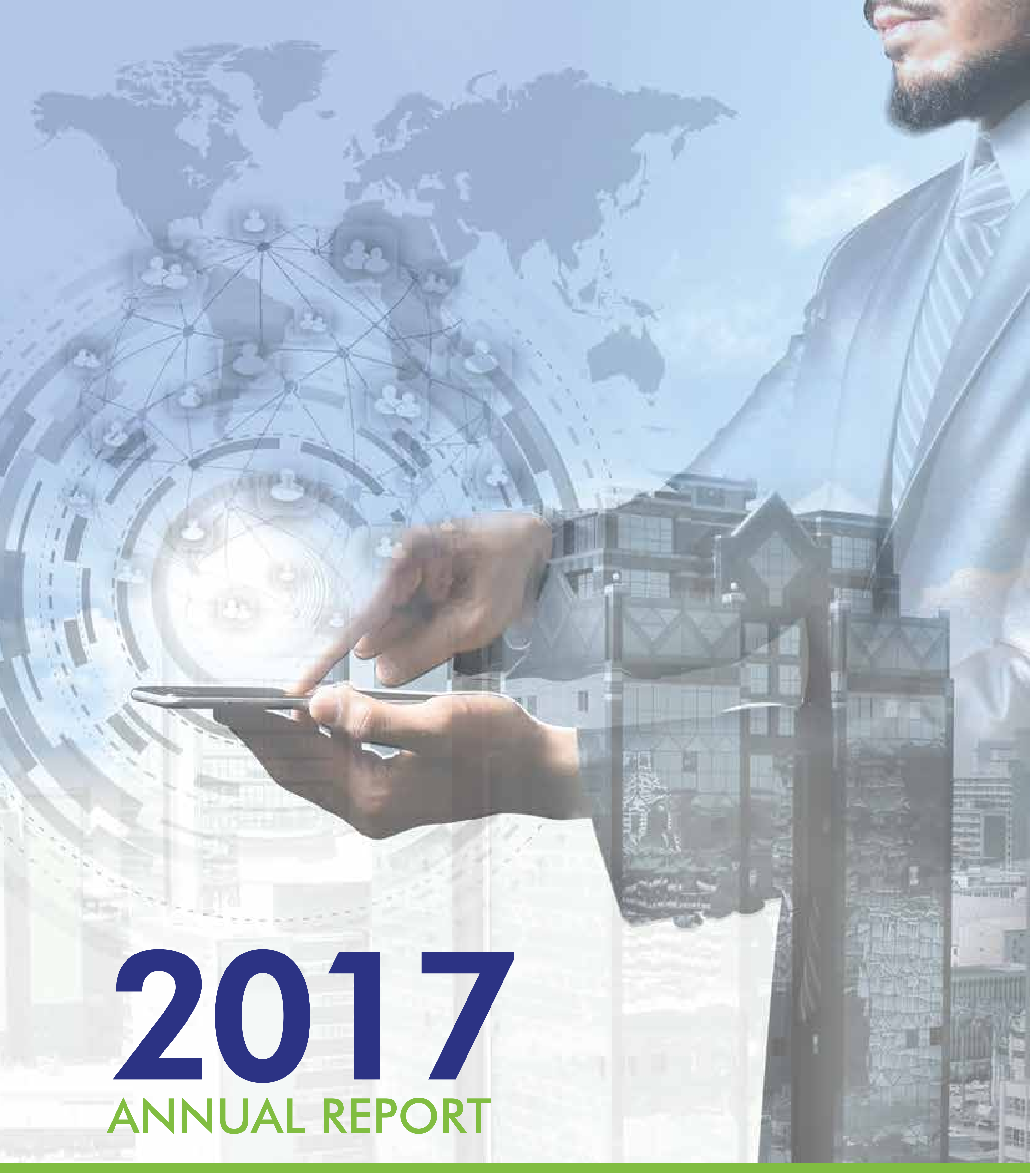

2017 ANNUAL REPORT

CABS

A Member of the OLDMUTUAL Group

WE'LL HELP YOU GET THERE

Contents

Directorate and Administration

Board of Directors

Dr LL Tsumba	BS BA Finance, MA Econs., PhD Econs. [Chairman]
J Mushosho[1]	BAcc. (UZ), BCompt (SA), FCIS, CA(Z), MBA [Deputy Chairman]
RCD Chitengu (Mrs)	BCom (Fin), FCMA
T Kruger[2]	B. Eng (Civil), Hons B. Bus Mgt and Admin., Master of Bus. Mgt and Admin., Dip. in Advanced Banking Law.
T Mutaviri (Mrs)[3]	BBS (UZ), MBA (USA) **(Appointed 30 January 2018)**
MJR Dube	B Acc (UZ), MBA (MSU) CA (Z) **(Appointed 30 January 2018)**
DEB Long	BL, MBA
AE Siyavora	B Acc, CA(Z), MBL
B Zamchiya	LLB (Com Law)
LEM Ngwerume[4]	BA (UZ), MBA (UCT) **(Retired 31 December 2017)**
BL Nkomo	B. Tech Acc **(Retired 31 December 2017)**
DL Stephenson	**(Retired 31 December 2017)**
SJ Hammond[5]	B Comm, CA(Z) [Managing Director]
M Mpofu[5]	B Sc Eng., CFA, MBA (Deputy Managing Director)
M Mukonoweshuro[5]	BBS (Hons), CA(Z) [Chief Finance Officer]

Board Audit Committee

RCD Chitengu (Mrs)	Chair (Appointed 30 January 2018)
DEB Long	Member
MJR Dube	Member (Appointed 30 January 2018)
BL Nkomo	(Retired as Chair 31 December 2017)
DL Stephenson	(Retired as Member 31 December 2017)

Board Risk and Compliance Committee

DEB Long	Chairman
B Zamchiya	Member
RCD Chitengu (Mrs)	Member (Appointed 30 January 2018)
LEM Ngwerume	(Retired as Member 31 December 2017)
BL Nkomo	(Retired as Member 31 December 2017)

Board Credit Committee

AE Siyavora	Chairman (Appointed 30 January 2018)
DEB Long	Member
MJR Dube	Member (Appointed 30 January 2018)
DL Stephenson	(Retired as Chair 31 December 2017)

Board Loans Review Committee

B Zamchiya	Chairman
T Mutaviri (Mrs)	Member (Appointed 30 January 2018)
T Kruger	Member (Appointed 30 January 2018)
RCD Chitengu (Mrs)	(Retired as Member 31 December 2017)
LEM Ngwerume	(Retired as Member 31 December 2017)

Executive Committee Members

SJ Hammond	Managing Director [Chairman]
M Mpofu	Deputy Managing Director
E Chibvuri	Head of Retail Banking
JTR Jabangwe	General Manager - Operations
P Kudakwashe	Head of Credit
FE Machawira	Head of Compliance
J Mapiye	Head of Treasury
K Maposa	Acting Head of Risk
C Mtezo	Marketing Executive
M Mukonoweshuro	Chief Finance Officer
CT Ndoro	Head of Corporate Banking

Asset and Liability Committee

SJ Hammond	Chairman
M Mpofu	Member
E Chibvuri	Member
JTR Jabangwe	Member
P Kudakwashe	Member
FE Machawira	Member
J Mapiye	Member
K Maposa	Member
C Mtezo	Member
M Mukonoweshuro	Member
CT Ndoro	Member

Regional Councils

Manicaland

FJ Meglic	Chairman
CK Holland	Member
Dr JW Pfumojena	Member

Matabeleland / Midlands

MT Jumo	Chairman
BA Friend	Member
RL Kriel	Member
BL Nkomo	Member
SM Mapuvire	Member
NC Marsh	Member

Head Office and Registered Office

Northend Close, Northridge Park, Highlands,
P O Box 2798, Harare, Zimbabwe
Telephone: +263 (242) 883823
Fax: +263 (242) 883804

Auditors

KPMG
100 The Chase (West)
Emerald Hill, Harare
Tel: +263 (242) 302600 / 303600
Fax: +263 (242) 303699

1 Non-independent Director. Mr J Mushosho is also the Old Mutual Chief Executive Officer - Rest of Africa and a Director, Group Chief Executive Officer - Old Mutual Zimbabwe Limited (OMZIL) of the Society's parent company OMZIL.

2 Non-independent Director. Mr T Kruger is also the Chief Executive Officer of the Banking Cluster, Old Mutual Emerging Markets.

3 Non-independent Director. T Mutaviri (Mrs) has interests in Stiefel Investments (Private) Limited, which holds 3.5% in the share capital of Old Mutual Zimbabwe Limited (OMZIL) as described in Note 24.1. She was appointed to the Board on 30th January 2018.

4 Non-independent Director. Mr LEM Ngwerume has interests in Stiefel Investments (Private) Limited, which holds 3.5% in the share capital of Old Mutual Zimbabwe Limited (OMZIL) as described in Note 24.1. He retired from the Board on 31st December 2017.

5 Executive Director

All Board and Management Committees report to the Board of Directors.

Notice to Members
For the year ended 31 December 2017

Notice is hereby given that the sixty third (63rd) Annual General Meeting of members will be held in the Auditorium, CABS Administration Centre, Northend Close, Northridge Park, Highlands, Harare on, Tuesday, 17th April 2018 at the close of the Board Meeting.

ORDINARY BUSINESS

1. Notice of Meeting and Quorum.
2. Minutes of the previous Annual General Meeting held on 20th March, 2017.
3. To receive, consider and adopt the Financial Statements and Directors' and Auditors' Reports for the financial year ended 31st December, 2017.
4. To approve the amount appropriated by the Board to meet the payment of dividends to members.
5. To approve the fees paid to Directors.
6. To elect directors as follows;
    a. To note the retirement of Messrs. BL Nkomo, LEM Ngwerume and DL Stephenson with effect from 31 December 2017 in line with the Banking Amendment Act;
    b. To note the appointment of Mr MJR Dube and Mrs T Mutaviri with effect from 30 January 2018;
    c. To note the retirement of Mr MJR Dube and Mrs T Mutaviri in terms of Rule 64, and being eligible, offer themselves for re-election.
    d. To note the resignation of Mr T L Kruger from the board with effect from the 31st March, 2018.
    e. Messrs. DEB Long and J Mushosho together with Mrs RCD Chitengu retire by rotation in terms of Rule 71 of the CABS Rules and being eligible, offer themselves for re-election.
7. To fix the remuneration for the past year's audit and to elect Auditors for the ensuing year.
8. To transact all such other business as may be transacted at an Annual General Meeting.

By Order of the Board

Nqobile Munzara (Mrs)
COMPANY SECRETARY

Registered Office
Northend Close
Northridge Park
Highlands
Harare

Wednesday, 28th March, 2018

Annual Financial Review
For the year ended 31 December 2017

	31 December 2017 US$m	31 December 2016 US$m
Assets		
Cash and cash equivalents	164.81	121.85
Financial assets at fair value through profit or loss	233.53	205.94
Other assets	110.51	77.72
Loans and advances	668.82	583.25
Non-current assets held for sale	1.10	1.41
Property and equipment	55.13	50.34
Investment property	23.42	22.25
Intangible assets	9.41	10.34
Total assets	**1 266.73**	**1 073.10**
Total liabilities and Shareholders' equity		
Deposits	1 019.22	845.05
Credit lines	23.32	28.65
Other liabilities	29.37	17.85
Provisions	2.77	5.47
Deferred tax	3.26	-
Shareholders' equity	188.79	176.08
Total liabilities and Shareholders' equity	**1 266.73**	**1 073.10**
Income and expenses		
Net interest income	58.57	58.51
Impairment	(1.53)	(1.99)
	57.04	56.52
Non-interest income	57.44	45.22
Total income	114.48	101.74
Operating expenses	(71.22)	(60.24)
- Administration	(41.64)	(33.82)
- Depreciation	(8.39)	(7.85)
- Staff costs	(21.19)	(18.57)
Net operating income	43.26	41.50
Fair value loss on investment property	-	(0.73)
Write down on housing projects	(1.15)	(1.54)
Net Surplus for the year	**42.11**	**39.23**

Annual Financial Review (continued)
For the year ended 31 December 2017

	31 December 2017 US$m	31 December 2016 US$m
Tier 1 Capital		
Ordinary class "A" share capital	35.00	35.00
Retained earnings	109.99	99.32
Exposures to insiders and connected counterparties	(17.25)	(16.73)
Less Tier 1 allocated to market risk	(0.10)	(0.67)
Les Tier 1 allocated for operational risk	(14.14)	(11.97)
Total Tier 1 capital	**113.50**	**104.95**
Total Tier 2 capital	**37.69**	**35.73**
Tier 3 Capital		
Allocation of capital to market risk	0.10	0.67
Allocation of capital to operational risk	14.14	11.97
Total Tier 3 capital	**14.24**	**12.64**
Total Regulatory capital	**165.43**	**153.32**
Total risk weighted assets	**947.48**	**838.86**
Capital adequacy ratio	17%	18%
Regulatory minimum capital adequacy ratio	12%	12%
Liquidity ratio	**38%**	**38%**
• Total liquid assets	398.34	327.79
• Total liabilities to the public	1 042.54	873.70
Return on average assets	**4%**	**4%**
• Surplus for the year	42.11	39.23
• Average assets	1 171.54	1 058.02
Return on equity	**22%**	**22%**
• Surplus for the year	42.11	39.23
• Shareholders' equity	188.79	176.08
Cost to income ratio	**61%**	**58%**

Chairman's Statement
For the year ended 31 December 2017

Dear Shareholder

Overview
Last year, 2017, saw much progress for the Society:

To keep pace with a rapidly evolving digital world, and to improve the cost and the quality of service delivery to our customers, the Society upgraded its core banking system in 2017. By the end of the year, the key objectives of the upgrade had been achieved, and this together with other enhancements, will provide ongoing improvements to customer experience.

The Society continues to demonstrate resilience. Total equity at the end of 2017 was US$189 million (2016: US$176 million), and Tier 1 capital stood at US$114 million (2016: US$105 million). This was surplus to both the current Reserve Bank of Zimbabwe ("RBZ") requirement for a minimum of US$20 million Tier 1 capital for Building Societies; and its requirement for a minimum of US$100 million Tier 1 capital, for Tier 1 banks by 2020. The liquidity ratio ended the year at 38% (2016: 38%).

In the year under review, the Society delivered a surplus of US$42 million (2016: US$39 million), which was a 7.3% increase over 2016. Interest rate margins decreased in 2017 as a result of market conditions and RBZ caps on interest rates for productive loans. As a result, net interest income was constant at US$59 million (2016: US$59 million) despite a 15% growth in loans and advances over the prior year. Non-interest income grew by 27% as a result of volume increases although this was tempered by the Regulator caps on certain bank charges. Operating expenses increased by 18%. The loan book performed well and as a result, impairments remained at US$2m (2016: US$2m). Total assets increased to US$1.26 billion in 2017, from US$1.07 billion in 2016.

Much remains to be done to generate sustained improvements in nostro funding and local production. This will take time, strong resolve and requires each stakeholder to maintain their focus on doing what they are best positioned to do, for the common good.

The Meteorological Services Department advised of the likelihood of normal but late rains for the 2017/18 season. As predicted, rains in the first half of the cropping season were below normal. This resulted in crop stress in some areas, for early planted crops. Rains in the second half, however, begun well. Hopefully the combined efforts of the various stakeholders will help the country to generate sustainable improvements in agriculture. The outlook for global commodity prices is positive and the Government estimates economic growth of 3.7% (for 2017) which is higher than the 2.8% projected by the World Bank. Inflation closed the year at 3.5%.

IFRS 9 Readiness
The adoption of International Financial Reporting Standard 9 (IFRS9 Financial Instruments) by banks in Zimbabwe, is being done under the oversight of the RBZ. The Society has made adequate preparations for the adoption of IFRS 9 at its mandatory implementation date, of the financial year beginning 1 January 2018. IFRS9 replaces International Accounting Standard 39 (IAS39). Under IAS39 impairments to financial instruments were only recognised after the event, using complex judgements. After the Financial Crisis of 2007/8 in Western Markets, it became apparent that the IAS39 approach had resulted in too little impairments too late. IFRS9 seeks to address this by using forward looking information, to determine impairments, and also to overcome the complexities of IAS39 through a simple approach.

Human Resources
Industrial relations remained cordial during the period under review. The Society managed to retain and attract key staff.

Operations
The Society remains focused on making continuous enhancements to service delivery, and to improving controls and efficiencies. Initiatives to this effect included:
- Ongoing branch refurbishments programme, to improve customer experience, resulting in the re-opening of the Borrowdale Gold class branch and the opening of Greenzone Chiredzi as well as Greenzone at Mutual gardens;
- Expansion of digital networks;
- Core banking system upgrade; and
- On-going staff training programmes.

The Society received several awards in 2017 including:
- Efficiency award for 2017 [VISA];
- 1st prize, Overall Best Banking Corporation, Governance Disclosures [Institute of Chartered Secretaries and Administrators of Zimbabwe ("ICSAZ"), Excellence in Corporate Governance awards];

Chairman's Statement
For the year ended 31 December 2017

- 1st prize, Best Security team of the year 2017 [Banking and Finance category, Zimbabwe Private Security awards];
- 1st runner up, Best bank supporting SMEs ZNCC [Mashonaland and Matabeleland Chapters]; and
- 2nd runner up, Best Performing Bank in the Zimbabwe [Independent Newspaper's "Banks and Banking Survey 2017" awards].

Corporate Social Responsibility and Responsible Business
In the period under review, the Society was involved in a number of initiatives, in support of education, sports, arts and culture. As part of its financial inclusion agenda, the Society also continued to provide funding to sectors such as agriculture, mining and manufacturing.

Corporate Governance
The Board of Directors and Management remain committed to best practices in corporate governance. The Audit, Risk and Compliance, and other Board Committees met four times in 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
As disclosed in my mid-year report, besides paying the regulatory fine of US$50,000, the Society was compliant with all laws and regulations governing its activities during the period under review.

Directorate
The Society regularly reviews the composition, diversity and performance of our Board of Directors and is committed to maintaining the right balance of skills and experience across the Board, within the tenure limits prescribed by the Reserve bank of Zimbabwe.

On 31 December 2017, Messrs. BL Nkomo, LEM Ngwerume and DL Stephenson retired from the Board of Directors and the Board Committees on which they sat. They helped to oversee both the preservation of the Society through the hyper-inflation period, and thereafter to rebuild it, during their distinguished period of service. I acknowledge their solid values and sound business acumen. On behalf of the Board of Directors and management, allow me to express my gratitude for their invaluable service to the Society over the years.

In place of Mr. BL Nkomo, Mrs. RCD Chitengu became Chair of the Board Audit Committee and Member of the Board Risk and Compliance Committee; Mrs. T Mutaviri took the place of Mr. LEM Ngwerume on the Board Loans Review Committee; and Mr. MJR Dube serves in place of Mr. DL Stephenson, as Member of the Board Audit Committee and the Board Credit Committee.

I welcome Mrs. T Mutaviri and Mr. MJR Dube who joined the Society's Board of Directors and the various Board Committees on 30 January 2018, and wish them a fruitful tenure.

Outlook
The Society continues to believe in a positive future for the country, and is therefore making progress with its long term strategy to serve our customers better.

I thank my colleagues on the Board of Directors and staff for their steadfastness, dedication and hard work, and above all I thank our clients for their continued support.

Dr LL Tsumba
Chairman
Central Africa Building Society

14 March 2018

Report of the Directors
For the year ended 31 December 2017

Your Directors have pleasure in presenting their report for the year ended 31 December 2017.

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

Financial results and appropriations
The financial results of the Society and appropriations for the year ended 31 December 2017 are summarised below. The detailed financial statements are set out on pages 22 to 58 of this Annual Report.

	31 December 2017 US$m	31 December 2016 US$m
Results of operations		
Net interest income	58.57	58.51
Impairment	(1.53)	(1.99)
	57.04	56.52
Non-interest income	57.44	45.22
	114.48	101.74
Operating expenses	(71.22)	(60.24)
	43.26	41.50
Fair value loss on investment property	-	(0.73)
Write down on housing projects	(1.15)	(1.54)
Net surplus for the year before appropriations	**42.11**	**39.23**
The appropriations for the year are as follows:		
Transfer to retained earnings	42.11	39.23
Regulatory impairment allowance	(1.44)	(5.98)
Dividends on ordinary class "A" share capital	(30.00)	(15.00)
	10.67	**18.25**

Despite the growth in loans and advances of 13% net interest income remained constant at US$59 million. This was due to reduced interest margins. Non-interest revenue increased by 27% as a result of the growth in digital volumes. Operating expenses grew by 18% due to business growth, however, loan impairments decreased as a result of the improved loan book performance. Consequently, the Society recorded a growth in net surplus to $42 million in 2017 from $39 million in 2016.

The Society's loans and advances grew by 13% to $684 million from $603 million in 2016. Deposits grew by 21% to $1 019 million from $845 million as the Society continues to source long term deposits to fund long term mortgage lending.

Share Capital and reserves
Details of share capital of the Society are set out in note 20 to the Society's financial statements. There were no movements during the year except for the transfer out of net surplus of US$1.4 million to the regulatory reserves and US$30 million paid as dividends.

Events after the reporting date
There were no significant events occurring after the balance sheet date of 31 December 2017 and before the publishing date of 8 March 2018.

Independent auditors
In compliance with Banking Regulations, the Society rotated its independent auditors at the March 2017 Annual General Meeting. The new independent auditors are KPMG, replacing Deloitte & Touche.

Report of the Directors
For the year ended 31 December 2017

Directors' responsibility statement
The Society's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Building Societies Act (Chapter 24:02). This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Directors confirm that the financial statements present a fair reflection of the performance of the Society for the year ended 31 December 2017 and its financial position at that date. Therefore, the Shareholders' equity is fairly stated in accordance with International Financial Reporting Standards.

Going concern
The Board of Directors has satisfied itself that the Society has adequate resources to continue in operation into the foreseeable future. The Society's financial statements have accordingly been prepared on a going concern basis.

These financial statements were approved by the Board of Directors on 14 March 2018 and were signed on its behalf by:

DR LL TSUMBA
CHAIRMAN

RCD CHITENGU (MRS)
NON-EXECUTIVE DIRECTOR

Harare
14 March 2018

Corporate Governance Statement
For the year ended 31 December 2017

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

Board of Directors (Board)
The Board met five times during the year ended 31 December 2017 (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	**5**	**4**	**4**	**4**	**4**
1	LL Tsumba (Dr)	5	-	-	-	-
2	J Mushosho	5	-	-	-	-
3	RCD Chitengu (Mrs)	5	4	-	-	4
4	T Kruger	5	-	-	-	-
5	MJR Dube[1]	-	-	-	-	-
6	DEB Long	5	4	4	4	-
7	T Mutaviri (Mrs)[1]	-	-	-	-	-
8	AE Siyavora	3	-	-	4	-
9	B Zamchiya	5	-	4	-	4
10	BL Nkomo[2]	5	4	3	-	-
11	LEM Ngwerume[2]	4	-	3	-	3
12	DL Stephenson[2]	5	4	-	4	-
13	SJ Hammond	5	-	-	-	-
14	M Mpofu	5	-	-	-	-
15	M Mukonoweshuro	5	-	-	-	-

[1] Appointed to the Board on 30th January, 2018
[2] Retired from the Board on 31st December, 2017

A Corporate Governance Code of Best Practice and 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. Every year the Directors conduct Board and peer Director evaluations.

The Board currently comprises nine non-executive Directors, as shown above. With the exception of Messrs J Mushosho, T Kruger, and Mrs T Mutaviri, 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 non-executive 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.

Board Committees
The Board has appointed the following Board and Management committees to assist it in discharging its responsibilities:

Board Audit Committee
The Board Audit Committee is responsible for the integrity of the Society's financial statements and the effectiveness of the systems of governance, risk management and internal control, and for monitoring the effectiveness and objectivity of the internal and independent auditors. Every year the Board Audit Committee reviews the authority, resources and scope of work of internal audit and approves the internal audit plan. It considers the appointment and fees of both audit and non-audit services for the independent auditors, who have unrestricted access to it. It also monitors internal and independent auditors' performance against expectations.

The members of this committee currently comprise three independent non-executive Directors and it is chaired by an independent non-executive Director. The Committee met four times during the year ended 31 December 2017.

Corporate Governance Statement (continued)

For the year ended 31 December 2017

Board Risk and Compliance Committee

The primary purpose of the Committee is to review, on behalf of the Board, management's recommendations on risk, particularly in relation to the structure and implementation of the Society's risk framework, including the quality and effectiveness of internal controls, risk appetite limits, risk profile and capital management processes. The Committee reports to the Board, identifying any matters in respect of significant risks to the Society, for which it considers that action or improvement is needed, and makes recommendations as to the adequacy of the risk mitigation plans. The Committee works closely with the Board Audit Committee with regard to the systems of risk management and internal controls.

The Board Risk and Compliance Committee comprises three non-executive Directors and is chaired by an independent non-executive Director. The Committee met four times during the year ended 31 December 2017.

Board Credit Committee

The Board Credit Committee is responsible for the management of credit risk. It reviews and recommends for approval by the Board, reasonable and prudent lending policies, strategies, standards and procedures in respect of loans in order to avoid undue credit risks and potential losses and to obtain a reasonable return. It further reviews loans granted to ensure that the Society's lending policies are adhered to and that loans are granted within normal risk parameters.

The Board Credit Committee currently comprises three independent and non-executive Directors and is chaired by an independent non-executive Director. The Board Credit Committee met four times during the year ended 31 December 2017.

Board Loans Review Committee

The primary role of the Committee is to review loans granted to ensure compliance with granting limits, strategy, processes and procedures and includes evaluation of the entire lending function in the Society.

The Committee currently comprises three independent and non-executive Directors and is chaired by an independent non-executive Director. The Board Loans Review Committee met four times during the year ended 31 December 2017.

Management Executive Committee (EXCO)

The Committee comprises the Managing Director, the Deputy Managing Director, the Chief Finance Officer, Head of Corporate Banking, Head of Retail Banking, Marketing Executive, Head of Risk, Head of Treasury, General Manager - Operations, Head of Credit and Head of Compliance. The Committee meets monthly and provides a link between the Board and management and undertakes, among other duties, risk policy reviews as well as the identification and management of key risks and opportunities. They give recommendations to the Board on appropriate properties for purchase and/or development and on capital expenditure. The Committee is also responsible for strategy implementation.

Asset and Liability Committee (ALCO)

The Committee comprises the Managing Director, the Deputy Managing Director, the Chief Finance Officer, Head of Corporate Banking, Head of Retail Banking, Marketing Executive, Head of Risk, Head of Treasury, General Manager - Operations, Head of Credit and Head of Compliance. The Committee meets monthly to discuss money market activities and counterparty exposures. The Committee drives the most appropriate strategy for the Society in terms of the mix of assets and liabilities, determines the appropriate level of liquidity, ensures that agreed funding limits are not exceeded, and ensures the appropriate structure of the statement of financial position in terms of funding mix, capital adequacy and risk management policy.

Management Credit Committee (MCC)

The MCC comprises six voting Members and four non-voting Members. The voting Members are the Managing Director, the Deputy Managing Director, Head of Credit, Head of Treasury, General Manager – Operations and the Chief Finance Officer. Non-voting Members are the Head of Corporate Banking, Head of Retail Banking, Head of Risk and Head of Compliance. The Committee is responsible for assessment and sanctioning of credit within its delegated lending discretion and recommending credit above its limit to the Board Credit Committee and to the main Board. The MCC also has the responsibility to set and review credit policy, monitor compliance with the policy as well as oversee and approve changes to credit risk management systems.

Risk Management System

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

1. **Credit risk**

   The 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, members of MCC, the Board Credit Committee and the Board of Directors according to the size of facility;

Corporate Governance Statement (continued)
For the year ended 31 December 2017

- 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 Old Mutual Group Internal Audit and the Society's Internal Audit.
- Capital requirements for credit risk are subject to Basel II Modified Standardised approach.

2. Liquidity risk

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.

3. Compliance risk

The Society has an independent compliance function that ensures compliance with all regulatory requirements under the oversight of the Board Risk and Compliance and the Board Audit Committees and the Board.

4. Market risk (Foreign Exchange and Interest Rate)

Overall authority for managing market risk is vested in ALCO under the oversight of the Board Risk and Compliance Committee and the Board. The Society separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the treasury department and include positions arising from market making and proprietary position taking (on the money market), together with financial assets and liabilities that are managed on a fair value basis.

5. Operational risk

The primary responsibility for the development and implementation of controls to address operational risk is assigned to 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.

Corporate Governance Statement (continued)
For the year ended 31 December 2017

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.

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.

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

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

Type of Risk	Level of Inherent Risk	Adequacy 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

Corporate Governance Statement (continued)

For the year ended 31 December 2017

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.

Internal control environment

The Board is ultimately responsible for the Society's system of internal control and for reviewing its effectiveness. The internal control systems are designed to meet the particular needs of the Society and its business operations and the risks to which they are exposed. However, these systems can only provide reasonable but not absolute assurance against material misstatement or loss, since they are designed to manage rather than eliminate the risks of pursuing chosen business objectives.

The Combined Code requires that Directors review the effectiveness of the Society's systems of internal control, which include financial, operational, compliance and risk management.

Monitoring of controls

The Society's internal audit function carries out regular reviews of operational and control procedures. The internal audit function operates independently of executive management, reporting to the Board Audit Committee, with unrestricted access to the Board Audit Committee Chair, and reporting on operational lines to the Managing Director. The Internal Audit Charter is reviewed by the Board Audit Committee and the Board of Directors regularly and governs audit activities within the Society. The audit work programme is integrated with the work of the independent auditors to enhance the combined effectiveness of their respective functions. A formal report is prepared for each audit assignment and corrective actions agreed with management in response to its recommendations. Key findings are provided to the Board Audit Committee.

Corporate Governance Statement (continued)

For the year ended 31 December 2017

Management structures

The Society has an appropriate organisational structure for planning, controlling and monitoring its business operations in order to achieve its objectives. Within the overall strategic and financial objectives of the Society, agreed by the Board, the management of the Society is delegated to the Managing Director who also governs the conduct and performance of the executive managers of the Society's business operations within the agreed business strategy.

The Society's strategic direction is regularly reviewed by the Board, and the Managing Director considers the strategy for the individual business operations with executive management on a disciplined basis. Annual budgets are prepared with performance targets for each business operation set by the Managing Director in conjunction with the executive managers. The Society's plan is then reviewed by the Board in light of the Society's objectives. Performance against the plan is monitored actively at Board level.

The Managing Director receives monthly summaries of the financial results of the Society's business operations and supplies them to all members of the Board. Additionally, the Managing Director, in conjunction with executive management, formally reviews the progress of the business operations on a monthly basis including a review of key risk factors. The Society and its business operations have implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud.

Client relations

The Society is committed to a process of continuing dialogue with its clients to enhance existing services and introduce new products as required.

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Independent Auditors' Report
To the members of Central Africa Building Society

Opinion

We have audited the financial statements of Central Africa Building Society ("the Society"), set out on pages 22 to 58, which comprise the statement of financial position as at 31 December 2017, the statement of profit and loss and comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the summary of significant accounting policies and notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Central Africa Building Society as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Building Society Act (Chapter 24:02).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Society in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Zimbabwe, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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.

1. Impairment of loans and advances to customers

Refer to accounting policies 1.6 and 1.22, note 4 on impairment, note 10 on loans and advances, note 27.1 on credit risk and note 29 regarding significant estimates and judgements in respect of impairment losses on loans and advances.

Key audit matter	**How the matter was addressed in the audit**
The Society's retail, mortgage and corporate loans, which amount to US$ 668.82m, are subject to high credit risk in the current economic environment prevailing in the country. The Directors exercise significant judgement over the following assumptions: - the timing of cash flows and discount rates applied; and - classification of loan grades for the purpose of regulatory provisions. Due to the high credit risk, the significance of loans and advances to the financial statements (53% of total assets), and the significant judgements exercised by the Directors, this was considered to be a key audit matter.	Our audit procedures included: • performing a retrospective review of the adequacy of the provision for impairment losses, by comparing written off debtors to provision created in the prior year; • testing the design, implementation and operating effectiveness of key controls over loan origination, credit grading, and monitoring of loans and advances; • testing the accuracy of estimated inputs by comparing the estimates with externally derived information; • evaluating the reasonableness of the timing of the cash flows used in the cash flow forecast; • testing the accuracy of the discounting rates used to discount the forecasted recoverable cash flows by agreeing these to the signed loan documentation; and • inspection of selected loans and advances to determine whether the minimum regulatory impairment provisions and classification of loans into various credit quality grades are as prescribed by the Reserve Bank of Zimbabwe.

2. Valuation of treasury bills

Refer to accounting policies 1.22 and 1.28, note 2 and note 8 for the recognition and measurement of treasury bills, and note 29 on estimates and judgements.

Key audit matter	How the matter was addressed in the audit
The Society holds treasury bills ("TBs") of US$186.89m and these are classified and measured at fair value through profit or loss. In determination of the fair value, management derives a yield curve based on the known trading statistics in both the primary and secondary market, which requires significant judgement. Accordingly, these instruments are measured as level 2 in the fair value hierarchy as per IFRS 13: *Fair Value Measurement.* Due to the significant judgement, the valuation of the TBs was considered a key audit matter.	Our audit procedures included: • evaluation of the appropriateness of Directors' classification of TBs in accordance with the relevant accounting standard; • testing the design, implementation and operating effectiveness of key controls over the capturing of the key inputs of fair value calculation of TBs; and • engagement of financial risk management specialists who evaluated the methodology applied by the Directors, and developed an independent yield curve that was used to discount future cash flows arising from the TBs, and compared our results with Directors' calculations.

3. Valuation of inventory work in progress

Refer to the accounting policy note 1.24, and note 9.3 on the valuation of inventory work in progress ("housing units") and note 29 on significant judgements.

Key audit matter	How the matter was addressed in the audit
The Society held housing units that were valued at US$54.28m. In accordance with IAS 2, *Inventories*, the housing units are recognised at the lower of cost or net realisable value of the completed housing units.	Our audit procedures included: • obtaining an understanding of the elements that made up the unit costs of the housing units and verified that the unit costs accurately included allowable costs; • assessing the accuracy of the realisable values, taking into consideration market values of similar properties in similar locations; and

Key audit matter	How the matter was addressed in the audit
Significant judgement is applied when making the estimate of costs to completion used in determination of the net realisable value. Due to the significant judgement involved, this has been considered as a key audit matter.	• recomputing the net realisable value by using current selling prices less commission expense, and comparing the net result with the recorded values of the housing units.

4. Revenue recognition and the automated nature of interest calculations

Refer to accounting policy notes 1.11 and 1.12 on revenue recognition and note 3 on analysis of revenue.

Key audit matter	How the matter was addressed in the audit
Interest income (US$ 91.31m), non-interest income (US$ 57.19m) and interest expense (US$32.74m) are calculated automatically by the IT system. Due to the significance of the balances, we considered the calculation of interest and non-interest income to be a key audit matter.	Our audit procedures included engagement of IT specialists who evaluated the relevant general and application IT controls with regard to the automation of the interest and non-interest income calculations and in addition, performed recalculations of the interest and non-interest income and making comparisons to the recognised amounts.

Other Information

The Directors are responsible for the other information. The other information comprises of the Directorate and Administration, Notice to Members, Annual Financial Review, Chairman's Statement, Report of the Directors and the Corporate Governance Statement. Other information does not include the financial statements and our auditors' report thereon.

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, 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 in the requirements of the Building Society Act (Chapter 24:02), 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 Society'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 Society or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 judgment 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 Society'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 Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Society 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.

From the matters communicated with those charged with governance, 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 auditors' 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.

KPMG

KPMG Zimbabwe
Registered Accountants and Auditors
Chartered Accountants (Zimbabwe)

Per: Michael de Beer
Partner
Registered Auditor
PAAB Practising Certificate Number 0369

14 March 2018
for and on behalf of, **KPMG Chartered Accountants (Zimbabwe), Reporting Auditors**
100 The Chase (West)
Emerald Hill, Harare, Zimbabwe

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017

	Notes	31 December 2017 US$m	31 December 2016 US$m
Interest income	3	91.31	93.34
Interest expense	3	(32.74)	(34.83)
Net interest income		58.57	58.51
Impairments	4	(1.53)	(1.99)
		57.04	56.52
Fee and commission income	5.1	57.19	44.28
Other income	5.2	0.25	0.94
Operating income for the year		114.48	101.74
Operating expenses	6	(71.22)	(60.24)
Fair value adjustment on investment property	13.1	-	(0.73)
Write down of housing projects	9.3.1	(1.15)	(1.54)
Net Surplus for the year		**42.11**	**39.23**
Other Comprehensive Income			
Items that will not be reclassified subsequently to profit or loss		**(1.12)**	**(7.81)**
Revaluation gain/ (loss) of owner occupied property	12	0.32	(1.83)
Regulatory impairment allowance	4	(1.44)	(5.98)
Total comprehensive income for the year		**40.99**	**31.42**

Statement of Financial Position
As at 31 December 2017

	Notes	31 December 2017 US$m	31 December 2016 US$m
ASSETS			
Cash and cash equivalents	7	164.81	121.85
Financial assets	8.1	233.53	205.94
Other assets	9	110.51	77.72
Loans and advances	10	668.82	583.25
Non-current assets held for sale	11	1.10	1.41
Property and equipment	12	55.13	50.34
Investment property	13.1	23.42	22.25
Intangible assets	14	9.41	10.34
Total assets		**1 266.73**	**1 073.10**
LIABILITIES			
Deposits	15	1 019.22	845.05
Credit lines	16	23.32	28.65
Other liabilities	17	29.37	17.85
Provisions	18	2.77	5.47
Deferred taxation	19	3.26	-
Total liabilities		**1 077.94**	**897.02**
SHAREHOLDERS' EQUITY			
Ordinary class "A" share capital	20.1	35.00	35.00
Retained earnings	20.2	109.99	99.32
Regulatory provision reserves	20.3	17.95	16.51
Non-distributable reserves	20.4	1.45	1.45
Revaluation reserves	20.5	18.77	18.45
Share based payment reserves	20.6	5.63	5.35
Total Shareholders' equity		**188.79**	**176.08**
Total liabilities and equity		**1 266.73**	**1 073.10**

DR LL TSUMBA
CHAIRMAN

RCD CHITENGU (MRS)
NON-EXECUTIVE DIRECTOR

HARARE
14 March 2018

Statement of Changes in Equity
For the year ended 31 December 2017

2017	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 2017	**35.00**	**99.32**	**16.51**	**1.45**	**18.45**	**5.35**	**176.08**
Net Surplus for the year	-	42.11	-	-	-	-	42.11
Other comprehensive gain/(loss) for the year	-	(1.44)	-	-	0.32	-	(1.12)
Dividends on Ordinary class "A" share capital	-	(30.00)	-	-	-	-	(30.00)
Regulatory impairment allowance	-	-	1.44	-	-	-	1.44
Share based payment reserves	-	-	-	-	-	0.28	0.28
Balance as at 31 December 2017	**35.00**	**109.99**	**17.95**	**1.45**	**18.77**	**5.63**	**188.79**

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**

Statement of Cash Flows
For the year ended 31 December 2017

	Notes	31 December 2017 US$m	31 December 2016 US$m
Cash flows from operating activities			
Net Surplus for the year		42.11	39.23
Adjustments for:			
Net interest income	3	(58.57)	(58.51)
Impairments	4	1.53	1.99
Fair value loss on other investments	5.2.3	0.27	0.59
Depreciation and amortisation	6.2	8.39	7.85
Write down on housing project	9.3.1	1.15	1.54
Fair value loss on investment property	13.1	-	0.73
Accrued interest on Credit Lines	16	0.24	0.32
Share based payments provisions	20.6	0.28	0.52
Provisions		(2.70)	0.34
Operating cash flows before working capital changes		**(7.30)**	**(5.40)**
Increase in other assets		(33.94)	(10.47)
Decrease/(Increase) in non-current assets held for sale		0.04	(1.41)
Increase in loans and advances		(87.10)	(22.89)
(Decrease)/Increase in financial assets at fair value through profit or loss		(27.59)	16.33
Increase in deposits		174.17	15.97
(Decrease)/Increase in other liabilities		11.52	1.54
Operating cash flows after working capital changes		**29.80**	**(6.33)**
Interest income received		91.31	93.34
Interest expense paid		(32.74)	(34.83)
Net cashflows from operating activities		**88.37**	**52.18**
Cash flows from investing activities			
Additions to intangible assets	14	(2.68)	(1.83)
Additions to property and equipment	12	(7.16)	(7.86)
Net cash used in investing activities		**(9.84)**	**(9.69)**
Cash flows from financing activities			
Dividends paid		(30.00)	(15.00)
Credit lines re-paid		(5.57)	(10.93)
Net cash used in financing activities		**(35.57)**	**(25.93)**
Net increaase in cash and cash equivalents		**42.96**	**16.56**
Cash and cash equivalents at the beginnig of the year		**121.85**	**105.29**
Cash and cash equivalents at the end of the year	7	**164.81**	**121.85**

Notes to the Financial Statements
For the year ended 31 December 2017

1 Significant Accounting Policies

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

The parent company is 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 United Kingdom.

Nature of business
The Society conducts principal businesses of mortgage lending, deposit acceptance and investing.

1.2 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.

1.3 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). These financial statements have been prepared in accordance with the requirements of the Building Societies Act (Chapter 24:02).

Basis of measurement
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.

1.4 Approval of financial statements
The financial statements were approved by the Board on 14 March 2018.

1.5 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 presented in million United States dollars has been rounded to two decimal places.

1.6 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 affected period.

Information about significant areas of estimation, uncertainty and judgment in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is presented in note 29.

1.7 Cash and cash equivalents
Cash and cash equivalents comprises bank notes, balances at banks, money at call, unrestricted balances held with the central bank and highly liquid financial assets with original maturities of less than three months. Cash equivalents are held for the purpose of meeting short-term commitments rather than for investment or other purposes.

1.8 Foreign currency transactions
Transactions in foreign currencies are translated to the functional currency at the ruling exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign exchange gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate ruling at the end of the period. Exchange gains or losses on foreign currency transactions are recognised in the Statement of Profit or Loss under other income.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

1.9 Taxation
In terms of the third schedule paragraph 2(c) of the Income Tax Act (Chapter 23:06), the Society is exempt from income tax. However, the Society is subject to capital gains tax on the sale of specified assets as per the Capital Gains Tax Act (Chapter 23:01). International Accounting Standard 12 (IAS 12) requires the provision of deferred tax on all temporary differences. Since the Society is exempt from income tax, only deferred capital gains tax is provided on certain qualifying temporary differences. Deferred capital gains tax is provided on those temporary differences which are expected to reverse as a result of the Society's intention to sell the specified assets.

1.10 Revenue
The Society's revenue is made up of interest income, fee and commission income.

1.11 Interest income and expense
Interest income and expenses are recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the asset or liability (or where appropriate a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently. The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and financial liabilities and all fees received and paid measured at amortised cost calculated on an effective interest rate basis. Fees are included if they are integral to the calculation of the effective interest rate.

1.12 Non-interest income
Non-interest income comprising profit on investment property activities, fees and commissions and other income is brought to account on an accrual basis.

1.13 Employee benefits
Employee benefits consist of all forms of consideration given by the Society in exchange for services rendered by employees.

Short term benefits
Short term benefits are employee benefits (other than termination benefits) which fall due wholly within twelve months after the period in which the employees render the related services. Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short term cash bonus or profit sharing plan if the Society 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.

Termination benefits
Termination benefits are employee benefits payable as a result of the Society's decision to terminate employment before normal retirement date or contractual date or an employee's decision to accept voluntary redundancy in exchange for those benefits. Termination benefits are recognised as an expense when the Society is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Society 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.

Post employment benefits
Post employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Defined contribution funds are post employment benefit plans under which the Society pays fixed contributions into a separate fund and will have no obligation to pay further contributions if the fund does not have sufficient assets to pay all employee benefits relating to employees' services in current and prior periods.

The Society provides for retirement benefit obligations in respect of its employees as follows:
- Old Mutual Group Pension Fund - Defined Contribution Fund (note 25.1).
- National Social Security Authority Fund (NSSA), (note 25.2).

1.14 Share based payments
The parent company OMZIL, issues equity settled share based payments to certain employees of the Society. A liability equal to the portion for the services received is recognised at the current fair value determined at each financial period end date for the cash settled share based payments. Until the liability is settled, the fair value of the liability is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognised in the statement of comprehensive income. Where appropriate, fair value is measured using the Black-Scholes pricing model. The liability is transferred to equity on the exercise date.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

1.15 Non-current assets held for sale
The Society classifies a non-current asset as held for sale if its carrying amount will be recovered mainly through selling the asset rather than through use.

Classification
The conditions for a non-current asset to be classified as held-for-sale are as follows:
a) The assets must be available for immediate sale in their present condition and its sale must be highly probable;
b) The asset must be currently marketed actively at a price that is reasonable in relation to its current fair value;
c) The sale should be completed, or expected to be so, within a year from the date of the classification;
d) The actions required to complete the planned sale will have been made; and
e) It is unlikely that the plan will be significantly changed or withdrawn.

Measurement
a) Immediately prior to classification as held for sale, the carrying amount of the asset is measured in accordance with applicable IFRSs;
b) After classification, it is measured at the lower of carrying amount and fair value less costs to sell;
c) Impairment must be considered at the time of classification as held for sale and subsequently;
d) Subsequent increases in fair value cannot be recognised in profit or loss in excess of the cumulative impairment losses that have been recognised with this IFRS or with IAS 36 Impairment of assets; and
e) Non-current assets (or disposal groups) classified as held for sale are not depreciated.

1.16 Property and equipment

Recognition and measurement
Office equipment and vehicles are measured at cost less accumulated depreciation and accumulated impairment. Items of freehold land and buildings are carried at revalued amount.

Costs include expenditures that are directly attributable to the acquisition of the asset. Purchased software that is an integral part to the functionality of the related equipment is capitalised as part of the equipment.

Where items of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount. The gain or loss is recognised on a net basis in profit or loss.

Revaluation of freehold land and buildings
Revaluations of land and buildings are conducted on the basis of estimated open market values by the Society’s and Old Mutual Group’s own professionally qualified valuers at the end of each financial year. A selected number of valuations are verified by independent qualified valuers with knowledge and experience in the locations of the relevant properties. The effects of revaluation of freehold land and buildings are either credited or debited to other comprehensive income to reflect change of value. The Revaluation Reserve is utilised when the asset is sold.

Depreciation
Depreciation is recognised in the statement of profit or loss on straight line method over the estimated useful lives of each part of an item of property and equipment at such rates as are considered appropriate to write off the cost or valuation of such assets over the expected useful lives. Leased assets are depreciated over the shorter of the lease term or their useful life.

The rates of depreciation are applied as follows;

Buildings	2% per annum
Vehicles	20% per annum
Office equipment	20% per annum

Depreciation method, useful lives and residual values are reassessed and adjusted at each financial year end and adjusted if appropriate.

Reclassification of owner occupied property to investment property
When an item of property and equipment is transferred to investment property following a change in use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised as follows: any gain is recognised in equity to the extent that it does not constitute an impairment reversal which is recognised in profit or loss while any loss is recognised in equity to the extent that the amount is not greater than previous revaluation gains with the excess loss being recognised in profit or loss.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

1.16 Property and equipment(continued)

Subsequent expenditure
Subsequent expenditure is capitalised when it will result in probable future economic benefits and has a cost which can be measured reliably. Expenditure incurred to replace a separate component of an item of property or equipment is capitalised to the cost of the item and the component replaced is derecognised. All other expenditure is recognised in the statement of comprehensive income when incurred.

Derecognition
On derecognition of property or equipment, any gain or loss on disposal, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the statement of comprehensive income in the period of derecognition. In the case of owner occupied property, any surplus in the revaluation reserve in respect of the individual property is transferred to retained earnings upon disposal.

1.17 Investment property
Investment properties are properties which are held either to earn rental income or for capital appreciation, or for both. Investment properties are measured initially at cost, including transaction costs. After initial recognition investment properties are measured at fair value by professionally qualified valuers. The valuations are prepared by considering the aggregate of the net annual rentals receivable from the properties and, where relevant, associated costs. A yield which reflects the specific risks inherent in the cash flows is then applied to the net annual rentals to arrive at the property valuation. Any gain or loss arising from a change in fair value is recognised in profit or loss in the statement of profit or loss.

Reclassification of investment property to owner occupied property
If an investment property becomes owner occupied, it is reclassified as property and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. When the Society begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on the fair value model, and is not reclassified as property and equipment during redevelopment.

Disposal of investment property
Gains or losses arising from the retirement or disposal of investment property shall be recognised in the statement of profit or loss in the period of retirement or disposal.

1.18 Impairment of assets
The carrying amounts for the Society's tangible and intangible assets are reviewed at each statement of financial position date to determine whether there is indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment is recognised whenever the carrying amount of an asset or its cash-generating ability exceeds the recoverable amount.

The recoverable amount of tangible assets is the greater of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

For an asset that does not independently generate cash inflows, the recoverable amount is determined from the cash-generating unit to which the asset belongs.

An impairment is reversed if there has been a change in the estimates used to determine recoverable amounts and only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment had been recognised.

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

1.20 Related party disclosures
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making operating decisions. The Society has related party relationships with fellow subsidiaries of OMZIL, the parent company, MBCA Bank and key management employees and their close family members. Transactions and balances with related parties are shown in note 24.

1.21 Leases
Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

(a) Society as the lessee
The leases entered into by the Society are primarily operating leases. The total payments made under operating leases are charged to the statement of comprehensive income on a straight line basis over the period of the lease. Benefits received or receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place. Operating lease expenses are disclosed as rent expenses.

(b) Society as the lessor
Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term. Operating lease income is disclosed as rent income.

1.22 Financial instruments

Classification
Financial instruments are classified into "at fair value through profit or loss", "loans and receivables" and "amortised cost".

(a) At fair value through profit or loss
At fair value through profit or loss instruments include held for trading and those designated by management on initial recognition as at fair value through profit or loss. Trading financial instruments are those that the Society principally holds for the purpose of selling or repurchasing in the near term, or holds as part of the portfolio that is managed together for short term profit or position taking. The Society designates financial assets and liabilities at fair value through profit or loss when either:
• the assets and liabilities are managed, evaluated and reported internally on a fair value basis, or
• the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or
• the asset or liability contains an embedded derivative that significantly modifies the cash flows that could otherwise be required under the contract.

Note 2 sets out the amount of each class of financial asset or liability that has been designated at fair value through profit or loss. All changes in fair value are recognised as part of the trading income in the statement of comprehensive income. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

(b) Loans and receivables
Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Society does not intend to sale immediately or in the near term.

(c) Amortised cost
Amortised cost are financial liabilities measured at amortised cost using the effective interest method.

Recognition
The Society initially recognises loans and receivables, deposits, and debt securities issued on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Society becomes a party to the contractual provisions of the instrument.

Initial measurement
Initially, financial assets and liabilities are measured at fair value (including transaction costs, for assets and liabilities not measured at fair value through profit or loss).

Subsequent to initial measurement, at "amortised cost" and "loans and receivables" financial instruments are measured at amortised cost. Subsequent to initial measurement, all at "fair value through profit or loss" financial instruments are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, excluding transaction costs.

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

1.22 Financial instruments (continued)

(b) Fair value measurement
The determination of fair values of financial assets and financial liabilities is based on the quoted market prices or dealer price quotations for financial instruments traded in active markets. Subsequent to initial recognition, all at "fair value through profit or loss" and all "available for sale" financial instruments are measured at fair value except for any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost excluding transaction costs less impairment. The fair value gain or loss excludes accrued interest.

Derecognition
The Society derecognises a financial asset when the contractual rights to the cash flows from the asset expires, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Society is recognised as a separate asset or liability.

The Society derecognises a financial liability when its contractual obligations are discharged or expire.

Offsetting
Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Society has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from similar transactions.

Identification and measurement of impairment
At the end of each financial year, the Society assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably. Financial assets are recorded net of impairment.

The Society considers evidence of impairment at both a specific asset and collective levels. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Society on terms that the Society would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment to decrease, the impairment is reversed through the statement of comprehensive income, provided that the resultant carrying amount of the instrument does not exceed the amount it would have been had there been no impairment.

1.23 Sale and repurchase agreements
The Society enters into purchases (sales) of the investments under agreements to resell (repurchase) identical investments at a certain date in the future at a fixed price. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the applicable accounting policy as appropriate. The proceeds from the sale of the investments are reported under deposits. The difference between the sale and repurchase agreement is treated as interest and accrued over the life of the agreement using the effective interest rate method. Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless they are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in net interest income. The obligation to return them is recorded at fair value as a trading liability.

1.24 Inventories
Inventories comprise largely costs for the construction of houses for sale under housing projects. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. The cost of inventories is based on the first in first out principle and includes borrowing costs capitalised in accordance with the Society's accounting policies and expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Additional disclosure in respect of inventory are included in note 9.3.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

1.25 Paid up permanent shares
Paid up permanent share capital is classified as equity if it is non-redeemable and any dividends are discretionary at the option of the Directors. Paid up permanent share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders and dividends thereon are recognised in the statement of comprehensive income as interest expense.

Dividends
Dividends on paid up permanent shares are recognised as a liability in the period in which they are declared. Dividends are paid out of surplus (profit) generated by the Society during the year.

1.26 Intangible assets
Intangible assets are measured at cost on initial recognition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment.

Intangible assets are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least each financial year-end. Changes in expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. The carrying value of capitalised development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortisation of intangible assets
Amortisation expense is recognised in the statement of profit of loss on straight line method over the estimated useful life of the intangible assets at such rates as are considered appropriate to write off the cost or valuation of such assets over the expected useful lives.

The rate of amortisation is applied at 20% per annum.

Amortisation method, useful lives and residual values are reassessed and adjusted at each financial year end and adjusted if appropriate.

1.27 Fair Value Hierarchy
IFRS 13 (Fair Value Measurement) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under IFRS 13 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.

Level 2 - Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The disclosure is included in note 8.2.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

1.28 Treasury bills

Treasury bills are debt instruments issued by the RBZ and backed up by the Government of Zimbabwe. The society measures Treasury Bills at fair value through profit or loss. In determination of the fair value management derives a yield curve based on the known trading statistics in both the primary and secondary market.

1.29 Application of new and revised international financial reporting standards (IFRSs)

New and amended standards adopted by the Society

The Society has adopted the following standards and amendments for the first time in their annual reporting period commencing 1 January 2017:
- Amendments to IAS 12 'Income Taxes', recognition of deferred tax assets for unrealised losses, effective for annual periods beginning on or after 1 January 2017
- Amendments to IAS 7 'Statement of Cash Flows', disclosure initiative, effective for annual periods beginning on or after 1 January 2017; and
- Amendments to IFRS 12 'Disclosure of Interests in other entities' (part of Improvements to IFRS 2014 to 2016 Cycle).

The adoption of these amendments did not have any material impact on the current period or any prior period and is not likely to affect future periods.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Society. The Society will adopt the new standards as and when they become effective. The Society's assessment of the impact of these new standards and interpretations is set out as follows:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of the standards on leases, insurance contracts and financial instruments.

The core principle of the standard is that revenue recognised reflects the consideration to which the Society expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition.

The standard is effective for the Society for the financial year commencing 1 January 2018. The Society plans to adopt the fully retrospective approach, with the use of certain practical expedients, to the adoption of IFRS 15.

During the year, the Society performed a high level assessment to determine the potential impact of the new standard on the Society's statement of financial position and performance. Based on this assessment, nothing has come to the attention of the Society that would indicate that the impact of the new standard would be significant.

Key matters arising from the assessment relate to the determination of when performance obligations are satisfied.

IFRS 16 Leases

The IASB issued IFRS 16 in January 2016. IFRS 16 replaces IAS 17 'Leases' and its related interpretations for reporting periods beginning on or after 1 January 2019.

The Society as the lessee: IFRS 16 introduces a 'right-of-use' model whereby the lessee recognises a right of use asset and an associated financial obligation to make lease payments for all leases with a term of more than 12 months. The asset will be amortised over the lease term and the financial liability measured at amortised cost with interest recognised in profit and loss using the effective interest rate method.

The Society as the lessor: IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify and account for its leases as operating leases or finance leases.

The Society is in the process of assessing the impact of IFRS 16.

IFRS 9 Financial Instruments

The Society will implement IFRS 9 'Financial Instruments' with effect from 1 January 2018, with the impact of the cumulative adjustment reflected as an adjustment to opening retained income.

(a) Classification and measurement

As at 31 December 2017, the proportion of financial assets measured in terms of the current standard (IAS 39 Financial

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

Instruments) was as follows: 20.86% at fair value; 0% at amortised cost, 0% at fair value through other comprehensive income and 79.14% as loans and receivables. Financial liabilities were measured at amortised cost.

IFRS 9 has required the Society to consider the business model for managing and monitoring performance of the financial instruments. Only the assets where the entity intends to collect solely payment of principle and interest ('SPPI') can be measured at amortised cost. Financial assets that contain characteristics of SPPI and where there is a mixed intention to hold the instruments will be measured at fair value through other comprehensive income. IAS 39 previously required the separation of an embedded derivative from a host contract whereas IFRS 9 requires the whole instrument to be measured at fair value. The majority of equity instruments will be recognised at fair value through profit and loss except for instruments irrevocably designated at fair value through other comprehensive income.

All derivative instruments that are either financial assets or financial liabilities will continue to be recognised at fair value through profit or loss.

There has been no material changes in the requirements for the classification and measurement of financial liabilities.

IFRS 9 allows an upfront, irrevocable designation of financial assets and financial liabilities to be designated at fair value through profit or loss when it eliminates or significantly reduces an accounting mismatch. Changes in the value attributable to an entity's own credit in respect of financial liabilities designated at fair value will in future be required to be recognised in profit or loss.

The current measurement categories for financial instruments in the Statement of Financial Position as required by IFRS 9 are estimated to be in the following ranges:

Assets
- Amortised cost [98% - 99%]
- Fair value through profit and loss [1% - 2%]

Liabilities
- Amortised cost [100%]

(b) Recognition of fee income
On certain loans and advances, the Society has evaluated the new guidance and has determined that the revenue earned from origination of an advance will not be incorporated into the determination of the effective interest rate.

(c) Impairment
The new accounting standard requires that impairment losses be recognised on an expected credit loss basis for all financial assets that are measured at amortised cost and for debt instruments that are measured at fair value through other comprehensive income.

The amount of the expected credit loss to be recognised in profit and loss is dependent on the credit quality of the financial asset. If the credit quality of the financial asset has not deteriorated since inception it will be categorised in Bucket 1 and an impairment loss provision equal to 12 months of the expected credit loss. If there has been significant deterioration in the credit quality of a financial assets a lifetime expected credit loss is recognised. If a financial asset is in default a lifetime expected loss impairment is recognised.

The table below provides a comparison of the impairment balances under the previous classification (portfolio/ specific) and the classification under IFRS 9 as at 31 December 2017.

Methodology	Description	%
IAS 39		
Specific provision	Clients identified requiring a specific provision	83.43%
Portfolio provision	No specific factor identified	16.57%
IFRS 9		
Bucket 1	No deterioration in credit quality since origination	39% - 46%
Bucket 2	Signification deterioration in credit quality since origination	3% - 4%
Bucket 3	Default	50% - 58%

(d) Write offs
On the adoption of IFRS 9 the Society has adopted a formal write off policy for financial assets.

(e) Cumulative impact on the equity of the Society
Management's initial assessment forecasts that the impact of adopting IFRS 9 will be an estimated net decrease in reserves of between US$10 million and US$20 million.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

2 Financial assets and liabilities

As at 31 December 2017	Notes	Fair value through profit or loss (designated at intial recognition) US$m	Loans and receivables US$m	Other amortised cost US$m	Total carrying amount US$m
Assets					
Cash and cash equivalents	7	-	164.81	-	164.81
Financial assets at fair value through profit or loss	8.1	233.53	-	-	233.53
Other financial assets carried at amortised cost	9.1	-	52.40	-	52.40
Loans and advances	10	-	668.82	-	668.82
		233.53	**886.03**	**-**	**1 119.56**
Liabilities					
Savings and money market deposits	15	525.70	-	493.04	1 018.74
Term deposits	15	-	-	0.48	0.48
Credit lines	16	-	-	23.32	23.32
Other liabilities	17	-	-	18.67	18.67
		525.70	**-**	**535.51**	**1 061.21**
As at 31 December 2016					
Assets					
Cash and cash equivalents	7	-	121.85	-	121.85
Financial assets at fair value through profit or loss	8	205.94	-	-	205.94
Other financial assets carried at amortised cost	9.1	-	16.13	-	16.13
Loans and advances	10	-	583.25	-	583.25
		205.94	**721.23**	**-**	**927.17**
Liabilities					
Savings and money market deposits	15	575.21	-	269.12	844.33
Term deposits	15	-	-	0.72	0.72
Credit lines	16	-	-	28.65	28.65
Other liabilities	17	-	-	11.03	11.03
		575.21	**-**	**309.52**	**884.73**

3 Net interest income

	31 December 2017 US$m	31 December 2016 US$m
Interest income	**91.31**	**93.34**
Investments	15.87	16.97
Loans and advances	75.44	76.37
Interest expense	**(32.74)**	**(34.83)**
Credit lines	(2.77)	(3.50)
Money market deposits	(29.49)	(30.28)
Term deposits	(0.01)	(0.03)
Savings deposits	(0.47)	(1.02)
Net interest income	**58.57**	**58.51**

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

3 Net interest income (continued)

The amounts reported on the previous page include interest income and expense, calculated using the effective interest method, that relate to the following items:

	Notes	31 December 2017 US$m	31 December 2016 US$m
Interest income from financial assets not at fair value through profit or loss		75.44	76.37
Interest expense on financial liabilities not at fair value through profit or loss		(3.25)	(4.55)
4 Impairment			
Opening balance		39.36	35.89
Movement through other comprehensive income		1.44	5.98
Amounts utilised during the year		(3.37)	(4.50)
Movement through profit or loss - current year		1.53	1.99
Closing balance		**38.96**	**39.36**
Analysis of closing balance:			
Bad debts on accrued rental income and transactional accounts in overdraft		5.43	3.40
Regulatory provision reserves	19.3	17.95	16.51
Loans and advances		15.58	19.45
		38.96	**39.36**
5 Non-interest income			
5.1 Fee and commission income			
Commissions		20.42	6.36
Service fees		17.32	23.48
Administration fees		19.45	14.44
		57.19	**44.28**
5.2 Other income			
Net other income		**0.25**	**0.94**
5.2.1 Trading Income			
Housing projects sales		6.06	3.54
Cost of sales		(5.98)	(3.19)
Gross profit		**0.08**	**0.35**
Less expenses		(1.06)	-
Net trading (loss)/income		**(0.98)**	**0.35**
5.2.2 Investment property			
Rental income		3.20	1.49
Less expenses		(2.56)	(0.31)
Net rental income		**0.64**	**1.18**
5.2.3 Fair value loss on non-current assets held for sale	14	**(0.27)**	**(0.59)**
5.2.4 Income from investments in equity		**0.86**	**-**

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

6	Operating expenses	Notes	31 December 2017 US$m	31 December 2016 US$m
6.1	**Administration**			
	External auditors' remuneration		0.52	0.18
	Directors' remuneration	23.6	0.29	0.23
	Advertising and marketing		1.07	1.18
	Mobile banking expenses		4.69	3.75
	Consultancy fees		8.57	3.15
	Outsourced services - Old Mutual Shared Services (Pvt) Ltd		5.96	5.56
	Deposit protection premiums		1.59	1.91
	Information systems maintenance		5.11	4.52
	Bank charges		0.68	2.76
	General expenses		0.14	0.13
	Maintenance of vehicles		0.55	0.49
	Occupancy cost		2.57	2.28
	Stationery and printing		1.34	0.85
	Travelling and subsistence		1.49	1.25
	Cash in transit cost		0.74	1.12
	Buildings security cost		1.69	1.53
	Insurance premiums		0.85	1.05
	Telephones and postage		0.57	0.51
	Other expenses		3.22	1.37
	Total administration expenses		**41.64**	**33.82**
6.2	**Depreciation and amortisation**			
	Property and equipment		4.78	4.37
	Intangible assets		3.61	3.48
	Total depreciation and amortisation costs		**8.39**	**7.85**
6.3	**Staff costs**			
	Salaries, wages and bonuses		16.83	13.99
	Pension contributions		1.53	1.45
	Medical aid allowance		1.01	1.44
	Share based payment expense		0.28	0.52
	Other staff costs		1.54	1.17
	Total staff costs		**21.19**	**18.57**
	Total operating expenses		**71.22**	**60.24**

The number of persons employed by the Society as at 31 December 2017 was 736 (2016: 698)

7	Cash and cash equivalents			
	Cash balances		2.09	6.57
	Bank balances		162.72	115.28
			164.81	**121.85**

Included in cash and cash equivalents are bond notes which the RBZ began issuing gradually into the economy in November 2016 to ease the shortage of physical cash. The bond notes are pegged at an exchange rate of 1:1 with the US$.

Balances with Central Bank and Foreign Banks are used to facilitate customer transactions which include payments and cash withdrawals. In 2016 the Central Bank, through Exchange Control Operational Guide 8 (ECOGAD8), introduced prioritisation criteria which has to be followed when making foreign payments for customers. After prioritisation, foreign payments are then made subject to availability of bank balances with our foreign correspondent banks, resulting in possible delay of payment of telegraphic transfers. However, no delay is expected in the settlement of local transactions through the RTGS system.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

	Notes	31 December 2017 US$m	31 December 2016 US$m
8 Assets at fair value			
8.1 Financial assets at fair value through profit or loss			
Fixed deposits		46.64	120.51
Bankers' acceptances		-	7.07
Treasury bills		186.89	78.36
		233.53	**205.94**
Maturity analysis - gross			
On demand to 3 months		95.82	147.67
3 months to 1 year		42.53	44.96
1 year to 5 years		90.15	13.31
Over 5 years		5.03	-
		233.53	**205.94**

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. Financial instruments whose carrying amount approximate fair value have been excluded from the analysis below.

	Notes	Level 1 US $m	Level 2 US $m	Level 3 US $m	Total US $m
As at 31 December 2017					
Assets at fair value through profit or loss					
Financial assets	8.1	-	233.53	-	233.53
Investment property	13.1	-	-	23.42	23.42
Non-current assets held for sale	14	-	-	1.10	1.10
Assets at fair value through other comprehensive income					
Owner occupied property (land and buildings)	12	-	-	41.89	41.89
		-	**233.53**	**66.41**	**299.94**
As at 31 December 2016					
Assets at fair value through profit or loss					
Financial assets	8.1	-	205.94	-	205.94
Investment property	13.1	-	-	22.25	22.25
Non-current assets held for sale	14	-	-	1.41	1.41
Assets at fair value through other comprehensive income					
Owner occupied property (land and buildings)	12	-	-	39.77	39.77
		-	**205.94**	**63.43**	**269.37**

8.3 Fair value estimation

The table below analyses assets carried at fair value, by the valuation method. The different levels have been defined as follows; quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1), inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices or indirectly (that is, derived from prices) (level 2), and inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

8 Assets at fair value (continued)

8.3 Fair value estimation (continued)

Assets	Valuation technique and inputs
Financial assets	Discounted cash flows
Owner occupied property (land and buildings)	Sales comparison method, market rentals and yields
Investment property	Sales comparison method, market rentals and yields
Non-current assets held for sale	Sales comparison method, market rentals and yields

8.4 Reconciliation of level 3 items

	31 December 2017 US$m	31 December 2016 US$m
Balance as at 1 January	**63.43**	**63.53**
Additions	0.62	2.24
Disposal	(0.25)	-
Depreciation recognised in profit or loss	(0.70)	(0.71)
Transfer from properties in possession	-	1.25
Other movements - deferred tax on properties	3.26	-
Gains or losses for the period:		
Recognised in profit or loss	(0.27)	(1.05)
Recognised in other comprehensive income	0.32	(1.83)
Balance as at 31 December	**66.41**	**63.43**

The fair value of the Society's properties are categorised into Level 3 of the fair value hierarchy through their use of unobservable units. The following table shows the valuation techniques used in the determination of the fair values for the properties, as well as the unobservable inputs used in the valuation models.

Type of property	Valuation approach	Key unobservable inputs	Inter-relationship between unobservable inputs and the fair value measurement
Office, retail and industrial properties	Income capitalisation	Rental income per square meter and capitalisation rates	The estimated fair value would increase if: >net rental income increased; >capitalisation rates decreased; and >vacancies decreased.
		Vacancies	The estimated fair value would decrease if the unobservable inputs changed the other way.
Residential property	Sales comparison approach	Price for comparable properties	The estimated fair value would increase if prices for comparable properties increased.
Land	Sales comparison approach	Price for comparable properties	The estimated fair value would increase if prices for comparable properties increased.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

		Notes	31 December 2017 US$m	31 December 2016 US$m
9	**Other assets**		**110.51**	**77.72**
	Comprising:			
9.1	**Other financial assets carried at amortised cost**			
	Sundry debtors		21.33	7.34
	Other assets		31.07	8.79
			52.40	**16.13**
9.2	**Other non financial assets**			
	Other assets		3.08	4.12
	Stock on hand		0.75	0.38
			3.83	**4.50**
9.2.1	**Property in possession**			
	Opening fair value		-	1.25
	Reclassification to non-current assets held-for-sale		-	(1.25)
			-	**-**
9.3	**Inventory work in progress**			
	- ZRP housing project		7.38	8.54
	- Budiriro housing project		43.72	48.55
	- Pumula housing project		3.18	-
			54.28	**57.09**
9.3.1	**Housing projects - inventory work in progress**			
	Opening balance		57.09	59.77
	Additions		4.32	2.05
	Cost of sales		(5.98)	(3.19)
	Write down		(1.15)	(1.54)
			54.28	**57.09**

Other assets are expected to be recovered in a period of no more than twelve months after the reporting date.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

		Note	31 December 2017 US$m	31 December 2016 US$m
10	**Loans and advances**			
	Gross amount owing		684.40	602.70
	Less impairment on loans and advances	4	(15.58)	(19.45)
	Loans and advances		**668.82**	**583.25**
	Concentration - gross			
	Housing		199.47	194.02
	Individuals		166.72	124.61
	Commercial and industrial		318.21	284.07
			684.40	**602.70**
	Maturity analysis - gross			
	On demand to 3 months		100.04	84.25
	3 months to 1 year		205.16	184.21
	1 year to 5 years		316.76	270.95
	Over 5 years		62.44	63.29
			684.40	**602.70**
	Total non-performing loans		**43.28**	**49.92**
	Analysis of past due but not impaired			
	30 to 60 days past due		79.57	98.17
	61 to 90 days past due		42.45	34.42
			122.02	**132.59**

10.1 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 balance sheet date is shown below:

Sector	31 December 2017 US$m	31 December 2016 US$m
Trade and services	43.25	31.87
Energy and minerals	11.27	9.00
Agriculture	86.25	69.22
Construction and property	240.95	240.48
Light and heavy industry	30.83	32.76
Physical persons	158.95	122.14
Transport and distribution	97.34	74.40
State and state enterprises	15.56	22.83
Total	**684.40**	**602.70**

11 Non-current assets held for sale

The Society intends to dispose in the foreseeable future, the properties that were repossessed.

Non-current assets held for sale

	31 December 2017 US$m	31 December 2016 US$m
Opening valuation	**1.41**	**-**
Additions	0.21	0.16
Reclassification from properties in posession	-	1.25
Disposals	(0.25)	-
Fair value loss	(0.27)	-
Closing valuation	**1.10**	**1.41**

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

12 Property and equipment	Land US$m	Buildings US$m	Office Equipment US$m	Vehicles US$m	Total US$m
Year ended 31 December 2017					
Opening net book value	4.43	35.34	9.23	1.34	50.34
Additions	-	0.41	5.98	0.77	7.16
Revaluation (loss)/gain	(0.05)	0.37	-	-	0.32
Other movements	0.23	1.86	-	-	2.09
Depreciation charge	-	(0.70)	(3.55)	(0.53)	(4.78)
Closing net book value	**4.61**	**37.28**	**11.66**	**1.58**	**55.13**
As at 31 December 2017					
Cost or valuation	4.61	37.98	25.49	3.45	71.53
Accumulated depreciation	-	(0.70)	(13.83)	(1.87)	(16.40)
Net book value	**4.61**	**37.28**	**11.66**	**1.58**	**55.13**
Year ended 31 December 2016					
Opening net book value	4.39	36.16	7.07	1.06	48.68
Additions	0.04	1.72	5.45	0.65	7.86
Revaluation loss	-	(1.83)	-	-	(1.83)
Depreciation charge	-	(0.71)	(3.29)	(0.37)	(4.37)
Closing net book value	**4.43**	**35.34**	**9.23**	**1.34**	**50.34**
As at 31 December 2016					
Cost or valuation	4.43	35.34	19.51	2.68	61.96
Accumulated depreciation	-	-	(10.28)	(1.34)	(11.62)
Net book value	**4.43**	**35.34**	**9.23**	**1.34**	**50.34**

If the revalued land and buildings had been measured under the cost model the carrying amount in the current year would have been; land US$2.21 million (2016 US$2.21 million) and buildings US$14.66 million (2016 US$15.02 million).

The properties were valued by Old Mutual Property Zimbabwe (Private) Limited's qualified valuers and the effective date of the valuation is 31 December 2017. A selected number of properties constituting at least 60% of the portfolio were independently valued by Bard Real Estate (Private) Limited, Homelux Real Estate and EPG Global and compared with values obtained by Old Mutual Property Zimbabwe (Private) Limited. The effective date of revaluation is 31st December.

Assets pledged as security are disclosed in note 16.

Other movements is comprised of deferred capital gains tax on properties (note 19).

	31 December 2017 US$m	31 December 2016 US$m
13 Investment property and operating leases		
13.1 Investment property		
Opening fair value	22.25	22.98
Fair value loss	-	(0.73)
Other movements	1.17	-
Closing fair value	**23.42**	**22.25**

Details of the valuation methodology have been disclosed in note 8, 12 and 29.

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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

13 Investment property and operating leases (continued)

13.1 Investment property (continued)

Assets pledged as security are disclosed in note 16.

Other movements is comprised of deferred capital gains tax on properties (note 19).

	31 December 2017 US$m	31 December 2016 US$m
13.2 Operating leases		
13.2.1 Society as a lessee		
Non -cancellable operating lease rentals are payable as follows:		
• Less than 1 year	0.73	0.53
• Between 1 and 5 years	3.39	2.57
	4.12	**3.10**

Some of the Society's banking halls are 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. Leases are reviewed regularly. 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 2017 US$m	31 December 2016 US$m
Operating lease rentals are receivable as follows:		
• Less than 1 year	1.95	1.18
• Between 1 and 5 years	9.03	5.76
	10.98	**6.94**

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 Intangible assets

	31 December 2017 US$m	31 December 2016 US$m
Opening carrying amount		
Cost or valuation	20.30	18.47
Accumulated amortisation	(9.96)	(6.48)
	10.34	**11.99**
Movement in intangible assets		
Additions	2.68	1.83
Amortisation charge	(3.61)	(3.48)
	(0.93)	**(1.65)**
Closing carrying amount		
Cost or valuation	22.98	20.30
Accumulated amortisation	(13.57)	(9.96)
	9.41	**10.34**

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

		31 December 2017 US$m	31 December 2016 US$m
15	**Deposits**		
	Money market deposits	525.70	575.21
	Term deposits	0.48	0.72
	Savings deposits	493.04	269.12
	Total deposits	**1 019.22**	**845.05**
	Maturity analysis		
	On demand to 3 months	693.80	618.74
	3 months to 1 year	190.29	74.16
	1 year to 5 years	66.86	84.27
	Over 5 years	68.27	67.88
	Total deposits	**1 019.22**	**845.05**

Concentration	31 December 2017 US$m	31 December 2017 Weight %	31 December 2016 US$m	31 December 2016 Weight %
Financial institutions	436.09	42.8%	455.07	53.8%
Companies	470.79	46.2%	299.78	35.5%
Individuals	112.34	11.0%	90.20	10.7%
	1 019.22	**100.0%**	**845.05**	**100.0%**

		31 December 2017 US$m	31 December 2016 US$m
16	**Credit lines**		
	PTA Bank	10.00	8.33
	Shelter Afrique	9.74	11.49
	ZADT	-	2.95
	Proparco	3.34	5.56
	Accrued interest on credit lines	0.24	0.32
		23.32	**28.65**
	Maturity analysis		
	On demand to 3 months	0.68	5.23
	3 months to 1 year	8.63	11.47
	1 year to 5 years	14.01	11.95
		23.32	**28.65**

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 October 2017, the Proparco loan in October 2016 and the Shelter Afrique loans in 2014. As a security for the PTA Bank loan, 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$37.3 million as at 31 December 2017 (both investment properties and owner occupied properties). 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$0.56 million.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

		31 December 2017 US$m	31 December 2016 US$m
17	**Other liabilities**		
	Trade creditors	18.67	10.59
	Liabilities on letters of credit	-	0.43
	Short term employee benefits	2.50	-
	Deferred revenue	8.20	6.83
		29.37	**17.85**

The Directors believe the carrying amount of other liabilities approximate the fair value. Other liabilities are expected to be settled in a period of no more than twelve months from the reporting date, with the exception of deferred revenue.

Short term employee benefits previously disclosed under provisions are now included under other liabilities.

		31 December 2017 US$m	31 December 2016 US$m
18	**Provisions**		
	Opening balance	5.47	5.13
	Net movements	(2.70)	0.34
	Closing balance	**2.77**	**5.47**

Provisions comprise of audit fees, deposit protection fees, and others. These are expected to be utilised within a period of no more than twelve months from the reporting date.

		31 December 2017 US$m	31 December 2016 US$m
19	**Deferred tax**	**3.26**	**-**

Deferred tax is comprised of potential capital gains tax on properties.

20 Share capital and reserves

		31 December 2017 US$m	31 December 2016 US$m
20.1	**Ordinary class "A" share capital**	**35.00**	**35.00**

The authorised and issued ordinary share capital is made up of 35 000 000 class "A" shares of $1 each.

The Board may at its discretion from time to time issue Ordinary class "A" 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 2017 US$m	31 December 2016 US$m
20.2	**Retained earnings**		
	Opening balance	99.32	81.07
	Surplus for the year	42.11	39.23
	Dividend paid	(30.00)	(15.00)
	Regulatory loan loss provision	(1.44)	(5.98)
	Closing balance	**109.99**	**99.32**
20.3	**Regulatory provision reserves**		
	Opening balance	16.51	10.53
	Regulatory impairment allowance	1.44	5.98
	Closing balance	**17.95**	**16.51**
20.4	**Non-distributable reserves**	**1.45**	**1.45**

The reserve relates to amounts which are not available for distribution to shareholders.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

		31 December 2017 US$m	31 December 2016 US$m
20.5	**Revaluation reserves**		
	Opening balance	18.45	20.28
	Revaluation gain/(loss) on properties	0.32	(1.83)
	Closing balance	**18.77**	**18.45**

The revaluation reserve relates to the revaluation of properties.

		31 December 2017 US$m	31 December 2016 US$m
20.6	**Share based payment reserves**		
	Opening balance	5.35	4.83
	Movement for the year	0.28	0.52
	Closing balance	**5.63**	**5.35**

The reserve relates to the cost incurred by the Society for transactions which are equity settled (note 26).

		31 December 2017 US$m	31 December 2016 US$m
21	**Commitments for advances**		
	Aggregate commitments due under advances granted but not yet disbursed	**29.50**	**18.28**

22 Derivative financial instruments
The Society does not, at present, trade in derivatives of any form.

23 Foreign currency exposures
The Society is currently trading in an environment where multiple currencies are in use. The United States dollar [USD] and 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. The total foreign currency exposures are disclosed in note 27.6.

24 Related party disclosures

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

A number of banking transactions are entered into with related parties, on the same terms and conditions as in the normal course of business at arm's length. 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

- CABS Custodial Services (Private) Limited;
- Old Mutual Finance (Private) Limited;
- Old Mutual Investment Group Zimbabwe (Private) Limited;
- Old Mutual Life Assurance Company Zimbabwe Limited;
- Old Mutual Property Zimbabwe (Private) Limited;
- Old Mutual Securities (Private) Limited;
- Old Mutual Shared Services (Private) Limited; and
- RM Insurance Holdings (100% shareholder of Old Mutual Insurance Company (Private) Limited).

Other Group related companies
- MBCA Bank Limited

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

24 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 2017 US$m	31 December 2016 US$m
24.1	**Loans to Directors**		
	Opening balance	16.38	14.35
	Granted during the year	0.22	1.27
	Interest and insurance charges	0.58	1.77
	Repayments during the year	(0.41)	(1.01)
	Closing balance	**16.77**	**16.38**

Loans and advances to Directors are made on the same terms and conditions as in the normal course of business at arm's length, with the exception of executive Directors which are in accordance with staff loan schemes. Included in Loans to Directors is a secured facility granted to Stiefel Investments (Private) Limited (in which a non-executive Director has interests) for the purchase of 3.5% of the issued and fully paid shares in the capital of OMZIL (as a special condition allowance), in pursuance of OMZIL's Indigenisation Plan as agreed with the Minister of Youth, Indigenisation and Economic Empowerment.

24.2 Balances with Old Mutual Group companies

During the year the Society had transactions with Old Mutual Group companies and the outstanding balances at year end were:

	31 December 2017 US$m	31 December 2016 US$m
Amounts due to fellow subsidiaries	(238.33)	(276.59)
Amounts due from/(to) the holding company	0.19	(0.06)
	(238.14)	**(276.65)**
Amounts due to fellow subsidiaries	**(0.42)**	**(0.86)**
The Society had the following bank balance with MBCA Bank Limited:		
Current account balance United States Dollars (US$m)	34.19	33.65
Current account balance in South African Rands (ZARm)	0.01	0.14
The Society had the following money market placements with MBCA Bank Limited:		
Money market placements	20.00	20.00
Interest accrued on placements	0.05	0.09
	20.05	**20.09**

24.3 Transactions with Old Mutual Group companies

The Society entered into business transactions with Old Mutual Group companies, at arm's length. Income earned and interest paid in respect to these transactions is listed below:

	31 December 2017 US$m	31 December 2016 US$m
Insurance paid to Old Mutual Insurance Company (Private) Limited	0.91	1.05
Outsourced services - Old Mutual Shared Services (Private) Limited	5.96	5.56
Interest payable to fellow subsidiaries	9.78	10.22
Fees payable to Old Mutual Properties (Private) Limited	0.51	0.03
24.4 Loans to executives and senior management	**1.18**	**1.55**

These loans were granted at arm's length.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

24 Related party disclosures (continued)	31 December 2017 US$m	31 December 2016 US$m
24.5 Compensation of key management personnel		
The remuneration of Directors and other members of key management during the year was as follows:		
Short term benefits	4.78	3.63
Post employment benefits	0.25	0.28
Share based payments	0.28	0.39
	5.31	**4.30**
24.6 Directors' fees	**0.29**	**0.23**

25 Post employment employee benefits

25.1 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 profit or loss.

25.2 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.

26 Share based payments

26.1 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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

26 Share based payments (continued)

26.2 Composition of share based options

Composition of share based options	31 December 2017 US$m	31 December 2016 US$m
Employee Share Scheme	3.80	3.52
Management Incentive Scheme	1.83	1.83
	5.63	**5.35**

Share options	Number of shares (m)	Number of shares (m)
Outstanding, at beginning of year	1.07	0.86
Granted during year	-	0.47
Forfeited during year	(0.02)	-
Exercised during year	(0.28)	(0.26)
Outstanding, at end of year	**0.77**	**1.07**

The average exercise price during the year was $1.40 (2016 : $0.82) per share.

The shares are listed on the Finsec Automated Trading Platform (ATP). The ATP price was $2.05 (2016 $0.82) as at 31 December 2017.

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

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.

27.1 Credit risk

Credit risk is the risk of financial loss to the Society if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Society's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Society considers and consolidates all elements of risk exposure (such as individual obligor default risk, country and sector risk).

Impaired Loans and Securities

Impaired loans and securities are loans and securities for which the Society determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreements.

Past due but not Impaired Loans

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

Exposure to Counterparties

The Society is also exposed to counterparties arising from money market trading.

Loans and Advances Renegotiated

Restructuring of loans include extended repayment arrangements, modifications and deferral of repayments. Restructuring policies and practices are based on indicators and criteria that in the judgment of management, indicate that repayments will most likely continue. These policies are kept under continuous review.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

Regulatory Loan Loss Provisioning
Provisioning is determined on the basis of account classification whereby provisions are uniformly determined for specific grades. The Society establishes an allowance for impairment based on the class of each loan and in line with the RBZ guidelines on provisions. The provisioning methodology is summarised below:

2017

Class	Type	Provisioning criteria	Gross loans US$m	Allowance for impairment US$m	Net loans US$m
Grade A,B,C	Pass	1-2% general provision	515.50	9.42	506.08
Grade D,E,F,G	Special mention	3-10% general provision	124.74	7.12	117.62
Grade H	Sub standard	20% specific provision on balance less security value	4.49	1.33	3.16
Grade I	Doubtful	50% of total outstanding balance less security value	8.24	2.11	6.13
Default	Loss	100% of total outstanding balance less security held	31.43	13.55	17.88
		Portfolio total	**684.40**	**33.53**	**650.87**

2016

Class	Type	Provisioning criteria	Gross loans US$m	Allowance for impairment US$m	Net loans US$m
Grade A,B,C	Pass	1-2% general provision	420.19	7.24	412.95
Grade D,E,F,G	Special mention	3-10% general provision	132.59	6.60	125.99
Grade H	Sub standard	20% specific provision on balance less security value	8.08	3.01	5.07
Grade I	Doubtful	50% of total outstanding balance less security value	10.69	3.06	7.63
Default	Loss	100% of total outstanding balance less security held	31.15	16.05	15.10
		Portfolio total	**602.70**	**35.96**	**566.74**

The Society also takes into account provisions requirement of IAS 39 (Financial Instruments; Recognition and Measurement) and makes the most prudent provisions for its loans and advances based on the two methods. Where the regulatory provisions are higher than the IAS 39 impairment, the excess is treated as an appropriation from retained earnings.

Write off policy
The Society writes off a loan when the Society's Credit Committee determines that the loans/securities are uncollectible. The determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral
The Society holds collateral against loans and advances to customers in the form of mortgage interest over property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. The total registered security value for loans granted was US$418.32 million (2016 - US$350.01 million).

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

27 Financial Risk Exposures (continued)

27.2 Liquidity risk

Liquidity risk is the risk that the Society will encounter difficulty in meeting obligations for its financial liabilities. The key measures used by the Society for managing liquidity risk are the Liquidity Ratio, the Liquidity Gap and the Interest Rate Repricing Gap.

Liquidity ratio

The Liquidity Ratio is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and short term dealing and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and liabilities maturing within the same short term period term period.

Liquidity gap

The Liquidity gap is the difference between assets and liabilities in a given maturity period.

The Society manages its contractual liquidity gap through treasury operations to acquire deposits of suitable tenor and price from the market. As a contingency the Society has also entered into liquidity support arrangements with suitable counter parties, to which it has ready access, in need.

Interest rate repricing gap

The Interest Rate Repricing Gap is the difference between interest bearing assets and interest bearing liabilities in a given maturity interval.

Exposure to liquidity risk

Details of each measure are given below:

	31 December 2017 US$m	31 December 2016 US$m
Total liquid assets	398.34	327.79
Total liabilities to the public	1 042.53	873.70
Liquidity ratio	38%	38%
Maximum for the period	38%	38%
Minimum for the period	33%	31%
Average for the period	36%	34%

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

27.2 Liquidity Risk (continued)

27.2.1 Liquidity gap analysis 2017

	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	164.81	-	-	-	-	164.81
Financial assets at fair value through profit or loss	95.82	42.53	90.15	5.03	-	233.53
Loans and advances	100.04	205.16	316.76	46.86	-	668.82
Other assets	-	-	-	-	110.51	110.51
Intangible assets	-	-	-	-	9.41	9.41
Property and equipment	-	-	-	-	55.13	55.13
Investment property	-	-	-	-	23.42	23.42
Non-current assets held for sale	-	-	-	-	1.10	1.10
Total assets	**360.67**	**247.69**	**406.91**	**51.89**	**199.57**	**1 266.73**
Liabilities						
Deposits	693.80	190.29	66.86	68.27	-	1 019.22
Credit lines	0.68	8.63	14.01	-	-	23.32
Other liabilities	-	-	-	-	29.37	29.37
Provisions	-	-	-	-	2.77	2.77
Deferred taxation	-	-	-	-	3.26	3.26
Shareholders' equity	-	-	-	-	188.79	188.79
Total liabilities	**694.48**	**198.92**	**80.87**	**68.27**	**224.19**	**1 266.73**
Net liquidity gap	**(333.81)**	**48.77**	**326.04**	**(16.38)**	**(24.62)**	**-**
Cumulative liquidity gap	**(333.81)**	**(285.04)**	**41.00**	**24.62**	**-**	**-**

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
Other assets	-	-	-	-	77.72	77.72
Intangible assets	-	-	-	-	10.34	10.34
Property and equipment	-	-	-	-	50.34	50.34
Investment property	-	-	-	-	22.25	22.25
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						
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
Deferred taxation	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	176.08	176.08
Total liabilities	**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**	**-**	**-**

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

27.2 Liquidity Risk (continued)

27.2.2 Interest rate repricing and gap analysis 2017

	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	95.82	42.53	90.15	5.03	-	233.53
Loans and advances	100.04	205.16	316.76	46.86	-	668.82
Total assets	**195.86**	**247.69**	**406.91**	**51.89**	**-**	**902.35**
Liabilities						
Deposits	693.80	190.29	66.86	68.27	-	1 019.22
Credit lines	0.68	8.63	14.01	-	-	23.32
Total liabilities	**694.48**	**198.92**	**80.87**	**68.27**	**-**	**1 042.54**
Net liquidity gap	**(498.62)**	**48.77**	**326.04**	**(16.38)**	**-**	**(140.19)**
Cumulative interest rate repricing liquidity gap	**(498.62)**	**(449.85)**	**(123.81)**	**(140.19)**	**(140.19)**	**(140.19)**

Interest rate repricing and 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)**

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

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 best practice in all areas of our 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 (SSP) 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.

Compliance Issues

As previously disclosed in the mid-year statement, besides paying the regulatory fine of $50,000, the Society was compliant with all laws and regulations governing its activities during the period under review.

27.4 Market risks

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 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.

At the reporting date, a change of 100 percentage points in interest rate would have impacted fair value through profit and loss financial instruments and profit as follows.

	2017 100% increase in interest rates US$m	2017 100% decrease in interest rates US$m	2016 100% increase in interest rates US$m	2016 100% decrease in interest rates US$m
Effect on profit	**4.39**	**(4.39)**	**4.29**	**(4.29)**

Exposure to foreign currency risk

The Society is exposed to exchange rate movement of various currencies against the United States dollar. Below are the foreign currency exposures for the Society as at 31 December.

	Exchange rates as at 31 December 2017	Exchange rates as at 31 December 2016
Currency name		
South African Rands (ZAR)	12.40	13.60
Great British pound (GBP)	1.35	1.23
EURO	1.20	1.05
Botswana Pula (BWP)	0.10	0.09
Swiss Franc (CHF)	0.98	1.02

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

27.4 Market risk (continued)

	Assets Cash and cash equivalents 2017	Assets Cash and cash equivalents 2016	Net US$ equivalent as at 31 December 2017	Net US$ equivalent as at 31 December 2016	Effect of 10% depreciation 2017	Effect of 10% depreciation 2016	Effect of 10% appreciation 2017	Effect of 10% appreciation 2016
South African Rands	**ZAR**	**ZAR**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**
	21.98	106.80	1.77	7.85	(0.18)	(0.79)	0.18	0.79
Great British Pounds	**GBP**	**GBP**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**
	0.04	0.03	0.06	0.04	(0.01)	0.00	0.01	0.00
EURO	**EURO**	**EURO**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**
	0.29	0.92	0.34	0.97	(0.03)	(0.10)	0.03	0.10
Botswana Pula (BWP)	**PULA**	**PULA**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**
	0.39	0.39	0.04	0.04	-	-	-	-
CHF	**CHF**	**CHF**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**
	0.01	0.01	0.01	0.01	-	-	-	-

27.5 Operational risks

Operational risk is the direct or indirect loss arising from a variety of causes associated with the Society's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks. Operational risks arise from all of the Society's operations and are faced by all sections of the Society.

The Society's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Society's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

28 Capital Management

The RBZ sets and monitors capital requirements for the Society through quarterly BSD1 returns. In implementing current capital requirements, the RBZ requires the Society to maintain a minimum capital requirement of US$20 million and capital adequacy ratio of 12% as measured by the ratio of total capital to risk weighted assets. As at 31 December 2017 the Society was compliant.

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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

28 Capital Management (continued)

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 2017 was as follows:

Capital adequacy	**31 December 2017 US$m**	**31 December 2016 US$m**
Tier 1 Capital		
Ordinary class "A" share capital	35.00	35.00
Retained earnings	109.99	99.32
Exposures to insiders and connected parties	(17.25)	(16.73)
Less Tier 1 allocated to market risk	(0.10)	(0.67)
Les Tier 1 allocated for operational risk	(14.14)	(11.97)
Total Tier 1 Capital	**113.50**	**104.95**
Total Tier 2 capital	**37.69**	**35.73**
Tier 3 Capital		
Allocation of capital for market risk	0.10	0.67
Allocation of capital for operational risk	14.14	11.97
Total Tier 3 capital	**14.24**	**12.64**
Total Regulatory capital	**165.43**	**153.32**
Total risk weighted assets	**947.48**	**838.86**
Capital adequacy ratio	**17%**	**18%**

29 Significant accounting estimates and judgments

Management discussed with the Audit Committee the development, selection and disclosure of the Society's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (note 27).

Key sources of estimation uncertainty

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 1.22. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Impairment on loans and advances

The IAS 39 impairment on loans and advances was calculated by comparing the net present value of expected cash flows to the carrying amount of the loan. Management assumed that all non performing loans will be recovered after the foreclosure process which is estimated to take an average period of one year. Where the loan is unsecured management assumed that no amount will be recovered from the borrower and claims will be made to the insurer. For secured loans, the recoverable amount is the lower of security value and outstanding loan amount.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

29 Significant accounting estimates and judgments (continued)

Critical accounting judgments in applying the Society's accounting policies

Critical accounting judgments made in applying the Society's accounting policies include:

Functional Currency
Zimbabwe continues to suffer from acute cash and foreign currency shortages with products and services priced differently depending on the mode of payment. As such, management had to deliberate on these and other factors to see if the United States Dollar (USD) remained the Society's functional currency. Resultantly, management determined that the USD remained the primary currency influencing trade, pricing regulation and financing activities, hence the Society's funtional currency.

Useful lives and residual values of property and equipment
The Society assesses useful lives and residual values of property and equipment each year taking into account of past experience and technology changes.

Revaluation of properties
Investment valuation basis was used to determine the fair value of investment properties and owner occupied properties. The method used estimated open market net rental income, which is capitalised using rates based on actual yields achieved from recent sales of properties in similar locality and characteristics. Vacant land, land holdings and residential flats are valued according to sales of comparable properties. Near vacant properties are valued at land value less the estimated cost of demolition.

Recognition of housing projects
Having assessed the nature and substance of the underlying transaction on housing projects, management has exercised judgement in recognising housing projects in accordance with International Accounting Standard 2.

Valuation of housing projects
Housing projects are valued at the lower of cost or net realisable value of the completed housing units. The significant judgement is the estimate of cost to completion used in determination of the net realisable value. Management makes use of external valuations performed by valuers for confirmation of the determined net realisable value.

Financial asset and liability classification
The Society's accounting policies provide scope for assets and liabilities to be classified on inception into different accounting categories in certain circumstances:

- In designating financial assets or liabilities at fair value through profit or loss, the Society has determined that the designation eliminates or significantly reduces an accounting mismatch.

Financial instruments at fair value
Treasury bills are valued at fair value through profit or loss. The significant judgement is the determination of the yield curve used in the valuation of the financial instrument.

30 External credit rating
The Society is assessed by the Global Credit Rating Company (GCR), a credit rating agency accredited by the Reserve Bank of Zimbabwe. Below are the ratings by the GCR for the Society for the past 3 years:

Rating class	Rating scale	Ratings	Rating outlook	Expiry date
Long-term	National	A+	Stable	August 2018
Long-term	National	A+	Stable	August 2017
Long-term	National	A+	Positive	August 2016

31 Branch and agents network
The Society has 60 branches and 962 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.

32 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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

33 Subsequent events

There were no significant subsequent events affecting the financial statements for the year ended 31 December 2017.

34 Transactions excluded from Statement of Comprehensive Income, Statement of Financial Position and Statement of Cash Flows.

The Society administers the Distressed Marginalised Fund (DIMAF) on behalf of the Zimbabwean Government at a commission of 3%. The Fund was set up by the Government of Zimbabwe to help revive businesses that would have been vetted as distressed and showing evidence of decline in performance because of inadequate funding for capitalisation. The Fund is revolving in nature, whereby the interest gains are added to the principal amount for further loaning.

The Society is neither liable for the losses nor entitled to gains from the loan facility except for the commission that it earns on granting each loan.

To the extent that the Society is neither legally liable for the losses nor entitled to the gains of the Fund, the Society excludes the DIMAF transactions from its statement of comprehensive income, statement of financial position and statement of cash flows for the year then ended 31 December 2017.

Below is the analysis of the balances;

	31 December 2017 US$m	31 December 2016 US$m
Principal amount opening balance	27.27	25.46
Non-performing loans payoff	(4.34)	-
Interest rolled over	1.40	1.52
Accrued interest	0.18	0.29
Total	**24.51**	**27.27**
DIMAF loans issued	10.24	17.03
Balance to be issued as loans	14.27	10.24
Total	**24.51**	**27.27**
Interest on loans disbursed	3.39	1.44

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