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Unaudited Financial Results

For the six months ended 30 June 2017

CHAIRMAN'S STATEMENT

For the six months ended 30 June 2017

In my Statement accompanying the results of the Society for the year ended 31 December 2016, I highlighted that advancing our mission would entail dealing with the uncertain headwinds in our environment; and that overcoming some of these headwinds would require the collective effort of our key stakeholders, to build and strengthen our economy. This observation continues to be true and also requires each participant to address the issues they are best placed to deal with, for the common good.

Having said this, I advise that the Society remains committed to delivering simple and relevant financial services to all our customers, through dedicated staff, on a consistent and continuous basis.

The Environment in 2017

The actions taken by the Reserve Bank of Zimbabwe ("RBZ") and the Government of Zimbabwe, to mitigate against foreign currency shortages in 2016, were complemented by further interventions in the first half of 2017. With effect from 1 April 2017, the RBZ placed a 12% ceiling on interest rates for productive sector loans. As of 23 February 2017 the RBZ also placed ceilings on specified bank charges. It further directed that, prior to granting any loans, banks should obtain the credit history of applicants from the Credit Registry, formed by the RBZ, as a database for all loans in the country. Government also lent its support to agriculture, through the Command Agriculture programme.

Thankfully, the country enjoyed good rains in the 2016/17 agricultural season. This has led to increased yields and, combined with an estimated 58% increase in the area under cultivation, the Food and Agricultural Organisation has forecast that 2.54m tonnes of grain will be harvested, compared to the drought-induced 0.64m tonnes for the 2015/16 agricultural season. This positive out turn will reduce the requirement for imports.

Commodity prices for gold, platinum and nickel changed by 7.5%, 2.5% and -2.5% respectively during this period.

The Government, as a consequence, has projected economic growth of 3.7% in 2017. Year-on-year inflation was positive from February 2017 to 30 June 2017, and closed the period at 0.31%.

Financial Results

Net interest income increased by 7.2% in the period under review compared to the same period last year. Impairments in the period under review were \$2.9m compared to a reversal of impairments of \$1.7m for the prior period, where some loans that the Society had previously provided for were recovered. Non-interest income increased by 9.9%, due to higher transaction volumes through the Society's digital channels.

Operating expenses increased by 13.5%. Consequently, the Society recorded a surplus of \$16.5m for the first half of 2017, compared to \$20.8m for the previous period.

Total assets increased to \$1.08b in June 2017, from \$0.99b in June 2016.

Liquidity Management

At 30 June 2017, the Society's prudential liquidity ratio was 36.0%, against the minimum regulatory ratio of 30.0%.

Capital Management

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

Human Resources

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

Operations

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

- Ongoing branch refurbishments programme, to improve customer experience;
- Re-opening of the Borrowdale Gold class branch;
- Improvement of the Gold class account offering;
- Expansion of the Point-of-Sale terminal network;
- Ongoing core banking system upgrade;
- Enhancing interoperability with mobile network payment systems;
- Upgrade of the mobile app; and
- On-going staff training programmes.

In recognition of its support to Micro/Small-to-Medium Enterprises (MSMEs), the Zimbabwe National Chamber of Commerce Mashonaland Annual Business Awards awarded the Society the 1st Runner up Award for the 2016 Financial Institutions supporting MSMEs, as well as the Matebeleland Chapter 1st Runner up Award for the Best Bank Supporting SME's of the year 2016.

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. Management, the Board Audit, Board Risk and Compliance, Board Credit and Board Loans Review Committees met regularly throughout the period under review, to assess operations, evaluate risk, and to monitor and develop systems and procedures that will further safeguard the Society's assets.

Compliance Issues

Besides paying a regulatory fine of \$50,000, the Society was compliant with all laws and regulations governing its activities during the period under review.

Directorate

There were no changes to the Board composition during the period under review.

Outlook

The Society continues to believe in a positive future for the country and, therefore, continues to execute a long-term strategy in order to serve our customers better.

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



Dr. L. L. Tumba
Chairman
Central Africa Building Society

09 August 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m
Interest income	2	46.50	44.93
Interest expense	2	(17.10)	(17.50)
Net interest income		29.40	27.43
Impairment (charge)/reversal	3	(2.89)	1.66
		26.51	29.09
Total non-interest income		23.77	21.63
Fee and commission income	4.1	24.22	20.76
Other (loss)/income	4.2	(0.45)	0.87
		50.28	50.72
Operating expenses	5	(33.58)	(29.59)
Fair value adjustment on investment properties	12	(0.18)	(0.38)
Net surplus		16.52	20.75
Other comprehensive income/(loss)		0.76	(9.68)
Gain/(Loss) on revaluation of owner occupied properties	11	0.18	(1.58)
Regulatory impairment reversal/(charge)	18	0.58	(8.10)
Total comprehensive income		17.28	11.07

STATEMENT OF FINANCIAL POSITION

As at 30 JUNE 2017

Notes	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
Assets			
Cash and cash equivalents	6	97.75	94.91
Financial assets at fair value through profit or loss	7	217.29	204.47
Other assets	8	83.05	76.85
Intangible assets	9	9.26	11.09
Loans and advances	10	594.33	532.89
Property and equipment	11	50.87	47.99
Investment property	12	22.07	22.60
Non current assets held for sale	13	1.43	-
Total assets		1 076.05	990.80
Liabilities			
Deposits	14	855.69	768.08
Credit lines	15	22.04	32.97
Other liabilities	16	20.89	29.32
Provisions	17	4.42	4.72
Total liabilities		903.11	897.02
Shareholders' Equity			
Ordinary class "A" share capital	18.1	35.00	35.00
Retained earnings	18.2	96.42	78.72
Regulatory provisions reserves	18.3	15.93	16.72
Non-distributable reserves	18.4	1.45	1.45
Revaluation reserves	18.5	18.63	18.70
Share based payment reserves	18.6	5.51	5.12
Total shareholders' equity		172.94	155.71
Total liabilities and equity		1 076.05	1 073.10

DR. L. L. TUMBA
CHAIRMAN

HARARE
09 August, 2017

B. L. NKOMO
NON-EXECUTIVE DIRECTOR

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

June 2017	Share capital US\$m	Retained Earnings US\$m	Regulatory provisions 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	-	16.52	-	-	-	-	16.52
Share based payment reserves	-	-	-	-	-	0.16	0.16
Other comprehensive income	-	0.58	(0.58)	-	0.18	-	0.18
Dividends on Ordinary Class "A" shares	-	(20.00)	-	-	-	-	(20.00)
Balance as at 30 June 2017	35.00	96.42	15.93	1.45	18.63	5.51	172.94
June 2016							
Balance as at 1 January 2016	35.00	81.07	10.53	1.45	20.28	4.83	153.16
Net surplus	-	20.75	-	-	-	-	20.75
Share based payment reserves	-	-	-	-	-	0.29	0.29
Loans written off	-	-	(1.91)	-	-	-	(1.91)
Other comprehensive income	-	(8.10)	8.10	-	(1.58)	-	(1.58)
Dividends on Ordinary Class "A" shares	-	(15.00)	-	-	-	-	(15.00)
Balance as at 30 June 2016	35.00	78.72	16.72	1.45	18.70	5.12	155.71

STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

Notes	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m
Cash flows from operating activities		
Net surplus		16.52
Non-cash items:		
Depreciation	5	4.12
Share based payments provision	18.6	0.16
Fair value adjustment on investment property	12	0.18
Profit on sale of property and equipment	4.2	-
Impairment loss on housing projects		1.40
Provisions and accruals		1.26
Accrued interest on credit lines	15	0.31
Operating cash flows before working capital changes		22.55
Increase in other assets		(5.33)
(Increase)/decrease in loans and advances		(13.35)
(Increase)/decrease in financial assets at fair value through profit and loss		(11.35)
Increase/(decrease) in deposits		10.64
Increase in other liabilities		3.04
Net cash generated from operating activities		6.20
Cash flows from investing activities		
Additions to property and equipment	11	(2.72)
Additions to intangible assets	9	(0.67)
Proceeds from sale of property and equipment		-
Net cash used in investing activities		(3.39)
Cash flows from financing activities		
Dividend paid	18.2	(20.00)
Credit lines repaid		(6.91)
Net cash used in financing activities		(26.91)
Net decrease in cash and cash equivalents		(24.10)
Cash and cash equivalents at the beginning of the period		121.85
Cash and cash equivalents at the end of the period	6	97.75

CORPORATE GOVERNANCE STATEMENT

For the six months ended 30 June 2017

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

Board of Directors and Board Committees

The Board and its committees met two times during the six months ended 30 June 2017. Attendance was as tabled below.

	Main Board	Board Audit Committee	Board Risk and Compliance Committee	Board Credit Committee	Board Loans Review Committee
Number of meetings held	2	2	2	2	2
L. L. Tumba (Dr)	2				
J. Mushosho	2				2
R. D. C. Chitungo (Mrs)	2	2			
T. Kruger	2				
D. E. B. Long	2	2	2	2	
B. L. Nkomo	2	2	1		
L. E. M. Ngwermu	1		1		1
A. E. Siyavara	1			2	
D. L. Stephenson	2	2		2	
B. Zamchiya	2		2		2
* S. J. Hammond	2				
* M. Mpopo	2				
* M. Mukonoweshuro	2				

The Board currently comprises ten non-executive Directors. With the exception of Messrs. J. Mushosho who is also the Old Mutual Chief Executive Officer - Rest of Africa, T. Kruger who is also the Chief Executive Officer of the Banking Cluster, Old Mutual Emerging Markets, and L. E. M. Ngwermu, 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.

* Executive Director

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Unaudited Financial Results For the six months ended 30 June 2017

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. Significant Accounting Policies

1.1 Reporting entity

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

The parent company is Old Mutual Zimbabwe Limited, which is a company registered and incorporated in Zimbabwe.

1.2 Nature of business

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

1.3 Basis of preparation

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

2. Net interest income

Interest income

Financial assets at fair value through profit or loss

Loans and advances

Interest expense

Credit lines

Savings certificates

Term deposits

Savings deposits

Net interest income

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m
Interest income	46.50	44.93
Financial assets at fair value through profit or loss	9.38	7.80
Loans and advances	37.12	37.13
Interest expense	(17.10)	(17.50)
Credit lines	(1.26)	(1.89)
Savings certificates	(15.61)	(14.80)
Term deposits	(0.01)	(0.02)
Savings deposits	(0.22)	(0.79)
Net interest income	29.40	27.43

3. Impairment

Opening balance

Movements through comprehensive income

Movements through profit or loss - current year

Movement on impairment of loans and advances

Movement on impairment of rental income and savings accounts in overdraft

Amounts utilised during the year

Closing balance

Analysis of closing balance:

Bad debts on accrued rental income and savings accounts in overdraft

Regulatory provisions reserves

Loans and Advances

	30 June 2017 US\$m	30 June 2016 US\$m
Opening balance	39.36	35.89
Movements through comprehensive income	(0.58)	8.10
Movements through profit or loss - current year	2.89	(1.66)
Movement on impairment of loans and advances	1.81	(4.18)
Movement on impairment of rental income and savings accounts in overdraft	1.08	2.52
Amounts utilised during the year	(0.80)	-
Closing balance	40.87	42.33
Bad debts on accrued rental income and savings accounts in overdraft	3.35	3.83
Regulatory provisions reserves	15.93	16.72
Loans and Advances	21.59	21.78
Closing balance	40.87	42.33

4. Non interest income

4.1 Fee and commission income

Commission

Service fees

Administration fees

Total fee and commission income

Commission	6.53	1.93
Service fees	13.52	13.82
Administration fees	4.17	5.01
Total fee and commission income	24.22	20.76

4.2 Other Income

Net rental income

Profit on sale of property and equipment

Trading (loss)/income on housing sales

Total other (loss)/income

Net rental income	0.39	0.67
Profit on sale of property and equipment	-	0.04
Trading (loss)/income on housing sales	(0.84)	0.16
Total other (loss)/income	(0.45)	0.87

5. Operating expenses

Administration

Depreciation

Staff Costs

Total operating expenses

Administration	19.40	16.15
Depreciation	4.12	3.92
Staff Costs	10.06	9.52
Total operating expenses	33.58	29.59

6. Cash and cash equivalents

Cash balances

Bank balances

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
Cash balances	3.06	10.07	6.57
Bank balances	94.69	84.84	115.28
	97.75	94.91	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 in the economy. The bond notes are pegged at an exchange rate of 1:1 with the US\$.

7. Financial instruments

7.1 Financial assets at fair value through profit or loss

Fixed deposits

Bankers' acceptances

Treasury bills

Fixed deposits	78.65	108.98	120.51
Bankers' acceptances	7.07	7.07	7.07
Treasury bills	131.57	88.42	78.36
	217.29	204.47	205.94

Maturity analysis - gross

On demand to 3 months

3 months to 1 year

1 year to 5 years

Over 5 years

On demand to 3 months	85.23	115.87	147.67
3 months to 1 year	63.20	88.60	31.02
1 year to 5 years	63.68	-	13.94
Over 5 years	5.18	-	13.31
	217.29	204.47	205.94

7.2 Fair value hierarchy

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

Assets at fair value through statement of comprehensive income

	Notes	Level 1 US\$m	Level 2 US\$m	Level 3 US\$m	Total US\$m
As at 30 June 2017					
Fixed deposits	7.1	-	78.65	-	78.65
Bankers' acceptances	7.1	-	7.07	-	7.07
Treasury bills	7.1	-	131.57	-	131.57
Owner occupied property (land and buildings)	11	-	-	39.87	39.87
Investment Property	12	-	-	22.07	22.07
Non-current assets held for sale	13	-	-	1.43	1.43
Closing Net book value		-	217.29	63.37	280.66
As at 30 June 2016					
Fixed deposits	7.1	-	108.98	-	108.98
Bankers' acceptances	7.1	-	7.07	-	7.07
Treasury bills	7.1	-	88.42	-	88.42
Owner occupied property (land and buildings)	11	-	-	39.79	39.79
Investment Property	12	-	-	22.60	22.60
Closing Net book value		-	204.47	62.39	266.86

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2017

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
8 Other assets	83.05	76.85	77.72

Comprising:

8.1 Other financial assets carried at amortised cost

Sundry debtors

Sundry debtors	24.86	15.52	16.13
	24.86	15.52	16.13

8.2 Other non financial assets

Properties in possession

Other assets

Stock on hand

Housing projects

ZRP housing project

Budiriro housing project

Properties in possession	-	1.39	-
Other assets	2.01	1.29	4.12
Stock on hand	0.30	0.37	0.38
Housing projects	55.88	58.28	57.09
ZRP housing project	8.54	8.54	8.54
Budiriro housing project	47.34	49.74	48.55
	58.19	61.33	61.59

8.2.1 Housing projects - inventory work in progress

Opening balance

Additions

Cost of sales

Impairment

Opening balance	57.09	59.77	59.77
Additions	0.30	1.53	2.05
Cost of sales	(1.51)	(1.62)	(3.19)
Impairment	-	(1.40)	(1.54)
	55.88	58.28	57.09

9. Intangible asset

Opening balance

Additions

Amortisation

Closing Balance

Opening balance	10.34	11.99	11.99
Additions	0.67	0.84	1.83
Amortisation	(1.75)	(1.74)	(3.48)
Closing Balance	9.26	11.09	10.34

10. Loans and advances

Gross amount owing

Impairment

Loans and advances

Gross amount owing	615.92	554.67	602.70
Impairment	(21.59)	(21.78)	(19.45)
Loans and advances	594.33	532.89	583.25

Concentration - gross

Housing

Individuals

Commercial and industrial

Housing	242.88	186.87	194.02
Individuals	110.53	132.44	124.61
Commercial and industrial	262.51	235.36	284.07
	615.92	554.67	602.70

Maturity analysis - gross

On demand to 3 months

3 months to 1 year

1 year to 5 years

Over 5 years

On demand to 3 months	87.17	78.87	86.43
3 months to 1 year	190.76	167.30	188.87
1 year to 5 years	291.79	263.25	281.95
Over 5 years	46.20	45.25	45.45
	615.92	554.67	602.70

Total non-performing loans

Total non-performing loans	53.87	55.90	49.92
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Past due but not impaired

Past due but not impaired	134.38	131.63	132.59
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11. Property and equipment

Six months ended 30 June 2017

Opening net book value

Additions

Revaluation

Depreciation charge

Closing net book value

	Land US\$m	Buildings US\$m	Office Equipment, Fixtures & Fittings and Vehicles US\$m	Total US\$m
Opening net book value	4.43	35.34	10.57	50.34
Additions	-	0.27	2.45	2.72
Revaluation	0.11	0.07	-	0.18
Depreciation charge	-	(0.35)	(2.02)	(2.37)
Closing net book value	4.54	35.33	11.00	50.87

Six months ended 30 June 2016

Opening net book value

Additions

Revaluation

Depreciation charge

Closing net book value

Opening net book value	4.39	36.15	8.14	48.68
Additions	0.04	1.14	1.89	3.07
Revaluation	(0.02)	(1.56)	-	(1.58)
Depreciation charge	-	(0.35)	(1.83)	(2.18)
Closing net book value	4.41	35.38	8.20	47.99

Audited year ended 31 December 2016

Opening net book value

Additions

Revaluation

Depreciation charge

Closing net book value

Opening net book value	4.39	36.16	8.13	48.68
Additions	0.04	1.72	6.10	7.86
Revaluation	-	(1.83)	-	(1.83)
Depreciation charge	-	(0.71)	(3.66)	(4.37)
Closing net book value	4.43	35.34	10.57	50.34

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2
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Unaudited Financial Results

For the six months ended 30 June 2017

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2017

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
14 Deposits			
Savings certificates	545.15	518.45	575.21
Term deposits	0.73	1.33	0.72
Savings deposits	309.81	248.30	269.12
	855.69	768.08	845.05

Maturity analysis

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
On demand to 3 months	620.76	526.42	618.74
3 months to 1 year	93.84	97.78	74.16
1 year to 5 years	95.25	83.94	84.27
Over 5 years	45.84	59.94	67.88
	855.69	768.08	845.05

Concentration	30 June 2017 US\$m	Weight %	30 June 2016 US\$m	Weight %	31 December 2016 US\$m	Weight %
Financial institutions	427.79	50%	410.63	53%	455.07	54%
Companies	316.53	37%	251.17	33%	299.78	35%
Individuals	111.37	13%	106.28	14%	90.20	11%
	855.69	100%	768.08	100%	845.05	100%

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
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15 Credit lines

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
Shelter Afrique Loan	10.25	12.38	11.49
Propaco Loan	4.44	6.65	5.56
PTA Bank loan	4.13	12.51	8.33
ZADT	2.91	1.00	2.95
Accrued interest on credit lines	0.31	0.43	0.32
	22.04	32.97	28.65

Maturity analysis

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
On demand to 3 months	4.34	4.68	5.23
3 months to 1 year	8.07	10.88	11.47
1 year to 5 years	9.63	17.41	11.95
	22.04	32.97	28.65

16 Other liabilities

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
Trade creditors	9.54	20.87	10.59
Other liabilities	0.03	1.13	0.43
Deferred revenue	11.32	7.32	6.83
	20.89	29.32	17.85

17 Provisions

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
Opening balance	5.47	5.13	5.13
• leave pay and bonus provisions	2.03	2.47	2.47
• other	3.44	2.66	2.66
Net movements	(0.98)	(0.41)	0.34
Closing balance	4.49	4.72	5.47
Comprising			
• leave pay and bonus provisions	1.54	1.78	2.03
• other	2.95	2.94	3.44
	4.49	4.72	5.47

18 Share capital and reserves

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
18.1 Ordinary class "A" share capital	35.00	35.00	35.00

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

18.2 Retained earnings

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
Opening balance	99.32	81.07	81.07
Net surplus for the period	16.52	20.75	39.23
Dividend paid	(20.00)	(15.00)	(15.00)
Regulatory loan loss provision	0.58	(8.10)	(5.98)
Closing balance	96.42	78.72	99.32

18.3 Regulatory provisions reserves

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
Opening balance	16.51	10.53	10.53
Regulatory impairment (charge)/reversal	(0.58)	6.19	5.98
Closing balance	15.93	16.72	16.51

18.4 Non-distributable reserves

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
18.4 Non-distributable reserves	1.45	1.45	1.45

18.5 Revaluation reserves

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
Opening balance	18.45	20.28	20.28
Revaluation of properties	0.18	(1.58)	(1.83)
Closing balance	18.63	18.70	18.45

18.6 Share based payment reserves

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
Opening balance	5.35	4.83	4.83
Share based payment provision	0.16	0.29	0.52
Closing balance	5.51	5.12	5.35

19 Financial Risk Exposures

This note presents information about the Society's exposure to each of the following risks:

- * Credit risk;
- * Liquidity risk;
- * Market risk; and
- * Operational risk

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

19.1 Credit Risk

The Management Credit Committee (MCC) is responsible for implementing the Board approved risk management strategies and policies for the management of credit risk under the oversight of the Board Credit Committee. The applicable activities include:

- * Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements;
- * Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Senior Managers and members of MCC. Large facilities require approval by the Society's Board Credit Committee or the Board of Directors;

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2017

19 Financial Risk Exposures (continued)

19.1 Credit Risk (continued)

- * Reviewing and assessing credit risk. The Society's Board Credit Committee assesses all credit exposures in excess of designated limits prior to the facilities being committed to customers by the business unit concerned. 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 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;
- * Regular audits of the Society's credit processes are undertaken by the Society's Internal Audit; and
- * Capital requirements for credit risk are subject to Basel II modified standardised approach.

19.2 Liquidity Risk

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

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

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

Details of the liquidity ratio as at 30 June 2017 are given below:

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
Total liquid assets	307.97	299.38	327.79
Total liabilities to the public	855.69	801.05	873.70
Liquidity ratio	35%	37%	38%
Maximum liquidity ratio for the period	36%	37%	38%
Minimum liquidity ratio for the period	34%	31%	31%
Average liquidity ratio for the period	35%	34%	34%
Minimum liquidity ratio	30%	30%	30%

19.2.1 Liquidity gap analysis as at 30 June 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						
Cash and cash equivalents	97.75	-	-	-	-	97.75
Financial assets at fair value through profit or loss	85.23	63.20	63.68	5.18	-	217.29
Non current assets held for sale	-	-	-	-	1.43	1.43
Loans and advances	84.54	185.13	280.39	44.27	-	594.33
Other assets	-	-	-	-	83.05	83.05
Intangible assets	-	-	-	-	9.26	9.26
Investment property	-	-	-	-	22.07	22.07
Property and equipment	-	-	-	-	50.87	50.87
Total Assets	267.52	248.33	344.07	49.45	166.68	1 076.05
Liabilities and equity						
Deposits	620.76	93.84	95.25	45.84	-	855.69
Credit lines	4.34	8.07	9.63	-	-	22.04
Other liabilities	-	-	-	-	20.89	20.89
Provisions	-	-	-	-	4.49	4.49
Ordinary class "A" share capital	-	-	-	-	35.00	35.00
Reserves	-	-	-	-	137.94	137.94
Total liabilities and equity	625.10	101.91	104.88	45.84	198.32	1 076.05
Net Liquidity gap	(357.58)	146.42	239.19	3.61	(31.64)	-
Cumulative liquidity gap	(357.58)	(211.16)	28.03	31.64	-	-

Liquidity gap analysis as at 30 June 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						
Cash and cash equivalents	94.91	-	-	-	-	94.91
Financial assets at fair value through profit or loss	115.87	88.60	-	-	-	204.47
Loans and advances	75.47	160.02	252.84	44.56	-	532.89
Other assets	-	-	-	-	76.85	76.85
Intangible assets	-	-	-	-	11.09	11.09
Investment property	-	-	-	-	22.34	22.34
Property and equipment	-	-	-	-	48.25	48.25
Total Assets	286.25	248.62	252.84	44.56	158.53	990.80
Liabilities and equity						
Deposits	526.42	97.78	83.94	59.94	-	768.08
Credit lines	4.68	10.88	17.41	-	-	32.97
Other liabilities	-	-	-	-	29.32	29.32
Provisions	-	-	-	-	4.72	4.72
Ordinary class "A" share capital	-	-	-	-	35.00	35.00
Reserves	-	-	-	-	120.71	120.71
Total liabilities and equity	531.10	108.66	101.35	59.94	189.75	990.80
Net Liquidity gap	(244.85)	139.96	151.49	(15.38)	(31.22)	-
Cumulative liquidity gap	(244.85)	(104.89)	46.60	31.22	-	-

19.3 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.

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

Compliance environment

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

Regulatory fine

Included in the expenses is an amount of US\$50,000, representing a fine charged by the RBZ.

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

19.4 Market risk

Market risk is the risk that the Society's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market prices such as interest rates 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.

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.



Unaudited Financial Results

For the six months ended 30 June 2017

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2017

19 Financial Risk Exposures (continued)

19.4 Market risk (continued)

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. A summary of the interest rate repricing gap report is below:

19.4.1 Interest rate repricing gap analysis June 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	Total US\$m
Assets					
Financial assets at fair value through profit or loss	85.23	63.20	63.68	5.18	217.29
Loans and advances	84.54	185.13	280.39	44.27	594.33
Total Assets	169.77	248.33	344.08	49.44	811.62

Liabilities

Deposits	323.44	93.83	95.25	45.84	558.36
Credit lines	4.34	8.07	9.63	-	22.04
Total Liabilities	327.78	101.90	104.88	45.84	580.40

Interest rate repricing gap

	(158.01)	146.42	239.19	3.60	231.22
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Cumulative Interest rate repricing gap

	(158.01)	(11.58)	227.61	231.22	-
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Interest rate repricing gap analysis June 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	Total US\$m
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Assets

Financial assets at fair value through profit or loss	115.87	88.60	-	-	204.47
Loans and advances	75.47	160.02	252.84	44.56	532.89
Total Assets	191.34	248.62	252.84	44.56	737.36

Liabilities

Deposits	526.42	97.78	83.94	59.94	768.08
Credit lines	4.68	10.88	17.41	-	32.97
Total Liabilities	531.10	108.66	101.35	59.94	801.05

Interest rate repricing gap

	(339.76)	139.96	151.49	(15.38)	(63.69)
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Cumulative Interest rate repricing gap

	(339.76)	(199.80)	(48.31)	(63.69)	-
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19.5 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 primary responsibility for the development and implementation of controls to address operational risk is assigned to Executive Committee (EXCO) under the oversight of the Board Risk and Compliance Committee. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

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

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

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.

19.6 Strategic risk

EXCO is responsible for the implementation of the Board approved strategic risk policy under the oversight of the 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.

19.7 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.

19.8 Risks and Ratings

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

The CAMELS and Risk Assessment ratings are summarised below;

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

Key

1. Strong	2. Satisfactory	3. Fair	4. Weak	5. Critical
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Summary of Risk Matrix - for RBZ Site 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

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2017

19 Financial Risk Exposures (continued)

19.8 Risks and Ratings (continued)

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.

20 Capital Management

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

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

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

The Society's policy is to maintain a strong capital base so as to maintain depositor confidence and sustain future developments of the business. The Society's regulatory position as at 30 June 2017 was as follows:

	Unaudited 30 June 2017 US\$m	Unaudited 30 June 2016 US\$m	Audited 31 December 2016 US\$m
Tier 1 Capital	103.19	81.70	104.95
Tier 2 Capital	35.94	49.22	35.73
Tier 3 Capital	11.25	10.39	12.64
Total Capital	150.38	141.31	153.32
Total risk weighted assets	828.75	777.67	838.86
Capital adequacy ratio	18%	18%	18%

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