CABS

A Member of the OLDMUTUAL Group

WE'LL HELP YOU GET THERE

Unaudited Financial Results

For the six months ended 30 June 2014

CHAIRMAN'S STATEMENT

For The Six Months Ended 30 June 2014

Dear Shareholder,

Environment

Economic stability brought about by the introduction of the multi-currency system continued into 2014. The economy originally projected to grow by 6.1% at the beginning of the year has, however, slowed down to 3.1%. This is against a background of high levels of non-performing loans, a slowdown in general economic activity, declining capacity utilisation, closure of companies and a negative balance of payments position.

The liquidity challenges experienced by the economy in 2013 continued into 2014 and year-on-year inflation, as at 30 June 2014, was -0.08%. Inflation is, however, now projected to rise to 1.5% by the end of December 2014.

Financial Results

Your Society recorded a surplus of $7,2 million for the six months ended 30 June 2014, in spite of the challenging environment described above. Net interest income increased by 6% compared to the same period in 2013. Non-interest income increased by 31%, due to the increase in the number of transactions passing through the Society's various delivery channels. Comparatively, operating expenses increased by 44%, mainly due to the impact of business growth. Consequently, the Society's cost income ratio increased from 62% to 77%.

Total assets increased by 21% from June 2013 to June 2014. Deposits grew by 23% while loans and advances grew by 19%, from $296,8 million in June 2013 to $352,1 million.

Liquidity Management

The Society remains prudent when lending funds to various sectors of the economy, and places great priority on ensuring customer access to their funds. The Society's prudential liquidity ratio was at a robust 38.8%, against the regulatory rate of 30%.

Human Resources

Industrial relations remained cordial. The Society was able to retain key staff during the six months under review. This was in spite of strong market wide competition for qualified staff.

The Society's Operations

Your Society achieved the following milestones during the period under review:
* New banking system (T24) stability and sustainability;
* Deployment of more ATMs to make banking more accessible;
* Mobilisation of $10 million from Proparco, to finance long term mortgage lending;
* Deployment of more point of sale terminals, to promote the use of plastic money;
* Launch of the Budiriro housing scheme;
* Introduction of 20 year housing mortgage loans and
* Introduction of additional services on the mobile banking platform

Corporate Social Responsibility

The Society recognises the need to continuously plough back, to benefit the communities in which it operates. In the period under review, your Society was involved in a number of initiatives in support of education, sports and culture throughout the country.

Corporate Governance

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

Compliance Issues

The Society was in compliance with relevant regulatory requirements and pronouncements.

Additional Disclosure Requirements

In line with international standards, the Reserve Bank of Zimbabwe issued additional reporting requirements for all financial institutions with effect from 31 December 2007. The requirements are that a financial institution must publish its CAMELS rating (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk), Risk Assessment System, and Risk Matrix ratings, as rated by the Reserve Bank of Zimbabwe, in their latest onsite visit. A financial institution must also publish its credit ratings by a reputable credit rating agency, accredited with the Reserve Bank of Zimbabwe.

Ratings for the onsite examination in April 2014 by the Reserve Bank of Zimbabwe are as follows: Capital 1 (Strong); Asset quality 3 (Fair); Management 2 (Satisfactory); Earnings 2 (Satisfactory); Liquidity 2 (Satisfactory); Sensitivity to market risk 2 (Satisfactory) and the overall rating for CABS was 2 (Satisfactory).

The Society also continues to be rated highly by an international accredited rating agency, the Global Credit Rating Company (GCR). The Society's ratings are as follows : 2013 A+; 2012 A+; 2011 A+; 2010 A+; 2009 A+; 2008 A+; 2007 A+.

Directorate

Messrs. D.L.Stephenson, L.E.M.Ngwerume and B.L.Nkomo retired from the Board, in terms of Article 71 of the Society's Rules, in February 2014, and, being eligible, offered themselves for re-election.

Future Prospects

Your Society is pursuing a number of growth initiatives, to enhance its role in both housing finance and banking. As these initiatives are progressively realised, the Society will certainly continue to be a positive as well as a progressive force in the country's financial services sector.

DR L L TSUMBA
CHAIRMAN

18 August, 2014

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Six Months Ended 30 June 2014

	Notes	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$
Interest income	2	35 676 905	31 033 797
Interest expense	2	(17 576 952)	(13 902 648)
Net interest income		18 099 953	17 131 149
Loans impairment	3	(3 476 805)	(2 709 512)
		14 623 148	14 421 637
Fee and commission income	4.1	16 000 748	12 224 001
Other income	4.2	1 831 623	1 399 457
		32 455 519	28 045 095
Operating expenses	5	(25 151 501)	(17 451 054)
Fair value adjustment on investment properties	12	(114 000)	73 150
Net surplus for the six months		**7 190 018**	**10 667 191**
Other comprehensive income		**16 643**	**571 520**
Gains on revaluation of owner occupied properties	11	425 703	571 520
Regulatory impairment allowance	17	(409 060)	-
Total comprehensive income for the six months		**7 206 661**	**11 238 711**

STATEMENT OF FINANCIAL POSITION

As At 30 June 2014

	Notes	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
ASSETS				
Cash and cash equivalents	6	94 048 841	60 389 557	62 127 214
Financial assets at fair value through profit or loss	7	112 256 924	117 374 902	128 861 076
Other assets	8	47 290 592	14 279 929	20 264 795
Intangible assets	9	13 323 948	10 881 902	13 522 506
Loans and advances	10	352 063 012	296 806 816	322 310 630
Property and equipment	11	48 919 165	48 387 709	49 832 773
Investment property	12	26 274 853	26 205 503	26 388 853
Total assets		**694 177 335**	**574 326 318**	**623 307 847**
LIABILITIES				
Deposits	13	529 493 960	429 987 047	461 575 164
Credit lines	14	29 445 242	19 767 591	24 444 142
Other liabilities	15	9 206 020	15 841 449	18 651 858
Provisions	16	2 304 408	2 235 755	3 115 854
Total liabilities		**570 449 630**	**467 831 842**	**507 787 018**
SHAREHOLDERS' EQUITY				
Ordinary class "A" share capital	17.1	35 000 000	35 000 000	35 000 000
Revaluation reserves	17.5	25 173 126	24 143 588	24 747 422
General reserves	17.2	53 304 898	41 228 048	46 523 938
Regulatory provision reserves	17.3	5 357 077	2 614 061	4 948 017
Non distributable reserves	17.4	1 445 851	1 445 851	1 445 851
Share based payment reserves	17.6	3 446 753	2 062 928	2 855 601
Total shareholders' equity		**123 727 705**	**106 494 476**	**115 520 829**
Total liabilities and equity		**694 177 335**	**574 326 318**	**623 307 847**

DR L L TSUMBA
CHAIRMAN

K TERRY
MANAGING DIRECTOR

HARARE
18 August, 2014

STATEMENT OF CHANGES IN EQUITY

For The Six Months Ended 30 June 2014

June 2014 (Unaudited)	Share capital US$	Non distributable reserves US$	Share based payment reserves US$	Revaluation reserves US$	General reserves US$	Regulatory provision reserves US$	Total equity US$
Balance as at 1 January 2014	35 000 000	1 445 851	2 855 601	24 747 422	46 523 940	4 948 017	115 520 831
Capitalisation of non distributable reserves	-	-	-	-	-	-	-
Net surplus for the six months	-	-	-	-	7 190 018	-	7 190 018
Share based payment reserves			591 152	-	-	-	591 152
Other comprehensive income for the six months	-	-	-	425 703	(409 060)	409 060	425 703
Balance as at 30 June 2014	35 000 000	1 445 851	3 446 753	25 173 125	53 304 898	5 357 077	123 727 704

June 2013 (Unaudited)	Share capital US$	Non distributable reserves US$	Share based payment reserves US$	Revaluation reserves US$	General reserves US$	Regulatory provision reserves US$	Total equity US$
Balance as at 1 January 2013	15 000 000	21 445 851	1 112 334	23 572 068	30 560 857	2 614 061	94 305 172
Capitalisation of non distributable reserves	20 000 000	(20 000 000)	-	-	-	-	-
Net surplus for the six months	-	-	-	-	10 667 191	-	10 667 191
Share based payment reserves	-	-	950 593	-	-	-	950 593
Other comprehensive income for the six months			-	571 520	-	-	571 520
Balance as at 30 June 2013	35 000 000	1 445 851	2 062 927	24 143 588	41 228 048	2 614 061	106 494 476

STATEMENT OF CASH FLOWS

For The Six Months Ended 30 June 2014

	Notes	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the six months		7 190 018	10 667 191
Non-cash items:			
Depreciation and amortisation	5	2 865 933	1 166 573
Share based payments provision		591 152	950 593
Fair value adjustment on investment property	12	114 000	(73 150)
Fair value adjustment on financial instruments	4.2	(1 070 795)	(1 101 624)
Loss on sale of property and equipment	4.2	2 102	-
Provisions and accruals		2 665 359	(7 761 711)
Accrued interest on credit lines		1 199 423	467 611
Operating cash inflows before working capital changes		13 557 193	4 315 483
Increase in other assets		(27 025 797)	(5 474 304)
Increase in loans and advances		(33 229 187)	(21 357 009)
Decrease/(Increase) in financial assets at fair value through profit and loss		17 674 947	(59 440 414)
Increase in deposits		67 918 796	74 045 146
Decrease/(Increase) in other liabilities		(9 445 838)	10 060 316
Net cash inflows from operating activities		29 450 114	2 149 218
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	11	(100 266)	(1 327 067)
Additions to intangible assets		(1 250 909)	(975 294)
Proceeds from sale of property and equipment		21 011	-
Net cash inflows/(outflows) before financing activities		28 119 950	(153 143)
CASH FLOWS FROM FINANCING ACTIVITIES			
Credit lines received	14	3 801 677	128 444
Net cash inflow from financing activities		3 801 677	128 444
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		31 921 627	(24 699)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		62 127 214	60 414 256
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	6	94 048 841	60 389 557

CORPORATE GOVERNANCE STATEMENT

For The Six Months Ended 30 June 2014

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 met 3 times during the six months ended 30 June 2014. Attendance was as tabled below.

	Main Board	Audit Committee	Risk and Compilance Committee	Credit Committee	Loans Review Committee
Number of meetings held	3	2	2	2	2
L L Tsumba (Dr)	3				
B L Nkomo	3	2			
L E M Ngwerume	2		1		1
D L Stephenson	3	2		2	
K Terry	3				
J Mushosho	3				
B Zamchiya	3		2		2
D E B Long	3		2	2	
W Alberts	3				1
R D C Chitengu (Mrs)	3	2			
A E Siyavora	2			2	

The Board currently comprises one Executive and ten Non-Executive Directors. Mr. J Mushosho is also a Director 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.

The Rules of the Society require that one third of the Directors (in addition to those appointed by the Board during the year), shall retire by rotation at the Annual General Meeting (AGM) of members. Proposals for re-election are considered by the shareholders and re-election is not automatic.

NOTES TO THE FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2014

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 Reporting entity

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

		Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$
2	**Net interest income**		
	Interest income	35 676 905	31 033 797
	Fixed deposits	5 790 986	5 007 611
	Loans and advances	29 885 919	26 026 186
	Interest expense	(17 576 952)	(13 902 648)
	Credit lines	(1 199 422)	(967 446)
	Savings certificates	(15 176 371)	(12 078 615)
	Term deposits	(159 467)	(170 867)
	Savings deposits	(1 041 692)	(685 720)
	Net interest income	18 099 953	17 131 149

Unaudited Financial Results
For the six months ended 30 June 2014

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For The Six Months Ended 30 June 2014

3 Loans impairment	Notes	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$
Opening balance		11 913 644	6 838 116
Movements			
Movement through other comprehensive income		409 060	-
Movement through profit or loss		3 476 805	2 709 512
Closing balance		15 799 509	9 547 628
Analysis of closing balance:			
Other assets*		1 755 482	854 123
Regulatory provisions reserves	17.3	5 357 076	2 614 061
Mortgage advances	10	8 686 951	6 079 444
		15 799 509	9 547 628

* Other assets impairment represents allowances for bad debts on rent accrued.

4 Non interest income	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$
4.1 Fee and commission income		
Commission	1 205 049	877 769
Service fees	11 203 897	7 383 580
Administration fees	3 591 802	3 962 652
	16 000 748	12 224 001
4.2 Other Income		
Net rental income	762 930	297 833
Loss on sale of property and equipment	(2 102)	-
Fair value adjustment on financial instruments	1 070 795	1 101 624
Total other income	1 831 623	1 399 457

5 Operating expenses	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$
Administration	13 564 882	8 873 650
Depreciation	2 865 933	1 166 573
Staff costs	8 720 686	7 410 831
Total operating expenses	25 151 501	17 451 054

	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
6 Cash and cash equivalents			
Cash balances	33 046 601	24 421 528	28 845 375
Bank balances - Nostro	15 578 096	13 401 495	16 330 350
Bank balances - Local	45 424 144	22 566 534	16 951 489
	94 048 841	60 389 557	62 127 214

7 Financial instruments	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
Financial assets at fair value through profit or loss			
Fixed deposits	112 256 924	117 374 902	128 861 076
Maturity analysis - gross			
On demand to 3 months	87 684 401	96 737 900	108 479 191
3 months to 6 months	24 479 073	20 637 002	-
6 months to 1 year	-	-	20 288 426
1 year to five years	93 450	-	93 459
	112 256 924	117 374 902	128 861 076

8 Other assets	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
8.1 Other financial assets carried at amortised cost			
Sundry debtors	17 382 151	9 996 680	12 807 782
	17 382 151	9 996 680	12 807 782
8.2 Other non financial assets			
Properties in possession	122 772	122 772	122 772
Other assets	622 607	-	211 414
Stock on hand	86 640	86 640	79 419
Inventory- Housing projects	29 076 422	4 073 837	7 043 408
	29 908 441	4 283 249	7 457 013
Total Other assets	47 290 592	14 279 929	20 264 795
9 Intangible asset			
Opening balance	13 522 506	9 906 608	9 906 608
Additions	1 250 909	975 294	3 845 093
Amortisation	(1 449 467)	-	(229 195)
Closing Balance	13 323 948	10 881 902	13 522 506

10 Loans and advances	Notes	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
Gross amount owing		360 749 963	302 886 260	328 262 326
Impairment	3	(8 686 951)	(6 079 444)	(5 951 696)
Loans and advances		352 063 012	296 806 816	322 310 630
Concentration - gross				
Low density housing		94 177 594	93 151 450	95 031 466
High density housing		23 500 898	11 543 272	13 388 350
Individuals		105 397 913	105 397 913	107 770 261
Commercial and industrial		137 673 558	92 793 625	112 072 249
		360 749 963	302 886 260	328 262 326
Maturity analysis - gross				
On demand to 3 months		46 135 325	41 447 255	39 342 718
3 months to 12 months		110 735 303	122 022 472	44 216 382
1 year to five years		86 200 843	34 721 811	92 451 945
Over 5 years		117 678 492	104 694 722	152 251 281
		360 749 963	302 886 260	328 262 326

11 Property and equipment	Land US$	Buildings US$	Office Equipment, Fixtures & Fittings and Vehicles US$	Total US$
Six months ended 30 June 2014				
Opening net book value	4 627 465	38 204 849	7 000 459	49 832 773
Additions	-	32 215	68 051	100 266
Revaluation	79 901	345 803	-	425 704
Disposals	-	-	(23 113)	(23 113)
Depreciation charge	-	(379 623)	(1 036 842)	(1 416 465)
Closing net book value	4 707 366	38 203 244	6 008 555	48 919 165
Six months ended 30 June 2013				
Opening net book value	4 588 696	37 146 482	5 920 517	47 655 695
Additions	-	-	1 327 067	1 327 067
Revaluation	22 050	549 470	-	571 520
Disposals	-	-	-	-
Disposals - accumulated depreciation	-	-	-	-
Depreciation charge	-	(369 726)	(796 847)	(1 166 573)
Closing net book value	4 610 746	37 326 226	6 450 737	48 387 709

NOTES TO THE FINANCIAL STATEMENTS
For The Six Months Ended 30 June 2014

12 Investment property	Land US$	Buildings US$	Total US$
As at 01 January 2014			
Opening fair value	2 662 751	23 726 102	26 388 853
Fair value adjustment	227 483	(341 483)	(114 000)
Closing fair value at 30 June 2014	2 890 234	23 384 619	26 274 853
As at 01 January 2013	**Land US$**	**Buildings US$**	**Total US$**
Opening fair value	2 646 100	23 486 253	26 132 353
Fair value adjustment	12 541	60 609	73 150
Closing fair value at 30 June 2013	2 658 641	23 546 862	26 205 503

13 Deposits	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
Savings certificates	336 190 973	276 431 783	299 697 412
Term deposits	6 075 337	9 086 417	4 608 270
Savings deposits	187 227 650	144 468 847	157 269 482
	529 493 960	429 987 047	461 575 164
Maturity analysis			
On demand to 3 months	417 412 281	321 372 829	415 762 643
3 months to 6 months	23 726 145	70 827 912	35 012 103
6 months to 1 year	68 440 125	14 446 695	9 695 392
1 year to five years	19 915 409	23 339 611	1 105 026
	529 493 960	429 987 047	461 575 164

Concentration	30 June 2014 US$	Percentage %	30 June 2013 US$	Percentage %	31 December 2013 US$	Percentage %
Financial institutions	257 759 238	49.0%	223 156 896	52.0%	194 319 490	42.0%
Companies	160 051 371	30.0%	60 089 288	14.0%	93 248 631	20.0%
Individuals	111 683 351	21.0%	146 740 863	34.0%	174 007 043	38.0%
	529 493 960	100%	429 987 047	100%	461 575 164	100%

14 Credit lines	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
PTA Bank loan	4 928 495	14 000 000	9 333 334
Agritrade funds	99 980	499 980	299 980
Shelter Afrique Loan	14 326 356	4 800 000	14 400 000
Proparco Loan	10 090 411	467 611	410 828
	29 445 242	19 767 591	24 444 142
Maturity analysis			
On demand to 3 months	4 889 565	5 134 278	5 119 852
3 months to 6 months	1 237 535	-	-
6 months to 1 year	290 869	4 666 667	5 035 020
1 year and above	23 027 273	9 966 646	14 289 270
	29 445 242	19 767 591	24 444 142

15 Other liabilities	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
Trade creditors	1 127 501	1 127 929	3 616 231
Group balances	-	10 000 000	10 000 000
Other liabilities	1 265 928	252 434	17 955
Deferred revenue	6 863 719	4 353 013	4 982 820
Unclaimed monies	11 562	12 111	10 563
Withholding taxes payable	(62 690)	95 962	24 289
	9 206 020	15 841 449	18 651 858

16 Provisions	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
Opening balance	3 115 854	12 706 981	12 706 981
- leave pay and bonus provisions	1 480 283	1 532 204	1 532 204
- share based payment	-	256 510	256 510
- Old Mutual Zimbabwe Limited dividend	-	10 000 000	10 000 000
- other	1 635 571	918 267	918 267
Net movements	(811 446)	(10 471 227)	(9 591 127)
Closing balance	2 304 408	2 235 755	3 115 854
- leave pay and bonus provisions	1 310 373	1 455 154	1 480 283
- other	994 035	780 601	1 635 571

17 Share capital and reserves	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
17.1 Ordinary class "A" share capital			
Opening balance	35 000 000	15 000 000	15 000 000
Capitalisation issue during the year	-	20 000 000	20 000 000
Closing balance	35 000 000	35 000 000	35 000 000

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.

17.2 General reserves	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
Opening balance	46 523 940	30 560 857	30 560 857
Net surplus for the period	7 190 018	10 667 191	18 297 037
General provision for loan loss	(409 060)	-	(2 333 954)
Closing balance	53 304 898	41 228 048	46 523 940

17.3 Regulatory provisions reserves	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
Opening balance	4 948 017	2 614 061	2 614 061
Regulatory impairment allowance	409 060	-	2 333 956
Closing balance	5 357 077	2 614 061	4 948 017

17.4 Non distributable reserves	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
Opening balance	1 445 851	21 445 851	21 445 851
Capitalisation issue of Ordinary Class "A" shares	-	(20 000 000)	(20 000 000)
Closing balance	1 445 851	1 445 851	1 445 851

17.5 Revaluation reserves	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
Opening balance	24 747 422	23 572 068	23 572 068
Revaluation of properties	425 704	571 520	1 175 354
Closing balance	25 173 126	24 143 588	24 747 422

17.6 Share based payment reserves	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
Opening balance	2 855 601	1 112 332	1 112 332
Share based payment provision	591 152	950 596	1 743 269
Closing balance	3 446 753	2 062 928	2 855 601

CABS

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Unaudited Financial Results

For the six months ended 30 June 2014

NOTES TO THE FINANCIAL STATEMENTS (continued)

For The Six Months Ended 30 June 2014

18 Financial Risk Management

18.1 Introduction and overview

The Society has exposure to the following risks from its use of financial instruments:

* Credit risk
* Liquidity risk
* Legal and Compliance Risk
* Market risk (foreign exchange and interest rate)
* Operational risk
* Strategic risk
* Reputational risk

This note presents information about the Society's exposure to each of the above risks, the Society's objectives, policies and processes for measuring and managing risk, and the Society's management of capital.

18.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Society's risk management framework. The Board has established the following board committees: the Board Risk & Compliance Committee, Board Loans Review Committee and the Board Credit Committee; which are responsible for developing and monitoring the Society's risk management policies in their specified areas. All board committees have both executive and non executive members and report regularly to the Board of Directors on their activities. The following management committees: the Executive Committee (EXCO); Asset and Liability Committee (ALCO), and the Management Credit Committee, are responsible for implementing the board approved risk strategies and policies, under the oversight of the respective board committees.

The Society's risk management policies are established to identify and analyse risks faced by the Society, to set up appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Society, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Society's Audit Committee is responsible for monitoring compliance with the Society's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Society. The Society's Audit Committee is assisted in these functions by the Old Mutual Group Internal Audit (GIA) and the Society's Internal Audit. Group Internal Audit and the Society`s Internal Audit undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

18.3 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).

Management of credit risk
The Board of Directors has delegated the responsibility for the management of credit risk to the Society's Credit Committee which is responsible for oversight of the Society's credit risk, including:

* 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 Management Credit Committee (MCC). Large facilities require approval by Society's Credit Committee or the Board of Directors.
* Reviewing and assessing credit risk. The society's 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 counter parties, geographies and industries (for loans and advances) and by issuer, credit rating band, market, liquidity and country (for investment securities).
* Reviewing compliance of business units with agreed exposure limits including those for selected industries and product type. 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 business units to promote best practice throughout the Society in the management of credit risk.

Regular audits of the Society's credit processes are undertaken by Group Internal Audit and the Society's Internal Audit.

18.4 Liquidity risk

Liquidity risk is the risk that the Society will encounter difficulty in meeting obligations for its financial liabilities.

Management of liquidity risk
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 general managers. All liquidity policies and procedures are subject to review and approval by ALCO, Board Risk & Compliance Committee and the Board.

Exposure to liquidity risk
The key measure used by the Society for managing liquidity risk 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 borrowing and liabilities maturing within the same short term period. Details of this ratio as at 30 June 2014 are given below.

	30 June2014 US$	30 June 2013 US$	31 December 2013 US$
Total liquid assets	206 305 765	177 764 459	190 988 290
Total liabilities to the public	529 493 960	429 987 047	461 575 164
Liquidity ratio	38.96%	41%	41%
Maximum for the period	41%	42%	45%
Minimum for the period	38%	30%	30%
Average for the period	39%	36%	40%

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 Risk Management Committee.

A summary of the liquidity gap report is given in note 21.

18.5 Compliance Issues

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 our 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, 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 has been compliant with all laws and regulations governing its activities and has not been subject to any fines resulting from non compliance during the six months under review.

18.6 Market risk (foreign exchange and interest rate)

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

Management of market risk
The Society separates its exposure to market risk between trading and non trading portfolios. Trading portfolios mainly are held by the treasury department and include positions arising from market marking and proprietary position taking (on the money market), together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. The Society's risk department is responsible for detailed risk management policies and for the day to day review of their implementation.

A summary of the Society's interest rate repricing and gap analysis is given in note 21.

18.7 Operational risks

Operational risk is the direct and 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.

Management of operational risks
The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. 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
* Reporting of risks and operational losses to the risk department

Compliance with the Society standards is supported by periodic reviews undertaken by Group Internal Audit. The results of these audits are discussed with the management of the business unit to which they relate and summaries are submitted to the Audit Committee and Executive management of the Society.

18.8 Strategic risk

Strategic risk is the impact on earnings and capital of adverse business decisions and implementation of strategies which are inconsistent with internal factors and the external environment.

Management of Strategic risk
The Board of Directors has the ultimate responsibility for setting the strategy of the Society, which has been delegated to the EXCO. A Board approved strategic risk policy is in place. The Society uses a top-down approach in its strategic planning process. The Board and senior management determine and allocate financial/operating targets to departments. Strategic risk mitigation is done through formulation and implementation of operational (action) plans. Monitoring of progress against the action plans is done on a monthly basis. Other mitigation measures include capacity building (recruitment of staff with relevant knowledge and experience and relevant staff training) and access to information on competition, the environment and customer needs.

18.9 Reputational risk

Reputation risk is when a situation, occurrence, business practice or event has the potential to materially influence the public and stakeholders' perceived trust and confidence in the Society.

Management of Strategic risk
The Board has delegated responsibility for effective management of reputation risk to the Board Risk & Compliance Committee and to EXCO. Board approved reputation risk management policies are in place. Line management has the primary responsibility for reputation risk identification and mitigation. Reputation 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 senior management. This facilitates building the Society's reputation capital (through positive information) and minimizing 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.
* Any losses and non-financial impact arising from exposure to reputation risk are captured in the internal risk events log, with controls to mitigate the risk.

19 Risks and Ratings

The Reserve Bank of Zimbabwe conducts regular examinations of 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 Ratings**

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 - April 2014 onsite examination

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 & 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 way 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 proceedures.

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 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 mitigates 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 insitution's overall condition.

Direction of overall composite risk

Increasing - based on the current information, risk is expected to increase in the next 12 months.

Decreasing - based on the current information, risk is expected to decrease in the next 12 months.

Stable - based on the current information, risk is expected to be stable in the next 12 months.

20 Capital Management

The regulator (Reserve Bank of Zimbabwe) monitors capital levels of 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$20 million (as at 31 December 2012) and capital adequacy ratio of 12% as measured by the ratio of total capital to risk weighted assets.

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 capital position as at 30 June 2014 was as follows:

	Unaudited 30 June 2014 US$	Unaudited 30 June 2013 US$	Audited 31 December 2013 US$
Tier 1 Capital	82 102 217	56 877 407	58 590 351
Tier 2 Capital	35 736 192	31 226 886	31 943 985
Tier 3 Capital	5 973 628	5 074 528	6 265 183
Total Capital	123 812 037	93 178 821	96 799 519
Total risk weighted assets	485 322 127	443 030 567	439 540 462
Capital adequacy ratio	26%	21%	22%

21 Liquidity gap report

Total position	On demand to 3 months US$	3 months to 1 year US$	1 year to 5 years US$	Over 5 years US$	Non-Interest bearing US$	Total US$
Assets						
Cash and cash equivalents	94 048 841	-	-	-	-	94 048 841
Financial assets at fair value through profit or loss	87 693 307	24 479 073	84 544	-	-	112 256 924
Loans and advances	46 135 325	110 735 303	144 896 964	50 295 420	-	352 063 012
Other assets	-	-	-	-	47 290 592	47 290 592
Intangible assets	-	-	-	-	13 323 948	13 323 948
Investment property	-	-	-	-	26 274 853	26 274 853
Property and equipment	-	-	-	-	48 919 165	48 919 165
Total Assets	227 877 473	135 214 376	144 981 508	50 295 420	135 808 558	694 177 335
Liabilities and equity						
Deposits	417 412 281	92 166 271	8 348 894	11 566 514	-	529 493 960
Credit lines	4 889 565	1 528 404	15 900 000	7 127 273	-	29 445 242
Other liabilities	-	-	-	-	9 206 020	9 206 020
Provisions	-	-	-	-	2 304 408	2 304 408
Ordinary class "A" share capital	-	-	-	-	35 000 000	35 000 000
Reserves	-	-	-	-	88 727 705	88 727 705
Total liabilities and equity	422 301 846	93 694 675	24 248 894	18 693 787	135 238 133	694 177 335
Liquidity gap	(194 424 373)	41 519 701	120 732 614	31 601 633	570 425	-
Cumulative gap	(194 424 373)	(152 904 672)	(32 172 058)	(570 425)	-	-

22 Repricing gap analysis

Total position	On demand to 3 months US$	3 months to 1 year US$	1 year to 5 years US$	Over 5 years US$	Non-determinant maturity US$	Total US$
Assets						
Cash and cash equivalents	-	-	-	-	94 048 841	94 048 841
Financial assets at fair value through profit or loss	87 693 307	24 479 073	84 544	-	-	112 256 924
Loans and advances	46 135 325	110 735 303	144 896 964	50 295 420	-	352 063 012
Other financial assets	-	-	-	-	47 290 592	47 290 592
Intangible assets	-	-	-	-	13 323 948	13 323 948
Investment property	-	-	-	-	26 274 853	26 274 853
Property and equipment	-	-	-	-	48 919 165	48 919 165
Total Assets	133 828 632	135 214 376	144 981 508	50 295 420	229 857 399	694 177 335
Liabilities						
Deposits	417 412 281	92 166 271	8 348 894	11 566 514	-	529 493 960
Credit lines	4 889 565	1 528 404	15 900 000	7 127 273	-	29 445 242
Other liabilities	-	-	-	-	9 206 020	9 206 020
Provisions	-	-	-	-	2 304 408	2 304 408
Ordinary class "A" share capital	-	-	-	-	35 000 000	35 000 000
Reserves	-	-	-	-	88 727 705	88 727 705
Total liabilities	422 301 846	93 694 675	24 248 894	18 693 787	135 238 133	694 177 335
Net liquidity gap	(288 473 214)	41 519 701	120 732 614	31 601 633	94 619 266	-
Cumulative liquidity gap	(288 473 214)	(246 953 513)	(126 220 899)	(94 619 266)	-	-