Unaudited Financial Results

For the six months ended 30 June 2016

CHAIRMAN'S STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2016

Environment
Over the six months under review the economy has continued to struggle. The cash and nostro funding shortages that began in the fourth quarter of 2015, continued into the first half of 2016. The shortages were largely the result of the country spending more on imports than it was earning from exports. This was due to low production levels across most industries as well as the fact that locally produced goods struggled to compete against much cheaper imports.

In an effort to boost the economy and improve the financial sector, the Central Bank introduced new measures which included controls on cash withdrawals, foreign remittances and foreign inflows and incentives, for exporters, and the scheduled introduction of bond notes; ceilings on certain bank charges and interest rates, for consumer loans; and increased anti-money laundering activities and requirements. The Banking Amendment Act was also launched. It includes increased regulatory requirements for bank directors and officers.

The Central bank has also encouraged the use of plastic money, to mitigate the current cash crisis. Transactions redirected through the electronic channels have increased.

During the period under review, companies have reported weak growth and depressed earnings. In general, commodity prices remained low. Agricultural output was affected by drought, and the resultant need to import foodstuffs has placed further pressures, on the country's foreign currency reserves. The country, has continued to attract a premium for foreign funding.

Activity on the Zimbabwe Stock Exchange continued to be depressed, with the industrial index shedding 12.0% while the mining index improved by 4.1% in the first half of 2016.

The year-on-year inflation rate at 30 June 2016, was -1.4%. While GDP was originally expected to grow by 2.7% in 2016, independent economists are forecasting a contraction, due to many challenges facing the economy.

Financial Results
The Society recorded a net surplus of $20.75m in the period under review, up from $10.63m realised in the comparative period. This was mainly due to a decrease in impairments through the income statement, from -$9.92m to $1.66m, as there was limited growth in the loan book. Some of the loans previously provided for were settled in the period under review.

Net interest income declined by 4.0% compared to the same period in 2015, while fee and commission income increased by 5.8%. Comparatively, operating expenses increased by 10.7%, thus increasing the Society's cost to income ratio from 54.3% in 2015, to 60.3% in 2016.

Total assets increased by 7.3%, from $923m in June 2015 to $991m in June 2016. Deposits grew by 6.7% during the same period. The Society's total loans and advances increased by 7.6% from $496m, as at 30 June 2015, to $533m, as at 30 June 2016.

Liquidity Management
The Society's prudential liquidity ratio stood at 36.5%, against the minimum regulatory ratio of 30.0%.

Capital Management
The Society remained well capitalised and compliant with the regulatory benchmark. The capital adequacy ratio stood at 18%, against the minimum regulatory ratio of 12%.

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

Operations
Your Society achieved the following milestones and awards during the period under review:

- Mobile Money and Digital Payments Conference - Best Mobile Banking App;
- Mobile Money and Digital Payments Conference - Best Mobile and Digital Payments Award;
- Lowveld Business Awards - The People's Choice Bank;
- Zimbabwe National Chamber of Commerce - 1st Runner Up - Best Bank Supporting Small to Medium Enterprises (SMEs) award - Southern Region;
- Zimbabwe National Chamber of Commerce - 2nd Runner Up - Best Bank Supporting SMEs award - Northern Region;
- Opened two more branches in Graniteside and Southerton in Harare to increase accessibility and convenience to our customers;
- More point of sale terminals were deployed, to increase customer convenience.

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

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

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

Ratings Disclosure Requirements
In line with international standards, the Reserve Bank of Zimbabwe (RBZ) requires that local financial institutions publish their CAMELS ratings (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk), Risk Assessment Systems, and Risk Matrix ratings, as rated by the RBZ, in their latest onsite visit. A financial institution must also publish its credit ratings by a reputable credit rating agency, accredited with the RBZ.

Ratings for the onsite examination in April 2014 by the RBZ were as follows:

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

The Society continues to be rated highly by an international accredited rating agency, the Global Credit Rating Company (GCR). The latest ratings were as follows: 2015 A+; 2014 A+; 2013 A+.

Directorate
Messrs. DL Stephenson, BL Nkomo and J Mushosho retired from the Board and were re-elected in terms of Article 71 of the Society's Rules. Dr LT Tsumba also retired from the Board and was re-elected.

Future Prospects
The country has been severely tested by an extended period of economic decline. Together with the Old Mutual Group, the Society believes that this will come to an end and has, therefore, adopted a long term view, to follow opportunities that are not apparent in the short term. As a result, the Society continues to invest in its customers by pursuing initiatives to enhance its role in both housing finance and banking. As these initiatives are progressively realised, the Society, as part of a strong and integrated financial services group, will remain a positive and progressive force in the country's financial services sector and in the economy as a whole.

DR L L Tsumba
CHAIRMAN
Central African Building Society

19 August 2016

STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Notes	Unaudited 30 June 2016 US$m	Unaudited 30 June 2015 US$m
Interest income	2	44.93	50.86
Interest expense	2	(17.50)	(22.29)
Net interest income		27.43	28.57
Impairment reversal/(charge)	3	1.66	(9.92)
		29.09	18.65
Fee and commission income	4.1	20.76	19.63
Other income	4.2	0.87	1.13
		50.72	39.41
Operating expenses	5	(29.59)	(26.73)
Fair value adjustment on investment properties	12	(0.38)	(2.05)
Net surplus for the six months		20.75	10.63
Other comprehensive loss		(9.68)	(1.69)
Loss on revaluation of owner occupied properties	11	(1.58)	(1.34)
Regulatory impairment allowance	17	(8.10)	(0.35)
Total comprehensive income for the six months		**11.07**	**8.94**

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	Unaudited 30 June 2016 US$m	Unaudited 30 June 2015 US$m	Audited 31 December 2015 US$m
ASSETS				
Cash and cash equivalents	6	94.91	97.76	105.29
Financial assets at fair value through profit or loss	7	204.47	173.18	214.30
Other assets	8	76.85	70.43	77.36
Intangible assets	9	11.09	12.38	11.99
Loans and advances	10	532.89	495.50	562.34
Property and equipment	11	47.99	50.04	48.68
Investment property	12	22.60	23.77	22.98
Total assets		**990.80**	**923.06**	**1 042.94**
LIABILITIES				
Deposits	13	768.08	719.62	829.08
Credit lines	14	32.97	44.22	39.26
Other liabilities	15	29.32	16.51	16.31
Provisions	16	4.72	4.17	5.13
Total liabilities		**835.09**	**784.52**	**889.78**
SHAREHOLDERS' EQUITY				
Ordinary class "A" share capital	17.1	35.00	35.00	35.00
Retained earnings	17.2	78.72	71.08	81.07
Regulatory provisions reserves	17.3	16.72	2.79	10.53
Non distributable reserves	17.4	1.45	1.45	1.45
Revaluation reserves	17.5	18.70	23.75	20.28
Share based payment reserves	17.6	5.12	4.47	4.83
Total shareholders' equity		**155.71**	**138.54**	**153.16**
Total liabilities and equity		**990.80**	**923.06**	**1 042.94**

DR L L TSUMBA
CHAIRMAN

B L NKOMO
NON-EXECUTIVE DIRECTOR

HARARE
19 August 2016

STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	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
June 2016							
Balance as at 1 January 2016	**35.00**	**81.07**	**10.53**	**1.45**	**20.28**	**4.83**	**153.16**
Net surplus for the six months	-	20.75	-	-	-	-	20.75
Share based payment reserves		-	-		-	0.29	0.29
Loans written off	-	-	(1.91)	-	-	-	(1.91)
Other comprehensive income for the six months	-	(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**
June 2015							
Balance as at 1 January 2015	**35.00**	**68.80**	**2.44**	**1.45**	**25.08**	**4.04**	**136.81**
Net surplus for the six months	-	10.63	-	-	-	-	10.63
Share based payment reserves	-	-	-	-	-	0.44	0.44
Other comprehensive income for the six months		(0.35)	0.35		(1.34)	-	(1.34)
Dividends on Ordinary Class "A" shares	-	(8.00)	-	-	-		(8.00)
Balance as at 30 June 2015	**35.00**	**71.08**	**2.79**	**1.45**	**23.74**	**4.48**	**138.54**

STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Notes	Unaudited 30 June 2016 US$m	Unaudited 30 June 2015 US$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the six months		20.75	10.63
Non-cash items:			
Depreciation	5	3.92	3.44
Share based payments provision	17.6	0.29	0.44
Fair value adjustment on investment property	12	0.38	2.05
Fair value adjustment on financial instruments	4.2	-	(0.13)
Profit on sale of property and equipment	4.2	(0.04)	(0.02)
Impairment loss on housing projects		1.40	-
Provisions and accruals		(3.57)	11.19
Accrued interest on credit lines	14	0.43	0.68
Operating cash inflows before working capital changes		**23.56**	**28.28**
Increase in other assets		(0.88)	(6.71)
Increase/(decrease) in loans and advances		30.63	(61.88)
Increase/(decrease) in financial assets at fair value through profit and loss		9.82	(3.37)
(Decrease)/increase in deposits		(61.00)	68.15
Increase in other liabilities		12.99	5.25
Net cash inflows from operating activities		**15.12**	**29.72**
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	11	(3.07)	(1.82)
Additions to intangible assets		(0.84)	(1.23)
Proceeds from sale of property and equipment		0.13	0.02
Net cash outflows from investing activities		**(3.78)**	**(3.03)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	17.2	(15.00)	(8.00)
Credit line repayments		(6.72)	(6.38)
Net cash outflows from financing activities		**(21.72)**	**(14.38)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(10.38)**	**12.31**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		**105.29**	**85.45**
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	6	**94.91**	**97.76**

CORPORATE GOVERNANCE STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2016

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

BOARD ATTENDANCE REGISTER
The Board of Directors met three times during the six months ended 30 June 2016. Attendance of the Board of Directors and other Board Committees is as below.

	Main Board	Audit Committee	Risk and Compliance Committee	Credit Committee	Loans Review Commitee
Number of meetings held	**3**	**2**	**2**	**2**	**2**
L L Tsumba (Dr)	3				
B L Nkomo	3	2	2		
L E M Ngwerume	3		1		1
D L Stephenson	2	2		2	
J Mushosho	3				
B Zamchiya	3		2		2
D E B Long	3	2	2	2	
S J Hammond	3				
M Mpofu	3				
R D C Chitengu(Mrs)	3	2			2
M Mukonoweshuro	3				
A E Siyavora	2			2	

The Board of Directors comprises nine (9) non-executive directors and three (3) executive directors. The three executive directors are; the Managing Director, the Deputy Managing Director and the Chief Finance Officer. Mr J Mushosho is the Group Chief Executive Officer of the Society's parent company, Old Mutual Zimbabwe Limited. With the exception of Messrs J Mushosho and L E M Ngwerume, the other Non-Executive Directors are considered independent and free from business or other relationships which could materially interfere with the exercise of their independent judgment.

Unaudited Financial Results

For the six months ended 30 June 2016

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 under policies consistent with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) 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 results have been prepared in accordance with the requirements of the Building Society Act (Chapter 24:02).

		Notes	Unaudited 30 June 2016 US$m	Unaudited 30 June 2015 US$m
2	**Net interest income**			
	Interest income		**44.93**	**50.86**
	Fixed deposits		7.80	9.36
	Loans and advances		37.13	41.50
	Interest expense		**(17.50)**	**(22.29)**
	Credit lines		(1.89)	(2.09)
	Savings certificates		(14.80)	(19.28)
	Term deposits		(0.02)	(0.13)
	Savings deposits		(0.79)	(0.79)
	Net interest income		**27.43**	**28.57**
3	**Impairment**			
	Opening balance		**35.89**	**15.36**
	Movements			
	Total impairmaent through profit or loss		**(1.66)**	**9.92**
	Impairment on loans and advances		(4.18)	9.92
	Other impairments through profit or loss		2.52	-
	Movement through comprehensive income		8.10	0.35
	Closing balance		**42.33**	**25.63**
	Analysis of closing balance:			
	Other assets*		3.83	4.43
	Regulatory provisions reserves	17.3	16.72	2.79
	Loans and Advances	10	21.78	18.41
			42.33	**25.63**

* Other assets impairment represents allowances for bad debts on rent accrued, allowance for transaction accounts in overdraft and impairement on housing projects.

		Unaudited 30 June 2016 US$m	Unaudited 30 June 2015 US$m
4	**Non interest income**		
4.1	**Fee and commission income**		
	Commission	1.93	1.55
	Service fees	13.82	13.56
	Administration fees	5.01	4.52
		20.76	**19.63**
4.2	**Other Income**		
	Net rental income	0.67	0.98
	Profit on sale of equipment	0.04	0.02
	Fair value adjustment on financial instruments	-	0.13
	Trading profit on housing sales	0.16	-
	Total other income	**0.87**	**1.13**
5	**Operating expenses**		
	Administration	16.15	14.51
	Depreciation	3.92	3.44
	Staff costs	9.52	8.78
	Total operating expenses	**29.59**	**26.73**

		Notes	Unaudited 30 June 2016 US$m	Unaudited 30 June 2015 US$m	Audited 31 December 2015 US$m
6	**Cash and cash equivalents**				
	Cash balances		10.07	53.38	28.38
	Bank balances		84.84	44.38	76.91
			94.91	**97.76**	**105.29**
7	**Financial instruments**				
	Financial assets at fair value through profit or loss				
	Fixed deposits		**204.47**	**173.18**	**214.30**
	Maturity analysis - gross				
	On demand to 3 months		115.87	131.60	160.50
	3 months to 6 months		41.82	26.37	25.63
	6 months to 1 year		46.78	0.10	9.16
	1 year to 5 years		-	15.11	19.01
			204.47	**173.18**	**214.30**
8	**Other assets**				
8.1	**Other financial assets**				
	Sundry debtors		15.52	17.69	13.59
			15.52	**17.69**	**13.59**
8.2	**Other non financial assets**				
	Properties in possession		1.39	1.05	1.25
	Other assets		1.29	1.68	2.42
	Stock on hand		0.37	0.33	0.33
	Inventory - housing projects		58.28	49.68	59.77
			61.33	**52.74**	**63.77**
	Total other assets		**76.85**	**70.43**	**77.36**
9	**Intangible assets**				
	Opening balance		11.99	12.72	12.72
	Additions		0.84	1.23	2.57
	Amortisation		(1.74)	(1.57)	(3.30)
	Closing balance		**11.09**	**12.38**	**11.99**
10	**Loans and advances**				
	Gross amount owing		554.67	513.91	585.34
	Impairment	3	(21.78)	(18.41)	(23.00)
	Loans and advances		**532.89**	**495.50**	**562.34**
	Concentration - gross				
	Housing		186.87	187.94	182.48
	Individuals		132.44	144.61	177.28
	Commercial and industrial		235.36	181.36	225.58
			554.67	**513.91**	**585.34**
	Maturity analysis - gross				
	On demand to 3 months		75.47	69.85	84.84
	3 months to 12 months		160.02	159.18	179.71
	1 year to 5 years		132.31	96.94	217.52
	Over 5 years		186.87	187.94	103.27
			554.67	**513.91**	**585.34**

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NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE SIX MONTHS ENDED 30 JUNE 2016

		Land US$m	Buildings US$m	Office Equipment, Fixtures & Fittings and Vehicles US$m	Total US$m
11	**Property and equipment**				
	Six months ended 30 June 2016				
	Opening net book value	4.39	36.15	8.14	48.68
	Additions	0.04	1.14	1.89	3.07
	Revaluation loss	(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**
	Six months ended 30 June 2015				
	Opening net book value	4.68	37.77	8.98	51.43
	Additions	-	0.68	1.14	1.82
	Revaluation loss	(0.12)	(1.22)	-	(1.34)
	Depreciation charge	-	(0.38)	(1.49)	(1.87)
	Closing net book value	**4.56**	**36.85**	**8.63**	**50.04**

		Land & Buildings US$m
12	**Investment property**	
	Opening fair value as at 1 January 2016	22.98
	Fair value adjustment	(0.38)
	Closing fair value at 30 June 2016	**22.60**
	Opening fair value 1 January 2015	25.82
	Fair value adjustment	(2.05)
	Closing fair value at 30 June 2015	**23.77**

		Unaudited 30 June 2016 US$m	Unaudited 30 June 2015 US$m	Audited 31 December 2015 US$m
13	**Deposits**			
	Savings certificates	518.45	490.59	580.58
	Term deposits	1.33	5.68	3.24
	Savings deposits	248.30	223.35	245.26
		768.08	**719.62**	**829.08**
	Maturity analysis			
	On demand to 3 months	526.43	605.77	583.85
	3 months to 6 months	89.65	39.73	53.82
	6 months to 1 year	8.12	33.41	41.55
	1 year to 5 years	143.88	40.71	108.73
	Over 5 years	-	-	41.13
		768.08	**719.62**	**829.08**

Concentration	30 June 2016 US$m	Percentage %	30 June 2015 US$m	Percentage %	31 December 2015 US$m	Percentage %
Financial institutions	410.63	53	342.55	48	406.97	49
Companies	251.17	33	261.17	36	291.84	35
Individuals	106.28	14	115.90	16	130.27	16
	768.08	**100**	**719.62**	**100**	**829.08**	**100**

		Unaudited 30 June 2016 US$m	Unaudited 30 June 2015 US$m	Audited 31 December 2015 US$m
14	**Credit lines**			
	PTA Bank loan	12.51	20.83	16.67
	Shelter Afrique loan	12.38	13.82	13.24
	Propaco loan	6.65	8.89	7.78
	Zimbabwe Agricultural Development Trust	1.00	-	1.00
	Accrued interest on credit lines	0.43	0.68	0.57
		32.97	**44.22**	**39.26**
	Maturity analysis			
	On demand to 3 months	4.68	5.23	3.64
	3 months to 6 months	2.93	0.26	2.03
	6 months to 1 year	7.95	6.60	7.45
	1 year and above	17.41	32.13	26.14
		32.97	**44.22**	**39.26**
15	**Other liabilities**			
	Trade creditors	20.87	8.06	8.25
	Other liabilities	1.12	1.15	0.31
	Deferred revenue	7.32	7.29	7.74
	Unclaimed monies	0.01	0.01	0.01
		29.32	**16.51**	**16.31**
16	**Provisions**			
	Opening balance	5.13	2.90	2.90
	- leave pay and bonus provisions	2.47	1.98	1.98
	- other	2.66	0.92	0.92
	Net movements	(0.41)	1.27	2.23
	Closing balance	4.72	4.17	5.13
	- leave pay and bonus provisions	1.78	1.67	2.47
	- other	2.94	2.50	2.66

Unaudited Financial Results

For the six months ended 30 June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

		Unaudited 30 June 2016 US$m	Unaudited 30 June 2015 US$m	Audited 31 December 2015 US$m
17	**Share capital and reserves**			
17.1	**Ordinary class "A" share capital**			
	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.

		Unaudited 30 June 2016 US$m	Unaudited 30 June 2015 US$m	Audited 31 December 2015 US$m
17.2	**Retained earnings**			
	Opening balance	81.07	68.80	68.80
	Net surplus for the period	20.75	10.63	28.37
	Dividend	(15.00)	(8.00)	(8.00)
	General provision for loan loss	(8.10)	(0.35)	(8.10)
	Closing balance	**78.72**	**71.08**	**81.07**
17.3	**Regulatory provisions reserves**			
	Opening balance	10.53	2.44	2.44
	Regulatory impairment allowance	6.19	0.35	8.09
	Closing balance	**16.72**	**2.79**	**10.53**
17.4	**Non distributable reserves**			
	Opening balance	1.45	1.45	1.45
	Closing balance	**1.45**	**1.45**	**1.45**
17.5	**Revaluation reserves**			
	Opening balance	20.28	25.09	25.09
	Revaluation of properties	(1.58)	(1.34)	(4.81)
	Closing balance	**18.70**	**23.75**	**20.28**
17.6	**Share based payments reserves**			
	Opening balance	4.83	4.04	4.04
	Share based payments provision	0.29	0.43	0.79
	Closing balance	**5.12**	**4.47**	**4.83**

18 Financial Risk Management

18.1 Introduction and overview

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 explained below:

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18.2 Credit Risk

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

- Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements;
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Senior Managers and members of MCC. Large facilities require approval by the Society's Board Credit Committee or the Board of Directors;
- Reviewing and assessing credit risk. The Society's Board Credit Committee assesses all credit exposures in excess of designated limits prior to facilities being committed to customers 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; and
- Regular audits of the Society's credit processes are undertaken by the Society's Internal Audit.

18.3 Liquidity Risk

The Asset and Liability 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 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.

Details of the Society's liqudity position as at 30 June 2016 are given below:

	30 June 2016 US$m	30 June 2015 US$m	31 December 2015 US$m
Total liquid assets	299.38	270.93	319.59
Total liabilities to the public	801.05	763.84	868.34
Liquidity ratio	37%	35%	37%
Maximum for the period	37%	39%	38%
Minimum for the period	31%	35%	33%
Average for the period	34%	37%	36%
Minimum regulatory	30%	30%	30%

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 RBZ. In addition the Society matches long term liabilities to long term investments and this is monitored through ALCO and the Board Risk and Compliance Committee.

A summary of the liquidity gap report is given below:

18.3.1 Liquidity gap report as at 30 June 2016

Total position	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	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	17.40	-	-	32.97
Other liabilities	-	-	-	-	29.33	29.33
Provisions	-	-	-	-	4.72	4.72
Ordinary class "A" share capital	-	-	-	-	35.00	35.00
Reserves	-	-	-	-	120.70	120.70
Total liabilities and equity	**531.10**	**108.66**	**101.35**	**59.94**	**189.75**	**990.80**
Liquidity gap	**(244.84)**	**139.96**	**151.49**	**(15.38)**	**(31.23)**	**-**
Cumulative gap	**(244.84)**	**(104.88)**	**46.61**	**31.23**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 Risk and Compliance and Audit Committees and the Board.

Compliance environment

Compliance risk is managed through a Board approved Compliance Programme, the Anti Money Laundering (AML), Combating 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.

The Society was not subject to any regulatory fines or censure during the period under reporting.

18.4 Market risk

Market risk is the risk that the Society's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market prices such as interest rates, credit spreads, equity prices and foreign exchange rates. Most market risks arise from trading activities. The Society is primarily exposed to interest rate and foreign exchange 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.

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. A summary of the repricing gap report is below:

18.4.1 Repricing gap analysis as at 30 June 2016

Total position	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	-	-	-	-	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 financial 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	**191.34**	**248.62**	**252.84**	**44.56**	**253.44**	**990.80**
Liabilities						
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	**531.10**	**108.66**	**101.35**	**59.94**	**189.75**	**990.80**
Net liquidity gap	**(339.76)**	**139.96**	**151.49**	**(15.38)**	**63.68**	**-**
Cumulative liquidity gap	**(339.76)**	**(199.79)**	**(48.30)**	**(63.68)**	**-**	**-**

18.5 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 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 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.

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.

18.6 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.

18.7 Reputational risk

The Board has delegated responsibility for effective management of reputational risk to the 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 and controls to mitigate the risk are captured in the internal risk events log.

Unaudited Financial Results

For the six months ended 30 June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

19 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 Site Inspection of April 2014

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

Interpretation of the Risk Matrix

Levels of inherent risk

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

Adequacy of risk management systems

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

19 Risks and Ratings (continued)

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 exposure to insiders and connected counterparties, and other regulatory adjustments relating to allocation of capital for market and operational risk.
- 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 2016 was as follows:

	Unaudited 30 June 2016 US$m	Unaudited 30 June 2015 US$m	Audited 31 December 2015 US$m
Tier 1 Capital	81.70	92.49	98.83
Tier 2 Capital	49.22	37.82	36.51
Tier 3 Capital	10.39	7.23	9.73
Total Capital	**141.31**	**137.54**	**145.07**
Total risk weighted assets	**777.67**	**652.20**	**797.10**
Capital adequacy ratio	**18%**	**21%**	**18%**