to fund increases in assets in full at the time that a commitment or transaction is due for settlement. Due to the multi-currency regime ZAMCO faces liquidity risk on domestic and foreign assets as it does not have capacity to create local currency when required. ZAMCO faces liquidity risk in respect of foreign assets and liabilities and its risk is further compounded by the fact that ZAMCO is undercapitalized. Due to these challenges, it has been difficult for ZAMCO to settle its liabilities as they fall due. However, the Government, through the Ministry of Finance, has pledged continued support to ZAMCO. The Government has started the process of taking over ZAMCO's liabilities. The table below analyses ZAMCO's financial assets and financial liabilities into relevant maturity groups and the amounts disclosed in the table are the contractual undiscounted cash flows.

### 25.7.1 Maturity Analysis (2017)

	On demand	Due between 0-3 months	Due between 3-12 months	Due between 1-5 years	Due After 5 years cost	Total carrying amount
	US\$	US\$	US\$	US\$	US\$	US\$
<b>Non-derivative liabilities</b>						
Loans and borrowings	-	2,786,152	9,788,964	28,484,926	334,010,989	375,071,031
Treasury bills in issue	-	-	2,117,066	33,447,224	557,869,467	593,433,757
Payables	683,507	-	-	-	-	683,507
<b>Total non-derivative liabilities</b>	<b>683,507</b>	<b>2,786,152</b>	<b>11,906,030</b>	<b>61,932,150</b>	<b>891,880,456</b>	<b>969,188,295</b>
<b>Assets held for managing liquidity risk</b>						
Cash and bank balances	7,579,775	-	-	-	-	7,579,775
Financial Securities	2,438,025	-	-	-	38,283,003	40,721,028
Loans and receivables	34,338,412	2,435,334	125,647,912	176,831,424	301,497,753	650,750,835
Debt asset conversion assets	-	-	-	87,867,136	-	87,867,136
Preference shares held	-	-	-	40,092,543	31,970,633	72,063,176
<b>Total assets held for managing liquidity risk</b>	<b>44,356,212</b>	<b>12,435,334</b>	<b>125,647,912</b>	<b>304,791,103</b>	<b>371,751,389</b>	<b>858,981,950</b>
<b>Net exposure</b>	<b>43,672,705</b>	<b>9,649,182</b>	<b>113,741,882</b>	<b>242,858,953</b>	<b>520,129,067</b>	<b>(110,206,345)</b>

### 25.7.1 Maturity Analysis (2016)

	On demand 0-3 months	Due between 3-12 months	Due between 1-5 years	Due between 5 years	Due After carrying cost	Total amount
	US\$	US\$	US\$	US\$	US\$	US\$
<b>Non-derivative liabilities</b>						
Loans and borrowings	-	618,446	6,127,409	25,984,926	295,955,970	328,686,751
Treasury Bills in issue	-	9,277,286	500,000	2,368,271	437,603,179	449,748,736
Payables	411,675	-	-	-	-	411,675
<b>Total non-derivative liabilities</b>	<b>411,675</b>	<b>9,895,732</b>	<b>6,627,409</b>	<b>28,353,197</b>	<b>733,559,149</b>	<b>778,847,161</b>
<b>Assets held for managing liquidity risk</b>						
Cash and bank balances	6,826,515	-	-	-	-	6,826,515
Financial Securities	-	-	-	-	38,283,003	38,283,003
Loans and receivables	41,741,356	6,896,727	27,135,864	223,168,462	400,313,250	699,255,659
Preference shares held	-	-	-	-	40,092,561	40,092,561
<b>Total assets held for managing liquidity risk</b>	<b>48,567,871</b>	<b>6,896,727</b>	<b>27,135,86</b>	<b>223,168,462</b>	<b>478,688,814</b>	<b>784,457,738</b>
<b>Net exposure</b>	<b>48,156,196</b>	<b>(2,999,005)</b>	<b>20,508,455</b>	<b>194,815,265</b>	<b>(254,870,335)</b>	<b>5,610,57</b>





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### 25.7.3 Default and breaches disclosure

As at reporting date, ZAMCO was not in default for any of the loans and payables.

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

	Security value 2017 US\$	Unsecured value 2017 US\$	Total carrying Amount 2017 US\$
<b>Financial Assets</b>			
Loans and advances to clients	550,090,855	100,659,980	650,750,835
Debt asset conversion assets	87,867,136	-	87,867,136
Financial securities	40,721,028	-	40,721,028
Other receivables		443,037	443,037
<b>Total</b>	<b>678,679,019</b>	<b>101,103,017</b>	<b>779,782,036</b>
<b>Secured and Unsecured Financial Liabilities</b>			
Loans and borrowings	-	375,071,031	375,071,031
Treasury bills in issue	-	593,433,757	593,433,757
Payables	-	683,507	683,507
<b>Total</b>	<b>-</b>	<b>969,188,295</b>	<b>969,188,295</b>

The security held on the financial assets is in the form of Government guarantees and real estate.

### 25.7.4 Secured and unsecured Loans and Advances (2016)

	Security value 2016 US\$	Unsecured value 2016 US\$	Total carrying Amount 2016 US\$
<b>Financial Assets</b>			
Loans and advances to clients	524,282,772	174,972,887	699,255,659
Financial securities	38,283,003	-	38,283,003
Other receivables	-	31,389	31,389
<b>Total</b>	<b>562,565,775</b>	<b>175,004,276</b>	<b>737,570,051</b>
<b>Secured and Unsecured Financial Liabilities</b>			
Loans and borrowings	-	328,686,751	328,686,751
Treasury bills in issue	-	449,748,736	449,748,736
Payables	-	411,675	411,675
<b>Total</b>	<b>-</b>	<b>778,847,162</b>	<b>778,847,162</b>



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The security held on the financial assets is in the form of Government guarantees and real estate.

## 26. CAPITAL MANAGEMENT

ZAMCO's objectives when managing capital which is a broader concept than the equity on the face of financial position, are:

- To safeguard ZAMCO's ability to continue as a going concern so that it can continue to provide returns to
- To maintain a strong capital position necessary for its term financial health, and to support the development of its business.

ZAMCO is not subject to capital requirements by a regulatory body.

The table below summarises the composition of ZAMCO's capital for the year ended 31 December 2017.

	2017 US\$	2016 US\$
Share capital	1,000	1,000
Share premium	286,521	286,521
(Accumulated loss)/Retained Earnings	(115,003,952)	2,908,656
<b>Total</b>	<b>(114,716,431)</b>	<b>3,196,177</b>

The allocation of capital between specific business operations is largely driven by optimisation of the return achieved on the capital allocated. The Board of Directors sets the assets and liability management policies which determine the eventual asset allocation dependent on the strategic objectives of ZAMCO.

ZAMCO uses return on capital employed, synergies with other operations and activities, fit with the longer term strategic objectives of ZAMCO and availability of management and other resources in allocating its capital expenditure activities.

ZAMCO's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

## 27. RELATED PARTY INFORMATION

ZAMCO is wholly owned by the Reserve Bank of Zimbabwe. ZAMCO did not have controlling interests any company as at 31 December 2017, or at any point during the year.

### 27.1 Compensation of key management personnel of ZAMCO.

As required by IAS 24 Related Party Disclosures, key management remuneration and non-Executive Directors' fees are broken down as:



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**27.2 Balances with related parties**

Related Party	Relationship	2017 US\$	2016 US\$
Reserve Bank of Zimbabwe	Parent	46,638,183	22,592,463
Government of Zimbabwe	Owner of Parent	1,946,319	1,946,319
		<u>48,584,502</u>	<u>24,538,782</u>

The movement during the year arose from payments made on behalf of ZAMCO by the Reserve Bank of Zimbabwe.

**28. COMPARATIVE FIGURES**

Comparative figures are based on the 2016 audited financial statements.

**29. EVENTS AFTER REPORTING PERIOD**

- 29.1 ZAMCO received \$35m fresh capital from the Reserve Bank of Zimbabwe on the 22nd of August 2018.
- 29.2 The Government of Zimbabwe increased the ZAMCO Treasury bill limit to \$1 billion. This is meant to assist ZAMCO in mopping up any remaining qualifying NPLs so that ZAMCO can focus on recovery.

**30. GOING CONCERN**

ZAMCO recorded a profit of US\$11.9 million before impairment charges (US\$118 million loss after impairment) for the year ended 31 December 2017 and as of that date its total liabilities exceeded its total assets by US\$115 million as reflected in these financial statements.

These conditions give rise to a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and, therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

However, ZAMCO is a wholly owned subsidiary of the Reserve Bank of Zimbabwe and remains core to the Reserve Bank's operations in stabilising the local financial services sector through acquisition and resolution of non-performing loans (NPLs). ZAMCO is a non-profit making institution and relies on the Reserve Bank and Government of Zimbabwe for the funding of purchase of NPLs. However, ZAMCO generates revenue from interest on advances to clients, fees chargeable on facility restructure as well as interest charged on restructured facilities.

The Government, through the Ministry of Finance and Economic Development, continues to support ZAMCO's operational activities, authorising ZAMCO to utilise up to US\$750 million worth of Treasury bills to acquire NPLs. These Treasury bills are self-funding at 5% coupon per annum payable semi-annually.

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The Banking Amendment Act of 2015 provides for ZAMCO to operate until its sunset period and transfer whatever remains on its account to the Reserve Bank. The Act ensures that ZAMCO pursues the mandate as provided without the hindrance of profit making targets.

Accordingly, based on support from the Reserve Bank, Government of Zimbabwe, cashflow forecasts and ZAMCO's strategic mandate, management concludes that ZAMCO will realise its assets and settle its liabilities in the ordinary course of its statutory mandate. The financial statements have been prepared on the basis that the corporation will continue to be a going concern.





NOTES:

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NOTES:

This image shows a full page of blank, lined paper. It features approximately 20 evenly spaced horizontal grey lines across its entire width, typical of notebook or legal stationery. The paper is otherwise completely empty, with no text, markings, or illustrations.