Audited Financial Results

For the year ended 31 December 2016

CHAIRMAN'S STATEMENT
For the Year Ended 31 December 2016

Dear Shareholder

The mission of the Society is simple and customer focussed. Advancing this mission involves dealing with the uncertain headwinds, arising out of the challenging local and international environments; to deliver simple and relevant financial services to all our customers, through a dedicated staff, on a consistent basis.

Overcoming some of the headwinds will require the collective effort of our key stakeholders; to build and strengthen the local economy.

The Environment in 2016

One of the headwinds experienced in the year under review was the nationwide shortage of cash and foreign currency, which first emerged in 2015 and continued on into 2016. This problem worsened in 2016, and in response, the Reserve Bank of Zimbabwe introduced various measures designed to mitigate the situation, including export incentives, bond notes, foreign currency allocation parameters, foreign currency export restrictions, cash withdrawal limits, ceilings on certain loan interest rates and bank charges; and encouraging banking customers to use digital channels for transacting. The Government of Zimbabwe also introduced legislation to control imports, in a bid to optimise the use of scarce foreign currency while stimulating local production.

While the current agricultural season has been marked by heavy rains, with floods being experienced in some areas, there are good prospects that the season will be better than last year. Dam levels have improved, but authorities rightly continue to encourage the careful use of water.

Economic growth is estimated to have risen by 0.6% for the year ended 31 December 2016. Year-on-year, inflation ended the year at -1.6%. International gold, nickel, and platinum prices increased by 8%, 4% and 18% respectively.

Financial Results

Compared to the previous period, net interest income was constant and non-interest income increased due to higher transaction volumes in response to the Society's investments in digital channels. Whilst operating expenses increased, the movement in provisions through the profit or loss declined as a result of the recovery of some loans previously provided for. Consequently, the Society recorded a growth in net surplus of $11 million.

Total assets increased to $1.07 billion in 2016, from $1.04 billion in 2015.

Liquidity Management

The Society continues to manage its liquidity position with prudence. As at 31 December 2016, the Society's prudential liquidity ratio was 38%, against the minimum regulatory ratio of 30%.

Capital Management

The Society remained well capitalised throughout the year and was compliant with all regulatory benchmarks for capital. The existing regulations require Tier 1 banks to achieve minimum capital of $100 million by 2020. The Society expects to remain compliant with this requirement.

Human Resources

The Society was able to retain and attract key staff during the year under review. Industrial relations remained cordial.

Operations

The Society continued to enhance service delivery to its customers and to improve controls and efficiencies. Investments to this effect included:

- The ongoing branch refurbishments programme to improve customer experience;
- The opening of Greenzone Zvishavane, Greenzone Bulawayo, Arundel, Southerton and Kelvin Corner branches;
- The expansion of the size of the Point-of-Sale terminal network; and
- The on-going staff training programmes.

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The Society received several awards during the year under review, including the following:

- The best Mobile Banking App, Business Editors Awards at the Mobile Money and Digital Payments Conference; and
- The 2nd best performing Bank in 2016 by the Zimbabwe Independent Newspaper in their Banks and Banking Survey.

The Society continued to play its role in financial inclusion by increasing its funding support of small-holder agricultural projects including the Chibuwe and Mutema banana projects for the expansion and revitalisation of infrastructure, and the Lowveld Sugarcane Growers loan scheme with a total area of 1,960 hectares under cultivation. Additional funding arrangements have been put in place for the year 2017, to grow this portfolio and other agro-based initiatives. This is all in an effort to support the Society's financial inclusion agenda.

Corporate Social Responsibility

The Society recognises the need to invest continuously in the communities in which it operates. In the period under review, the Society was involved in a number of initiatives in support of education, sports and culture throughout the country. As part of its economic inclusion agenda, the Society also continued to provide funding to sectors that stimulate the economy and provide jobs such as agriculture, mining and manufacturing.

Corporate Governance

The Board of Directors and Management remain committed to the best practices in corporate governance. The Audit, Risk and Compliance, Management and other Board Committees met regularly throughout the period under review, to assess operations, evaluate risk, and to monitor and develop systems and procedures that will further safeguard the Society's assets.

Compliance Issues

Included in operating expenses is an amount of $491,963 which relates to a surcharge payable to the Deposit Protection Corporation. The Society delayed payment of the increased portion of its contributions whilst clarity was being sought from the Regulator regarding increased premiums.

The Society was otherwise compliant with all laws and regulations governing its activities during the period under review.

Future Prospects

The Society has made good progress in executing its long term strategy to serve our customers better. This is in spite of a very challenging operating environment. For this I would like to thank the Board for its foresight and guidance, management and staff for their dedication and hard work, and above all our clients for their continued support.

Directorate

Subsequent to year end, Mr T Kruger was appointed to the Board, as a non-executive Director, with effect from 1 January 2017.

I welcome Mr Kruger to the Society and wish him a fruitful tenure.

Dr L L Tsumba
Chairman
Central Africa Building Society

13 March 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Notes	31 December 2016 US$m	31 December 2015 US$m
Interest income	3	93.34	100.84
Interest expense	3	(34.83)	(41.87)
Net interest income		58.51	58.97
Impairments	4	(1.99)	(12.33)
		56.52	46.64
Fee and commission income	5.1	44.28	41.06
Other income	5.2	0.94	1.11
Operating income for the year		101.74	88.81
Operating expenses	6	(60.24)	(54.63)
Fair value adjustment on investment property	13.1	(0.73)	(2.84)
Impairment on housing projects	9.3.1	(1.54)	(2.97)
Net surplus for the year		**39.23**	**28.37**
Other comprehensive income		**(7.81)**	**(12.91)**
Loss on revaluation of owner occupied property	12	(1.83)	(4.81)
Regulatory impairment allowance	4	(5.98)	(8.10)
Total comprehensive income for the year		**31.42**	**15.46**

STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	31 December 2016 US$m	31 December 2015 US$m
Assets			
Cash and cash equivalents	7	121.85	105.29
Financial assets at fair value through profit or loss	8.1	205.94	222.86
Other assets	9	77.72	68.80
Intangible assets	10	10.34	11.99
Loans and advances	11	583.25	562.34
Property and equipment	12	50.34	48.68
Investment property	13.1	22.25	22.98
Non-current assets held for sale	14	1.41	-
Total assets		**1 073.10**	**1 042.94**
Liabilities			
Deposits	15	845.05	829.08
Credit lines	16	28.65	39.26
Other liabilities	17	17.85	16.31
Provisions	18	5.47	5.13
Total liabilities		**897.02**	**889.78**
Shareholders' equity			
Ordinary class "A" share capital	19.1	35.00	35.00
Retained earnings	19.2	99.32	81.07
Regulatory provision reserves	19.3	16.51	10.53
Non distributable reserves	19.4	1.45	1.45
Revaluation reserves	19.5	18.45	20.28
Share based payment reserves	19.6	5.35	4.83
Total Shareholders' equity		**176.08**	**153.16**
Total liabilities and equity		**1 073.10**	**1 042.94**

DR L L TSUMBA
CHAIRMAN

B L NKOMO
NON-EXECUTIVE DIRECTOR

HARARE
13 March 2017

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2016

2016

	Share capital US$m	Retained earnings US$m	Regulatory provision reserves US$m	Non-distributable reserves US$m	Revaluation reserves US$m	Share based payment reserves US$m	Total equity US$m
Balance as at 1 January 2016	**35.00**	**81.07**	**10.53**	**1.45**	**20.28**	**4.83**	**153.16**
Net surplus for the year	-	39.23	-	-	-	-	**39.23**
Other comprehensive loss for the year	-	(5.98)	-	-	(1.83)	-	**(7.81)**
Dividends on Ordinary class "A" share capital	-	(15.00)	-	-	-	-	**(15.00)**
Regulatory impairment allowance	-	-	5.98	-	-	-	**5.98**
Share based payment reserves	-	-	-	-	-	0.52	**0.52**
Balance as at 31 December 2016	**35.00**	**99.32**	**16.51**	**1.45**	**18.45**	**5.35**	**176.08**

2015

	Share capital US$m	Retained earnings US$m	Regulatory provision reserves US$m	Non-distributable reserves US$m	Revaluation reserves US$m	Share based payment reserves US$m	Total equity US$m
Balance as at 1 January 2015	**35.00**	**68.80**	**2.44**	**1.45**	**25.09**	**4.04**	**136.82**
Net surplus for the year	-	28.37	-	-	-	-	**28.37**
Other comprehensive loss for the year	-	(8.10)	-	-	(4.81)	-	**(12.91)**
Dividends on Ordinary class "A" share capital	-	(8.00)	-	-	-	-	**(8.00)**
Regulatory impairment allowance	-	-	8.10	-	-	-	**8.10**
Write off	-	-	(0.01)	-	-	-	**(0.01)**
Share based payment reserves	-	-	-	-	-	0.79	**0.79**
Balance as at 31 December 2015	**35.00**	**81.07**	**10.53**	**1.45**	**20.28**	**4.83**	**153.16**

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2016

	Notes	31 December 2016 US$m	31 December 2015 US$m
Cash flows from operating activities			
Net surplus for the year		39.23	28.37
Non-cash items:			
Share based payment provisions	19.6	0.52	0.79
Profit on sale of property and equipment		-	(0.05)
Fair value adjustment on financial instruments		0.59	(0.27)
Depreciation and amortisation	6	7.85	7.05
Fair value adjustment on investment property	13.1	0.73	2.84
Impairment on housing projects	9.3.1	1.54	2.97
Impairments	4	1.99	12.33
Provisions		0.34	2.23
Accrued interest on credit lines	16	0.32	0.57
Operating cash flows before working capital changes		**53.11**	**56.83**
Increase in other assets		(10.47)	(8.03)
Increase in non-current assets held for sale		(1.41)	-
Increase in loans and advances		(22.89)	(131.14)
Decrease/(increase) in financial assets at fair value through profit and loss		16.33	(52.92)
Increase in deposits		15.97	177.61
Increase in other liabilities		1.54	5.06
Net cash generated from operating activities		**52.18**	**47.41**
Cash flows from investing activities			
Additions to intangible assets	10	(1.83)	(2.57)
Additions to property and equipment	12	(7.86)	(5.87)
Proceeds from sale of property and equipment		-	0.11
Net cash used in investing activities		**(9.69)**	**(8.33)**
Cash flows from financing activities			
Dividend paid		(15.00)	(8.00)
Credit lines repaid		(10.93)	(11.24)
Net cash used in financing activities		**(25.93)**	**(19.24)**
Net increase in cash and cash equivalents		**16.56**	**19.84**
Cash and cash equivalents at the beginning of the year		**105.29**	**85.45**
Cash and cash equivalents at the end of the year	7	**121.85**	**105.29**

AUDITOR'S REPORT
For the Year Ended 31 December 2016

The condensed financial statements should be read in conjunction with the complete set of financial statements for the year ended 31 December 2016 which have been audited by Deloitte & Touche and an unmodified audit opinion issued thereon. The auditor's report is available for inspection at the Society's registered address.

Audited Financial Results

For the year ended 31 December 2016

CORPORATE GOVERNANCE STATEMENT
For the Year Ended 31 December 2016

The Society is committed to achieving high standards of corporate governance and continues to work towards compliance with the provisions of the Combined Code on Corporate Governance and best practice pronouncements.

Board Of Directors
The Board met seven times during the year ended 31 December 2016 (including special meetings, sessions devoted to strategy and business planning). Attendance was as tabled below.

		Main Board	Board Audit Committee	Board Risk and Compliance Committee	Board Credit Committee	Board Loans Review Commitee
	Number of meetings held	**7**	**4**	**4**	**4**	**4**
1	L L Tsumba (Dr)	7				
2	J Mushosho	6				
3	R D C Chitengu (Mrs)	7	4			3
4	T Kruger [1]	-				
5	D E B Long	6	4	4	4	
6	B L Nkomo	7	4	4		
7	L E M Ngwerume	7		3		3
8	A E Siyavora	6			4	
9	D L Stephenson	6	3		3	
10	B Zamchiya	7		4		4
11	S J Hammond	7				
12	M Mpofu	7				
13	M Mukonoweshuro	7				

[1] Appointed to the Board on 1 January 2017.

A Corporate Governance Code of Best Practice and a Board Charter are available to Directors for reference regarding their duties and obligations. Directors are aware that they may take independent professional advice at the Society's expense, if necessary, for the furtherance of their duties. The Board carries out annual Board and peer Director evaluations.

The Board currently comprises ten non-executive Directors. With the exception of Messrs. J Mushosho who is also the Old Mutual Chief Executive Officer - Rest of Africa, T Kruger who is also the Chief Executive Officer of the Banking Cluster, Old Mutual Emerging Markets, and L E M Ngwerume, the other non-executive Directors are considered independent and free from business or other relationships which could materially interfere with the exercise of their independent judgment.

The Rules of the Society require that one third of the Directors (in addition to those appointed by the Board during the year), shall retire each year by rotation. Proposals for re-election are considered by the Shareholders and are not automatic.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2016

SIGNIFICANT ACCOUNTING POLICIES

1 Reporting entity
Central Africa Building Society is a registered Building Society in terms of the Building Societies Act (Chapter 24:02) in Zimbabwe.

The parent company is Old Mutual Zimbabwe Limited (OMZIL), which is a company registered and incorporated in Zimbabwe. The ultimate holding company is Old Mutual Plc, which is a company incorporated and registered in the United Kingdom.

Nature of business
Central Africa Building Society conducts the principal businesses of mortgage lending, deposit acceptance and investing.

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2 Accounting policies
The principal accounting policies adopted in the preparation of the annual financial statements are set out below and have been consistently followed in all material respects.

2.1 Basis of preparation

Statement of compliance
The Society`s financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards and Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC). The financial statements are prepared from statutory records that are maintained under the historical cost convention as modified by the revaluation of investment properties and owner occupied properties and fair value adjustment of financial instruments. These financial statements have been prepared in accordance with the requirements of the Building Societies Act (Chapter 24:02).

2.2 Approval of financial statements
The financial statements were approved by the Board on 13 March 2017.

2.3 Functional and presentation currency
The financial statements are presented in United States dollars, which is the Society`s functional and presentation currency. Except as otherwise indicated, financial information is presented in million United States dollars rounded to two decimal places.

2.4 Use of estimates and judgments
The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

2.5 Significant accounting policies
A full set of the Society's policies are available in its annual report which is ready for inspection at the Society's registered office.

		Notes	31 December 2016 US$m	31 December 2015 US$m
3	**Net interest income**			
	Interest income		**93.34**	**100.84**
	Fixed deposits		16.97	17.25
	Loans and advances		76.37	83.59
	Interest expense		**(34.83)**	**(41.87)**
	Credit lines		(3.50)	(4.08)
	Savings certificates deposits		(30.28)	(36.17)
	Term deposits		(0.03)	(0.20)
	Savings deposits		(1.02)	(1.42)
	Net interest income		**58.51**	**58.97**
4	**Impairments**			
	Opening balance		35.89	15.47
	Movement through other comprehensive income		5.98	8.10
	Amounts utilised during the year		(4.50)	(0.01)
	Movement through profit or loss - current year		1.99	12.33
	Closing balance		**39.36**	**35.89**
	Analysis of closing balance:			
	Bad debts on accrued rental income and savings accounts in overdraft		3.40	2.36
	Regulatory provision reserves	19.3	16.51	10.53
	Loans and advances		19.45	23.00
			39.36	**35.89**
5	**Non interest income**			
5.1	**Fee and commission income**			
	Commissions		6.36	2.71
	Service fees		23.48	28.00
	Administration fees		14.44	10.35
			44.28	**41.06**
5.2	**Other income**			
	Net other income		**0.94**	**1.11**
5.2.1	**Trading Income**			
	Housing projects sales		3.54	7.55
	Cost of sales		(3.19)	(9.06)
	Net trading income/(loss)		**0.35**	**(1.51)**
5.2.2	**Investment property**			
	Rental income		1.49	3.87
	Less expenses		(0.31)	(1.57)
	Net rental income		**1.18**	**2.30**
5.2.3	**Profit on sale of property and equipment**		**-**	**0.05**
5.2.4	**Fair value adjustment on financial instruments**		**(0.59)**	**0.27**

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended 31 December 2016

		Notes	31 December 2016 US$m	31 December 2015 US$m
6	**Operating expenses**			
	Administration		33.82	29.97
	Depreciation and amortisation		7.85	7.05
	Staff costs		18.57	17.61
	Total operating expenses		**60.24**	**54.63**
	The average number of persons employed by the Society during the year ended 31 December 2016 was 698 (2015: 666)			
7	**Cash and cash equivalents**			
	Cash balances		6.57	28.38
	Bank balances		115.28	76.91
			121.85	**105.29**
8	**Assets at fair value**			
8.1	**Financial assets at fair value through profit or loss**			
	Fixed deposits		120.51	136.02
	Bankers' acceptances		7.07	8.56
	Treasury bills		78.36	78.28
		8.2	**205.94**	**222.86**
	Maturity analysis - gross			
	On demand to 3 months		147.67	173.57
	3 months to 12 months		44.96	37.75
	1 year to 5 years		13.31	11.54
		8.2	**205.94**	**222.86**

8.2 Fair value hierarchy
The table below analyses assets measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Assets at fair value through statement of comprehensive income

	Notes	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
As at 31 December 2016					
Fixed deposits	8.1	-	120.51	-	120.51
Bankers' acceptances	8.1	-	7.07	-	7.07
Treasury bills	8.1	-	78.36	-	78.36
Owner occupied property (land and buildings)	12	-	-	39.77	39.77
Investment Property	13.1	-	-	22.25	22.25
Non-current assets held for sale	14	-	-	1.41	1.41
Closing Net book value		**-**	**205.94**	**63.43**	**269.37**
As at 31 December 2015					
Fixed deposits	8.1	-	136.02	-	136.02
Bankers' acceptances	8.1	-	8.56	-	8.56
Treasury bills	8.1	-	78.28	-	78.28
Owner occupied property (land and buildings)	12	-	-	40.55	40.55
Investment Property	13.1	-	-	22.98	22.98
Non-current assets held for sale	14	-	-	-	-
Closing Net book value		**-**	**222.86**	**63.53**	**286.39**

		Notes	31 December 2016 US$m	31 December 2015 US$m
9	**Other assets**		**77.72**	**68.80**
	Comprising:			
9.1	**Other financial assets carried at amortised cost**			
	Sundry debtors		7.34	4.27
	Other assets		8.79	0.76
			16.13	**5.03**
9.2	**Other non financial assets**			
	Properties in possession		-	1.25
	Other assets		4.12	2.42
	Stock on hand		0.38	0.33
			4.50	**4.00**
9.2.1	**Property in possession**			
	Opening fair value		1.25	0.12
	Additions		-	1.13
	Reclassification		(1.25)	-
	Closing fair value of property in possession		**-**	**1.25**
9.3	**Housing projects - inventory work in progress**			
	• ZRP housing project		8.54	9.86
	• Budiriro housing project		48.55	49.91
			57.09	**59.77**
9.3.1	**Housing projects - inventory work in progress**			
	Opening Balance		59.77	46.77
	Additions		2.05	25.03
	Cost of sales		(3.19)	(9.06)
	Impairments		(1.54)	(2.97)
			57.09	**59.77**
10	**Intangible assets**			
	Opening balance		11.99	12.72
	Additions		1.83	2.57
	Amortisation		(3.48)	(3.30)
	Closing Balance		**10.34**	**11.99**
11	**Loans and advances**			
	Gross amount	11.1	602.70	585.34
	Impairment on loans and advances	4	(19.45)	(23.00)
			583.25	**562.34**
	Concentration - gross			
	Housing		194.02	140.70
	Individual		124.61	146.79
	Commercial and industrial		284.07	297.85
			602.70	**585.34**
	Maturity analysis - gross			
	On demand to 3 months		84.25	84.84
	3 months to 12 months		184.21	179.71
	1 year to 5 years		270.95	217.52
	Over 5 years		63.29	103.27
			602.70	**585.34**
	Total non-performing loans		**49.92**	**43.76**
	Past due but not impaired		**132.59**	**104.55**

11.1 Sectorial analysis of loans and advances
The Society monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk from loans and advances at the reporting date is shown below:

Sector	31 December 2016 US$m	31 December 2015 US$m
Trade and services	31.87	26.99
Energy and minerals	9.00	10.02
Agriculture	69.22	34.75
Construction and property	240.48	216.11
Light and heavy industry	32.76	41.11
Physical persons	122.14	146.79
Transport and distribution	74.40	78.12
State and state enterprises	22.83	31.45
Total	**602.70**	**585.34**

Audited Financial Results

For the year ended 31 December 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended 31 December 2016

12 Property and equipment

	Land US$m	Buildings US$m	Office equipment, fixtures and fittings and vehicles US$m	Total US$m
Year ended 31 December 2016				
Opening net book value	4.39	36.16	8.13	48.68
Additions	0.04	1.72	6.10	7.86
Revaluation	-	(1.83)	-	(1.83)
Depreciation charge	-	(0.71)	(3.66)	(4.37)
Closing net book value	**4.43**	**35.34**	**10.57**	**50.34**
As at 31 December 2016				
Cost or valuation	4.43	35.34	22.19	61.96
Accumulated depreciation	-	-	(11.62)	(11.62)
Net book value	**4.43**	**35.34**	**10.57**	**50.34**
Year ended 31 December 2015				
Opening net book value	4.67	37.78	8.98	51.43
Additions	-	3.65	2.22	5.87
Revaluation	(0.28)	(4.53)	-	(4.81)
Disposals - cost	-	-	(0.06)	(0.06)
Depreciation charge	-	(0.74)	(3.01)	(3.75)
Closing net book value	**4.39**	**36.16**	**8.13**	**48.68**
As at 31 December 2015				
Cost or valuation	4.39	36.16	16.18	56.73
Accumulated depreciation	-	-	(8.05)	(8.05)
Net book value	**4.39**	**36.16**	**8.13**	**48.68**

Assets pledged as security are disclosed in note 13.

13 Investment property and operating leases

	31 December 2016 US$m	31 December 2015 US$m
13.1 Investment property		
Opening fair value	22.98	25.82
Fair value adjustment	(0.73)	(2.84)
Closing fair value	**22.25**	**22.98**

A full list of locations where land and buildings are situated can be viewed at the Society's head office at Northridge Park, Harare.

The properties are leased out under operating leases to various tenants. The initial contracts are for a minimum period of twelve months after which they may be extended as negotiated.

The properties were valued by Old Mutual Property Zimbabwe (Private) Limited's qualified valuers. A selected number of properties constituting at least 65% of the portfolio were independently valued by Southbay Real Estate (Private) Limited, Knight Frank Real Estate and EPG Global and compared with values obtained by Old Mutual Property Zimbabwe (Private) Limited.

As security for a credit line from PTA Bank (note 16), the Society registered a bond of US$1 million over a property, and issued powers of attorney to register bonds (in the event of default) over other properties with a total value of US$32.5 million as at 31 December 2016 (both investment properties and owner occupied properties).

13.2 Operating leases

13.2.1 Society as a lessee

	31 December 2016 US$m	31 December 2015 US$m
Non-cancellable operating lease rentals are payable as follows:		
• Less than 1 year	0.53	0.60
• Between 1 and 5 years	2.57	2.91
	3.10	**3.51**

The Society leases a number of banking hall facilities under operating leases. The leases typically run for an initial period of between one and three years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals. None of these rentals include contingent liabilities. Operating lease expenses are disclosed as rental expenses.

13.2.2 Society as a lessor

The Society leases out its investment property under operating leases.

	31 December 2016 US$m	31 December 2015 US$m
Operating lease rentals are receivable as follows:		
• Less than 1 year	1.18	1.94
• Between 1 and 5 years	5.76	9.42
	6.94	**11.36**

Rental income and repairs and maintenance are recognised as income and expense respectively in the statement of profit or loss. Operating lease income is disclosed as rental income.

14 Non-current assets held for sale

In July 2016, the Society transferred properties that had been previously classified as properties in possession to Non-current assets held for sale. In total, $1.41 million of assets qualified as held for sale as at 31 December 2016. The Society intends to dispose of the properties that were repossessed in the foreseeable future. No impairment was recognised as at 31 December 2016 as the Directors of the Society expect that the fair value (estimated based on recent market prices of similar properties in similar locations) less costs to sell is higher than the carrying amount.

	31 December 2016 US$m	31 December 2015 US$m
Properties held for sale	**1.41**	**-**
15 Deposits		
Savings certificates	575.21	580.58
Term deposits	0.72	3.24
Savings deposits	269.12	245.26
	845.05	**829.08**
Maturity analysis		
On demand to 3 months	618.74	583.85
3 months to 6 months	3.30	53.83
6 months to 1 year	70.86	41.55
1 year to 5 years	84.27	108.73
Over 5 years	67.88	41.12
	845.05	**829.08**

	31 December 2016 US$m	Weight %	31 December 2015 US$m	Weight %
Concentration				
Financial institutions	455.07	53.8%	406.97	49.1%
Companies	299.78	35.5%	291.84	35.2%
Individuals	90.20	10.7%	130.27	15.7%
	845.05	**100.0%**	**829.08**	**100.0%**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended 31 December 2016

	31 December 2016 US$m	31 December 2015 US$m
16 Credit lines		
PTA Bank	8.33	16.67
Shelter Afrique	11.49	13.24
ZADT	2.95	1.00
Proparco	5.56	7.78
Accrued interest on credit lines	0.32	0.57
	28.65	**39.26**
Maturity analysis		
On demand to 3 months	5.23	3.64
3 months to 6 months	1.97	2.03
6 months to 1 year	9.50	7.45
1 year to 5 years	11.95	23.50
Over 5 years	-	2.64
	28.65	**39.26**

The PTA bank loan is repayable over 3 years and the Shelter Afrique and Proparco loans over 10 years. The PTA loan was obtained in September 2014, the Proparco loan in June 2014 and the Shelter Afrique loans in 2012 and 2013. The PTA loan is secured by a mortgage bond and powers of attorney over immovable property (note 13) while the Shelter Afrique loan is secured by a guarantee from OMZIL as well as a cession of the performing loan book covering two times the exposure at any given time. The Proparco loan is secured by a negative pledge of assets plus a cash security deposit of US$ 555 555. The Zimbabwe Agricultural Development Trust (ZADT) facility is a 2 year loan secured in December 2015 with the objective of providing low cost agricultural loans to small scale farmers. Of the $2.95m, $1.95m was secured in the current year.

	31 December 2016 US$m	31 December 2015 US$m
17 Other liabilities		
Trade creditors	10.59	8.25
VAT	-	0.01
Unclaimed monies	-	0.01
Liabilities on letters of credits	0.43	0.30
Deferred revenue	6.83	7.74
	17.85	**16.31**

The Directors believe the carrying amounts of the liabilities approximate the fair value.

	31 December 2016 US$m	31 December 2015 US$m
18 Provisions		
Opening balance	5.13	2.90
• leave pay and bonus provisions	2.47	1.98
• other	2.66	0.92
Net movements	0.34	2.23
Closing balance	**5.47**	**5.13**
Comprising		
• leave pay and bonus provisions	2.03	2.47
• other	3.44	2.66
	5.47	**5.13**
19 Share capital and reserves		
19.1 Ordinary class "A" share capital	**35.00**	**35.00**

The Board, may at its discretion, issue from time to time Ordinary Class "A" Paid Up Permanent Shares in denominations of $1 each or multiples thereof and all such shares shall carry dividends payable out of the available surplus of the Society.

	31 December 2016 US$m	31 December 2015 US$m
19.2 Retained earnings		
Opening balance	81.07	68.80
Net surplus for the year	39.23	28.37
Dividend paid	(15.00)	(8.00)
Regulatory loan loss provision	(5.98)	(8.10)
Closing balance	**99.32**	**81.07**

The net surplus for the financial year is transferred to retained earnings at the end of the financial period and is a distributable reserve.

	31 December 2016 US$m	31 December 2015 US$m
19.3 Regulatory provision reserves		
Opening balance	10.53	2.44
Regulatory impairment allowance	5.98	8.10
Write off	-	(0.01)
Closing balance	**16.51**	**10.53**
19.4 Non-distributable reserves	**1.45**	**1.45**
19.5 Revaluation reserves		
Opening balance	20.28	25.09
Revaluation of properties	(1.83)	(4.81)
Closing balance	**18.45**	**20.28**
19.6 Share based payment reserves		
Opening balance	4.83	4.04
Share based payment expense	0.52	0.79
Closing balance	**5.35**	**4.83**
20 Commitments		
For advances:		
Aggregate commitments due under advances granted but not yet disbursed	**18.28**	**50.60**

21 Derivative financial instruments

The Society does not, at present, trade in derivatives of any form.

22 Foreign currency exposures

The Society is currently trading in an environment where multiple currencies are in use. The United States Dollar [USD] and the South African Rand [ZAR] are the major trading currencies. The Society is exposed to exchange rate movement of the Rand and other major currencies against the United States Dollar.

23 Related party disclosures

Group companies

The Society is a wholly owned subsidiary of Old Mutual Zimbabwe Limited, a company with interests in insurance, asset management, unit trusts and property management. The ultimate holding company is Old Mutual Plc, which is a company incorporated and registered in the United Kingdom.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and money market investments. The Society's assets are insured through a related party (Old Mutual Insurance Company (Private) Limited), a subsidiary of the holding company. Other fellow Group companies are as follows:

Subsidiaries of parent company

- Old Mutual Life Assurance Company Zimbabwe Limited;
- Old Mutual Property Zimbabwe (Private) Limited;
- Old Mutual Investment Group Zimbabwe (Private) Limited;
- Old Mutual Securities (Private) Limited;
- Old Mutual Shared Services (Private) Limited;
- Old Mutual Property Investment Corporation (Private) Limited;
- CABS Custodial Services (Private) Limited (previously Three Anchor Investment (Private) Limited (t/a Old Mutual Custodial Services); and
- Old Mutual Insurance Company (Private) Limited.

Other Group related companies

- MBCA Bank Limited (a related party through common shareholding by the ultimate holding company, Old Mutual Plc).

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the Year Ended 31 December 2016

23 Related party disclosures (continued)

Key management personnel

Key management personnel include members of the executive committee who are the Managing Director, Deputy Managing Director, Chief Financial Officer, Head of Corporate Banking, Head of Retail Banking, General Manager - Operations, Head of Risk, Head of Treasury, Head of Compliance, Head of Credit and the Marketing Executive.

	31 December 2016 US$m	31 December 2015 US$m
23.1 Loans to Directors		
Opening balance	14.35	13.27
Granted during the year	1.27	0.45
Interest and insurance charges	1.77	1.74
Repayments during the year	(1.01)	(1.11)
Closing balance	**16.38**	**14.35**

Loans and advances to Directors are made on the same terms and conditions as in the normal course of business with the exception of executive Directors, which are in accordance with the normal staff loan schemes. A special condition allowance was specifically granted to Steifel Investments (Private) Limited and the facility was executed in pursuance of OMZIL's Indigenisation Plan as agreed with the Minister of Youth Indigenisation and Economic Empowerment to acquire 3.5% of the issued and fully paid shares in the capital of OMZIL.

	31 December 2016 US$m	31 December 2015 US$m
23.2 Balances with Group companies		
During the year the Society had transactions with Group companies and the outstanding balances at year end were:		
Amounts due to fellow subsidiaries	276.59	292.65
Amounts due to the holding company	0.06	0.05
	276.65	**292.70**
Amounts due (to)/from fellow subsidiaries	**(0.86)**	**0.43**
The Society had the following bank balances with MBCA Bank Limited:		
• Current account balance United States Dollars (US$m)	33.65	21.33
• Current account balance in South African Rands (ZARm)	0.14	2.18
The Society had the following money market placements with MBCA Bank Limited:		
• Money market deposits	20.00	20.00
• Interest accrued on deposits	0.09	0.12
	20.09	**20.12**
23.3 Transactions with Group companies		
The Society entered into normal business transactions with Group companies at arm's length. Income earned and interest paid in respect to these transactions is listed below:		
Insurance paid to Old Mutual Insurance Company (Private) Limited	1.05	1.90
Outsourced services - Old Mutual Shared Services (Private) Limited	5.56	5.57
Interest payable to fellow subsidiaries	10.22	5.81
Fees payable to Old Mutual Properties (Private) Limited	0.03	0.45
23.4 Loans to executives and senior management	**1.55**	**1.35**
These loans were granted at arm's length.		
23.5 Compensation of key management personnel		
The remuneration of Directors and other members of key management during the year was as follows:		
Short term benefits	3.63	3.44
Post employment benefits	0.28	0.26
Share based payments	0.39	0.33
	4.30	**4.03**
23.6 Directors' fees	**0.23**	**0.23**

24 Post-employment employee benefits

24.1 Old Mutual Group Pension Fund - Defined contribution fund

The pension fund is a defined contribution pension fund and the amount of benefits is determined by contributions made into the fund plus profits that are declared from time to time by the fund's trustees. The contributions to the pension fund by the employer are charged to the statement of comprehensive income.

24.2 National Social Security Authority (NSSA)

All employees are members of the National Social Security Authority, which includes the Workmen's Compensation Fund, to which both the employer and the employees contribute.

25 Share based payments

25.1 Indigenisation Transaction

In 2012 the Society, through its holding company OMZIL, entered into an indigenisation transaction under the Indigenisation and Economic Empowerment (General) Regulations (Chapter 14:33). Eligible participants received share allocations under various trusts. The allocations represent a share based payment transaction as defined in IFRS 2 (Share based Payment). The shares allocated are issued and fully paid shares in the capital of OMZIL.

OMZIL Indigenisation Employee Share Scheme

This scheme operates for the benefit of all employees of OMZIL. On 1 June 2012 (the allocation date), an allocation was made to the participants. The allocation is not subject to any performance targets, however, the participant must remain an employee up to and including the respective vesting dates. Staff joining the Group after the allocation date do not participate in the scheme.

Participants are paid dividends in respect of the allocated shares and are entitled to exercise the voting rights in respect of the shares. Participants may, however, only take delivery of the shares on the vesting dates, which dates occur two years after the allocation date (one-third), three years after the allocation date (one-third) and four years after the allocation date (one-third) of participation in the scheme.

OMZIL Management Incentive Share Scheme

This scheme operates for the benefit of management and its primary purpose is to attract, reward and retain senior and middle management. Share allocations vest three years after the allocation date, subject to the condition that the participant remains in the OMZIL Group's employment for the three years. Participants are to be paid dividends in respect of the share awards.

	31 December 2016 US$m	31 December 2015 US$m
Costs associated with Indigenisation transaction		
Employee Share Scheme	0.12	0.46
Management Incentive Scheme	0.40	0.33
	0.52	**0.79**

Movements relating to the share schemes during the year are as follows:

OMZIL Indigenisation Share Scheme		
Opening balance	4.83	4.04
Movement for the year	0.52	0.79
Closing balance	**5.35**	**4.83**

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the Year Ended 31 December 2016

25 Share based payments (continued)

25.2 Share based payment reserve

As stated above, the shares available for the share schemes were acquired and warehoused in special purpose vehicles at the parent company, OMZIL.

The equity-settled share based payment reserve is maintained in the company from the date of issue of the share awards. On exercise of the share awards settlement will be made through the special purpose vehicles controlled by the company.

	31 December 2016 US$m	31 December 2015 US$m
Employee Share Scheme	3.52	3.40
Management Incentive Scheme	1.83	1.43
Share based payment reserve	**5.35**	**4.83**

26 Contingent liabilities

Capital gains tax

The Society has an estimated deferred capital gains tax contingent liability of US$3.27 million (2015 - US$3.31 million) arising from temporary differences on owner occupied and investment properties.

27 Financial Risk Exposures

This note presents information about the Society's exposure to each of the following risks:
- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

The Board executes its mandate to oversee the Society's risk management as follows:

27.1 Credit Risk

The Management Credit Committee (MCC) is responsible for implementing the Board approved risk management strategies and policies for the management of credit risk under the oversight of the Board Credit Committee. The applicable activities include:
- Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements;
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Senior Managers and members of MCC. Large facilities require approval by the Society's Board Credit Committee or the Board of Directors;
- Reviewing and assessing credit risk. The Society's Board Credit Committee assesses all credit exposures in excess of designated limits prior to facilities being committed to customers. Renewal and review of facilities are subject to the same review process;
- Limiting concentration of exposure to counterparties, geographies and industries (for loans and advances) and by issuer, credit rating band, market and liquidity (for investment securities);
- Reviewing compliance with agreed exposure limits including those for selected industries and product types. Regular reports are provided to the Society's Board Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken;
- Providing advice, guidance and specialist skills to promote best practice throughout the Society in the management of credit risk; and
- Regular audits of the Society's credit processes are undertaken by the Group Internal Audit and the Society's Internal Audit.
- Capital requirements for credit risk are subject to Basel II Modified Standardised approach.

27.2 Liquidity Risk

Assets and Liabilities Committee (ALCO) is responsible for the management of liquidity risk under the oversight of the Board Risk and Compliance Committee and the Board. All liquidity policies and procedures are subject to review and approval by ALCO, the Board Risk and Compliance Committee and the Board.

The Society's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Society's reputation. The daily liquidity position of the Society is managed by the treasury department in liaison with the relevant departments.

The Society monitors liquidity risk by compliance with liquidity regulations of the Building Societies Act (Chapter 24:02) as well as the submission of monthly liquidity returns to the Reserve Bank of Zimbabwe (RBZ). In addition the Society matches long term liabilities to long term investments and this is monitored through the Board Risk and Compliance Committee.

Details of the liquidity ratio as at 31December 2016 are given below:

	31 December 2016 US$m	31 December 2015 US$m
Liquidity Ratio		
Total liquid assets	327.79	328.15
Total liabilities to the public	873.70	868.34
Liquidity ratio	38%	38%
Maximum for the period	38%	38%
Minimum for the period	31%	33%
Average for the period	34%	36%

27.2.1 Liquidity Gap Analysis 2016

	On demand to 3 months US$m	3 months to 1 year US$m	1 year to 5 years US$m	Over 5 years US$m	Non-determinant maturity US$m	Total US$m
Assets						
Cash and cash equivalents	121.85	-	-	-	-	**121.85**
Financial assets at fair value through profit or loss	147.67	44.96	13.31	-	-	**205.94**
Loans and advances	84.25	184.21	270.95	43.84	-	**583.25**
Intangible assets	-	-	-	-	10.34	**10.34**
Other assets	-	-	-	-	77.72	**77.72**
Investment property	-	-	-	-	22.25	**22.25**
Property and equipment	-	-	-	-	50.34	**50.34**
Non-current assets held for sale	-	-	-	-	1.41	**1.41**
Total assets	**353.77**	**229.17**	**284.26**	**43.84**	**162.06**	**1 073.10**
Liabilities and equity						
Deposits	618.74	74.16	84.27	67.88	-	**845.05**
Credit lines	5.23	11.47	11.95	-	-	**28.65**
Other liabilities	-	-	-	-	17.85	**17.85**
Provisions	-	-	-	-	5.47	**5.47**
Ordinary class "A" share capital	-	-	-	-	35.00	**35.00**
Retained earnings	-	-	-	-	99.32	**99.32**
Regulatory provision reserves	-	-	-	-	16.51	**16.51**
Revaluation reserve	-	-	-	-	18.45	**18.45**
Non-distributable reserves	-	-	-	-	1.45	**1.45**
Share based payment reserves	-	-	-	-	5.35	**5.35**
Total liabilities and equity	**623.97**	**85.63**	**96.22**	**67.88**	**199.40**	**1 073.10**
Net liquidity gap	**(270.20)**	**143.54**	**188.04**	**(24.04)**	**(37.34)**	**-**
Cumulative liquidity gap	**(270.20)**	**(126.66)**	**61.38**	**37.34**	**-**	**-**

Liquidity Gap Analysis 2015

	On demand to 3 months US$m	3 months to 1 year US$m	1 year to 5 years US$m	Over 5 years US$m	Non-determinant maturity US$m	Total US$m
Assets						
Cash and cash equivalents	105.29	-	-	-	-	**105.29**
Financial assets at fair value through profit or loss	173.57	37.75	11.54	-	-	**222.86**
Loans and advances	84.84	179.71	217.52	80.27	-	**562.34**
Intangible asset	-	-	-	-	11.99	**11.99**
Other assets	-	-	-	-	68.80	**68.80**
Investment property	-	-	-	-	22.98	**22.98**
Property and equipment	-	-	-	-	48.68	**48.68**
Non-current assets held for sale	-	-	-	-	-	**-**
Total assets	**363.70**	**217.46**	**229.06**	**80.27**	**152.45**	**1 042.94**
Liabilities and equity						
Deposits	583.85	95.38	108.73	41.12	-	**829.08**
Credit lines	3.64	9.48	23.50	2.64	-	**39.26**
Other liabilities	-	-	-	-	16.31	**16.31**
Provisions	-	-	-	-	5.13	**5.13**
Ordinary class "A" share capital	-	-	-	-	35.00	**35.00**
Retained earnings	-	-	-	-	81.07	**81.07**
Regulatory provision reserves	-	-	-	-	10.53	**10.53**
Revaluation reserve	-	-	-	-	20.28	**20.28**
Non distributable reserves	-	-	-	-	1.45	**1.45**
Share based payment reserves	-	-	-	-	4.83	**4.83**
Total liabilities and equity	**587.49**	**104.86**	**132.23**	**43.76**	**174.60**	**1 042.94**
Net liquidity gap	**(223.79)**	**112.60**	**96.83**	**36.51**	**(22.15)**	**-**
Cumulative liquidity gap	**(223.79)**	**(111.19)**	**(14.36)**	**22.15**	**-**	**-**

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For the year ended 31 December 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended 31 December 2016

27 Financial Risk Exposures (continued)

27.3 Compliance risk

Compliance risk is the risk that the Society fails to comply with the letter and spirit of all statutes, supervisory requirements and industry codes of conduct which apply to its business. The Society seeks to bring the highest standards of compliance in all areas of its operations.

Compliance environment

Compliance risk is managed through a Board approved Compliance Programme, the Anti Money Laundering (AML), Counter-Terrorist Financing (CTF) and Sanctions Screening Programme as well as internal policies and processes, which include legal, regulatory and other technical requirements relevant to the business. The compliance function provides advice of regulatory and other issues pertaining to the business. The compliance function independently monitors departments to ensure adherence to policies and procedures and other technical requirements.

Surcharge paid to the Deposit Protection Corporation

Included in operating expenses is an amount of $491 963, which relates to a surcharge payable to the Deposit Protection Corporation, which arose as a result of the delayed payment of increased contributions whilst clarity was being sought from the Regulator regarding the increases.

The Society was otherwise compliant with all laws and regulations governing its activities during the period under review.

27.4 Market risk

Market risk is the risk that the Society's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market prices such as interest rates, credit spreads, equity prices and foreign exchange rates. Most market risks arise from trading activities. The Society is primarily exposed to interest rate risk and foreign exchange rate risk arising from financial assets. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

Exposure to interest rate risk

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Society's financial assets and liabilities to various standard and non-standard interest rate scenarios. Capital requirements for market risk are subject to Basel II Standardised approach.

27.4.1 Interest rate repricing gap analysis 2016

	On demand to 3 months US$m	3 months to 1 year US$m	1 year to 5 years US$m	Over 5 years US$m	Non-Interest bearing US$m	Total US$m
Assets						
Financial assets at fair value through profit or loss	147.67	44.96	13.31	-	-	**205.94**
Loans and advances	84.25	184.21	270.95	43.84	-	**583.25**
Total assets	**231.92**	**229.17**	**284.26**	**43.84**	**-**	**789.19**
Liabilities						
Deposits	618.74	74.16	84.27	67.88	-	**845.05**
Credit lines	5.23	11.47	11.95	-	-	**28.65**
Total liabilities	**623.97**	**85.63**	**96.22**	**67.88**	**-**	**873.70**
Net liquidity gap	**(392.05)**	**143.54**	**188.04**	**(24.04)**	**-**	**(84.51)**
Cumulative interest rate repricing liquidity gap	**(392.05)**	**(248.51)**	**(60.47)**	**(84.51)**	**(84.51)**	**(84.51)**

Interest rate repricing gap analysis 2015

	On demand to 3 months US$m	3 months to 1 year US$m	1 year to 5 years US$m	Over 5 years US$m	Non-Interest bearing US$m	Total US$m
Assets						
Financial assets at fair value through profit or loss	173.57	37.75	11.54	-	-	**222.86**
Loans and advances	84.84	179.71	217.52	80.27	-	**562.34**
Total assets	**258.41**	**217.46**	**229.06**	**80.27**	**-**	**785.20**
Liabilities						
Deposits	583.85	95.38	108.73	41.12	-	**829.08**
Credit lines	3.64	9.48	23.50	2.64	-	**39.26**
Total liabilities	**587.49**	**104.86**	**132.23**	**43.76**	**-**	**868.34**
Net liquidity gap	**(329.08)**	**112.60**	**96.83**	**36.51**	**-**	**(83.14)**
Cumulative interest rate repricing liquidity gap	**(329.08)**	**(216.48)**	**(119.65)**	**(83.14)**	**(83.14)**	**(83.14)**

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27.5 Operational risk

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Committee (EXCO) under the oversight of the Board Risk and Compliance Committee. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Reconciliation and monitoring of transactions;
- Appropriate segregation of duties including the independent authorisation of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation including insurance where it is effective;
- Development of contingency plans; and
- Reporting of risks and operational losses to the risk department.

Compliance with the Society's operational policies and standards is supported by periodic reviews undertaken by Group Internal Audit. The results of these audits are discussed with the management of the department to which they relate and summaries are submitted to EXCO and the Board Audit Committee. Capital requirements for operational risk are subject to Basel II Alternative Standardised approach.

27.6 Strategic risk

EXCO is responsible for the implementation of the Board approved strategic risk policy under the oversight of the Board Risk and Compliance Committee and the Board. In implementing the Society's strategy, the Board and EXCO determine and allocate financial and operating targets to departments. Monitoring of progress against the action plans is done on a monthly basis and strategic risk mitigation is done through the formulation and implementation of operational (action) plans.

27.7 Reputational risk

The Board has delegated responsibility for effective management of reputational risk to the Board Risk and Compliance Committee and to EXCO. Board approved reputational risk management policies are in place. Line management has the primary responsibility for reputational risk identification and mitigation. Reputational risk management and monitoring is done in the following ways:

- Communication of information about the Society to the public or press releases is done in line with the provisions of the internal and external communications policies and with approval from EXCO. This facilitates building the Society's reputational capital (through positive information) and minimising the impact of adverse reputational risk events;
- All material events that have a potential to impact the Society's reputation are immediately escalated to the Marketing Executive, Managing Director, Head of Compliance and Head of Risk; and
- Any exposures to reputational risk are captured in the internal risk events log, with controls to mitigate the risk.

27.8 Risks and ratings

The RBZ conducts regular examinations of the banks and financial institutions it regulates. The latest Onsite Examination of the Society was in April 2014 and the overall assessment resulted in a rating of 2 (Satisfactory) on the CAMELS scale. The CAMELS rating evaluates financial institutions on Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk.

The CAMELS and Risk Assessment ratings are summarised below:

CAMELS Component	April 2014 Ratings
Capital	1 - Strong
Asset Quality	3 - Fair
Management	2 - Satisfactory
Earnings	2 - Satisfactory
Liquidity	2 - Satisfactory
Sensitivity to market risk	2 - Satisfactory
Composite rating	2 - Satisfactory

Key

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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27 Financial Risk Exposures (continued)

27.8 Risks and Ratings (continued)

Summary of Risk Matrix - for RBZ Onsite Inspection of April 2014

Type of Risk	Level of Inherent Risk	Adequancy of Risk Management Systems	Overall Composite Risk	Direction of Overall Composite Risk
Credit	High	Acceptable	Moderate	Stable
Liquidity	Moderate	Acceptable	Moderate	Stable
Foreign Exchange	Low	Strong	Low	Stable
Interest Rate	Moderate	Acceptable	Moderate	Stable
Strategic Risk	Moderate	Acceptable	Moderate	Stable
Operational Risk	Moderate	Acceptable	Moderate	Stable
Legal and Compliance	Moderate	Acceptable	Moderate	Stable
Reputation	Low	Strong	Low	Stable
Overall	Moderate	Acceptable	Moderate	Stable

Interpretation of the Risk Matrix

Levels of inherent risk

Low	Reflects lower than average probability of an adverse impact on a banking institution's capital and earnings. Losses in a functional area with low inherent risk would have little negative impact on the institution's overall functional condition.
Moderate	Could reasonably be expected to result in a loss, which could be absorbed by a banking institution in the normal course of business.
High	Reflects a higher than average probability of potential loss. High inherent risk could reasonably be expected to result in a significant and harmful loss to the banking institution.

Adequacy of risk management systems

Weak	Risk management systems are inadequate or inappropriate given the size, complexity and risk profile of the banking institution. Institution's risk management systems are lacking in important ways and therefore a cause of more than normal supervisory attention. The internal control systems will be lacking in important aspects, particularly as indicated by continued exceptions or by the failure to adhere to written policies and procedures.
Acceptable	Management of risk is largely effective but lacking to some modest degree. While the institution might be having some minor risk management weaknesses, those have to be recognised and are being addressed. Management information systems are generally adequate.
Strong	Management effectively identifies and controls all types of risk areas posed by the relevant functional areas or per inherent risk. The Board and senior management are active participants in managing risk and ensure appropriate policies and limits are in place. The policies comprehensively define the banking institution's risk tolerance. Responsibilities and accountabilities are effectively communicated.

Overall composite risk

Low	This would be assigned to low risk areas. Moderate risk areas may be assigned to a low composite risk where internal controls and risk management systems are strong and effectively mitigate much risk.
Moderate	Risk management systems appropriately mitigate inherent risk. For a given low risk area, significant weaknesses in the risk management systems may result in a moderate composite risk assessment. On the other hand, a strong risk management system may reduce the risk so that any potential financial loss from the activity would have only a moderate negative impact on the financial condition of the organisation.
High	Risk management systems do not significantly mitigate the high level of risk, thus, the activity could potentially result in a financial loss that would have a significant impact on the banking institution's overall condition.

Direction of overall composite risk

Increasing	Based on the current information, risk is expected to increase in the next twelve months.
Decreasing	Based on the current information, risk is expected to decrease in the next twelve months.
Stable	Based on the current information, risk is expected to be stable in the next twelve months.

28 Capital management

The RBZ sets and monitors capital requirements for the Society on a quarterly basis through quarterly BSD1 Returns. In implementing current capital requirements, the RBZ requires the Society to maintain a minimum capital requirement of US$25 million and capital adequacy ratio of 12% as measured by the ratio of total capital to risk weighted assets.

The Society's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary paid up capital, share premium, retained earnings and general reserves after deducting goodwill, intangible assets and exposure to insiders and connected counterparties.
- Tier 2 capital, which include revaluation reserves and subordinated debt.

The Society's policy is to maintain a strong capital base so as to maintain depositor confidence and sustain future developments of the business. The Society's regulatory position as at 31 December 2016 was as follows:

	31 December 2016 US$m	31 December 2015 US$m
Capital adequacy		
Tier 1 Capital		
Ordinary class "A" share capital	35.00	35.00
Retained earnings	99.32	81.07
Exposures to insiders and connected counterparties	(16.73)	(15.62)
Less Tier 1 allocated to market risk	(0.67)	(0.22)
Less Tier 1 allocated for operational risk	(11.97)	(9.51)
Total Tier 1 Capital	**104.95**	**90.72**
Total Tier 2 capital	**35.73**	**36.51**
Tier 3 Capital		
Allocation of capital for market risk	0.67	0.22
Allocation of capital for operational risk	11.97	9.51
Total Tier 3 capital	**12.64**	**9.73**
Total Regulatory capital	**153.32**	**136.96**
Total risk weighted assets	**838.86**	**797.10**
Capital adequacy ratio	**18%**	**18%**

29 Branch and agents network

The Society has 58 branches and 650 agents. A full list of these including their locations can be viewed at the Society's head office at Northridge Park, Harare or the Society's website www.cabs.co.zw.

30 Going concern

The Directors have assessed the ability of the Society to continue operating as a going concern and believe that the preparation of these financial statements on a going concern basis is still appropriate.

31 Subsequent events

There were no significant subsequent events affecting the financial statements for the year ended 31 December 2016.