2019 ANNUAL REPORT

WE'LL HELP YOU GET THERE

CABS

A Member of the OLDMUTUAL Group

Contents

Directorate and Administration

Board of Directors

W Matsaira BA	BA (UNISA), FIOBZ [Chairman -Appointed 1 Jan 2019]
J Mushosho[1]	BAcc. (UZ), BCompt (SA), FCIS, CA(Z), MBA [Deputy Chairman]
RCD Chitengu (Mrs)	BCom (Fin), GCMA
T Mutaviri (Mrs)	BBS (UZ), MBA (USA)
MJR Dube	BAcc (UZ), MBA (MSU) CA (Z)
DEB Long	BL, MBA
AE Siyavora	B Acc, CA(Z), MBL
B Zamchiya	LLB (Com Law)
A Keller[2]	B Acc, B Compt, CA(SA)
SJ Hammond[3]	B Comm, CA(Z) [Managing Director]
M Mpofu[3]	B Sc Eng., CFA, MBA (Deputy Managing Director)
M Mukonoweshuro[3]	BBS (Hons), CA(Z) [Chief Finance Officer] (reassigned 31 December 2019)

Board Audit Committee

RCD Chitengu (Mrs)	Chairman
DEB Long	Member
MJR Dube	Member

Board Risk and Compliance Committee

DEB Long	Chairman
A Keller	Member (Appointed 1 January 2020)
RCD Chitengu (Mrs)	Member

Board Credit Committee

AE Siyavora	Chairman
DEB Long	Member
A Keller	Member (Appointed 1 January 2020)

Board Loans Review Committee

MJR Dube	Chairman (Appointed 1 January 2020)
T Mutaviri (Mrs)	Member

Executive Committee Members

SJ Hammond	Managing Director [Chairman]
M Mpofu	Deputy Managing Director
E Chibvuri	Head of Retail Banking
E Dzonga	Head of Risk
JTR Jabangwe	General Manager - Operations
P Kudakwashe	Head of Credit
FE Machawira	Head of Compliance
J Mapiye	Head of Treasury
C Mtezo	Marketing Executive
LA Mahara	Acting Chief Finance Officer
CT Ndoro	Head of Corporate Banking
L Taaziva	Head of Information and Communication Technology (ICT)
O Chigavazira	Acting Company Secretary

Asset and Liability Committee

SJ Hammond	Chairman
M Mpofu	Member
E Chibvuri	Member
E Dzonga	Member
JTR Jabangwe	Member
P Kudakwashe	Member
FE Machawira	Member
J Mapiye	Member
C Mtezo	Member
LA Mahara	Member
CT Ndoro	Member
L Taaziva	Member

Regional Councils

Manicaland

FJ Meglic	Chairman
CK Holland	Member
Dr JW Pfumojena	Member

Matabeleland / Midlands

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

Head Office and Registered Office
3 Northend Close, Northridge Park, Highlands,
P O Box 2798, Harare, Zimbabwe
Telephone: +263 (242) 883823
Email: management@cabs.co.zw

Auditors
KPMG
100 The Chase
Emerald Hill, Harare
Tel: +263 (242) 302600 / 303700
Fax: +263 (242) 303699

1 Non-independent Director. Mr J Mushosho was also Managing Director Old Mutual Rest of Africa Segment; and Chief Executive Officer Old Mutual Zimbabwe Limited (OMZIL) of the Society's parent company until 31 December 2019.

2 Non-independent Director. Mr A Keller is the Head of Banking, Old Mutual Limited (based in South Africa).

3 Executive Director

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

Notice to Members

For the Year Ended 31 December 2019

Notice is hereby given that the sixty fifth (65th) Annual General Meeting (AGM) of Members of CABS (the Society) will be held via Microsoft Teams on, Wednesday, 27th May 2020.

ORDINARY BUSINESS

Minutes of last Annual General Meeting

1. To approve minutes of the Annual General Meeting held on 30th April, 2019.

Financial Statements and Statutory Reports

2. To receive, consider and adopt the Financial Statements and Directors' and Auditors' Reports for the financial year ended 31st December, 2019.

Directorate

3. Messrs. MJR Dube and DEB Long, and Mrs. RCD Chitengu retire by rotation in terms of Rule 71 of the CABS Rules and being eligible, offer themselves for re-election.

4. To confirm the remuneration of Directors amounting to ZWL1.53 million for the year ended 31 December 2019.

Dividends

5. To note that no dividend is payable for the year ended 31 December 2019 on account of the need to preserve capital.

External Auditors

6. To fix the remuneration for the past year's audit.

7. To elect an independent auditor for the ensuing year.

8. **Custodial and Trusteeship Licences**
   To note that, following the merger of CABS Custodial Services (Private) Limited with the Society, the Society has been issued with Custodial Services and Trusteeship licences by the Securities Exchange Commission of Zimbabwe with effect from January 2020.

SPECIAL BUSINESS

9. Increase of Authorised Capital
   To pass with or without amendment the following resolution:

   (i) That the Authorised Share Capital of the Society be, and is, hereby increased from thirty five million (35 000 000) Ordinary Class "A" Shares of ZWL1 each to four hundred and eighty nine million (489 000 000) Ordinary Class "A" Shares of ZWL each.
   (ii) That notwithstanding the date of signing of this resolution it shall be deemed to be effective from 31 December 2019.

Notice to Members (continued)
For the Year Ended 31 December 2019

10. **Capitalisation of Reserves**
    To note the following resolution passed by round robin:

    "Having duly considered the need to capitalize reserves to ensure the adequacy of operational and regulatory capital, as outlined by the Board of the Society, Old Mutual Zimbabwe Limited, being Member holding 100% of the Paid-Up Capital of the Society,

    RESOLVES:
    That the Directors of the Society be, and are, hereby authorized to transfer from Revaluation and Non-Distributable Reserves amounts totalling ZWL454 000 000 (Four hundred and fifty-four million Zimbabwean Dollars) to Ordinary Share Capital with effect from 31 December 2019".

11. **Signing of Financial Statements**
    That any two Directors be and are hereby empowered, authorized and directed to sign on behalf of the Society the financial statements for the year ended 31 December 2019.

12. That any actions taken by the Directors of the Society to carry out the foregoing resolutions prior to their adoption are approved ratified and confirmed.

13. **Any other Business**
    To transact all such other business as may be transacted at an Annual General Meeting.

ELECTRONIC ANNUAL REPORT

The Society's 2019 Annual Report is now available on the Society's website www.cabs.co.zw.

By Order of the Board

Onias Chigavazira
ACTING GROUP COMPANY SECRETARY

Registered Office
3 Northend Close
Northridge Park
Highlands
Harare

20 May, 2020

Annual Financial Review
For the Year Ended 31 December 2019

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
ASSETS				
Cash and cash equivalents	1 405.55	1 040.66	1 405.55	167.48
Investment securities	386.50	2 069.54	386.50	333.07
Other assets	791.64	689.28	558.79	93.02
Loans and advances	1 487.03	4 849.50	1 487.03	779.65
Non-current assets held for sale	10.76	6.47	10.76	1.04
Property and equipment	724.82	431.58	573.49	63.42
Investment property	227.86	145.97	227.86	23.49
Intangible assets	58.65	65.75	8.08	7.86
Total assets	**5 092.81**	**9 298.75**	**4 658.06**	**1 469.03**
LIABILITIES				
Deposits	2 740.78	7 334.20	2 740.78	1 167.23
Credit lines	897.60	331.17	897.60	53.30
Trade and other liabilities	243.13	311.42	148.00	45.85
Provisions	24.72	30.97	24.72	4.98
Deferred taxation	37.63	20.90	37.63	3.29
Shareholder's equity	1 148.95	1 270.09	809.33	194.38
Total liabilities	**5 092.81**	**9 298.75**	**4 658.06**	**1 469.03**
Income and expenses				
Net interest income	288.96	617.36	107.71	76.12
Impairment	(6.11)	(74.73)	(13.42)	(8.26)
Income from lending activities	282.85	542.63	94.29	67.86
Net non interest income	279.42	387.33	345.60	43.37
Impairment	(23.41)	(33.74)	(23.41)	(3.70)
	538.86	**896.22**	**416.48**	**107.53**
Operating expenses	(456.88)	(458.60)	(193.98)	(54.00)
- Administration	(200.46)	(199.88)	(98.15)	(23.95)
- Depreciation	(91.80)	(81.24)	(14.76)	(8.62)
- Staff costs	(164.62)	(177.48)	(81.07)	(21.43)
	81.98	**437.62**	**222.50**	**53.53**
Impairment on non financial assets	(10.01)	(20.29)	(3.52)	(4.29)
Monetary loss	(231.25)	(245.64)	-	-
Net (loss)/surplus for the year	**(159.28)**	**171.69**	**218.98**	**49.24**

Annual Financial Review (continued)
For the Year Ended 31 December 2019

	Unaudited 31 December 2019 ZWLm	Historical 31 December 2018 ZWLm
Tier 1 Capital		
Ordinary class "A" share capital	35.00	35.00
Retained earnings	302.06	127.35
Exposures to insiders and connected parties	(4.10)	(15.90)
Less Tier 1 allocated to market risk	(8.29)	-
Less Tier 1 allocated for operational risk	(22.91)	(15.87)
Total Tier 1 Capital	**301.76**	**130.58**
Tier 2 Capital		
Revaluation reserve (limited by Tier 1)	290.40	19.63
General provisions (limited to 1.25% of TRWA)	32.17	13.00
Other	10.39	7.28
Total Tier 2 Capital	**332.96**	**39.91**
Tier 3 Capital		
Tier 1 allocated to market risk	8.29	-
Tier 1 allocated for operational risk	22.91	15.87
Total Tier 3 Capital	**31.20**	**15.87**
Total Regulatory capital	**665.92**	**186.36**
Total risk weighted assets	**2 573.22**	**1 040.08**
Capital adequacy ratio	26%	18%
Regulatory minimum capital adequacy ratio	12.00%	12.00%
Liquidity ratio	**49.25%**	**41.01%**
• Total liquid assets	1 792.05	500.55
• Total liabilities to the public	3 638.38	1 220.53
Return on average assets	**7.15%**	**6.70%**
• Surplus for the year	218.98	49.24
• Average assets	3 063.54	734.52
Return on equity	**27.06%**	**25.33%**
• Surplus for the year	218.98	49.24
• Shareholder's equity	809.33	194.38
Cost to income ratio	**74.30%**	**46.64%**

Chairman's Statement
For the Year Ended 31 December 2019

Dear Shareholder

Financial Results
Our results for 2019 reflect resilience in the face of a challenging macro-economic environment.

The Zimbabwe dollar was reintroduced in 2019 after a decade of using multi-currencies. Average month on month inflation for 2019 was 17%, while by the end of the year the local currency was trading at 17 to the United States dollar on the interbank market. With the changes in the economic environment, the Society witnessed a significant loss in the value of its monetary assets and liabilities.

Inflationary pressures over the past year have narrowed the Society's inflation adjusted and historical net income margins. Inflation adjusted net interest income declined from ZWL617m in 2018 to ZWL290m in 2019 due to subdued effective interest rates in the current period compared to 2018. Inflation adjusted non-interest income declined from ZWL387m in 2018 to ZWL279m in 2019 as disposable incomes were negatively affected by the inflationary environment. Asset quality improved resulting in the Non-Performing Loans ratio declining to 2.0% from 5.8% in 2018. The Society recorded an inflation adjusted net loss of ZWL159m in 2019.

Inflation adjusted gross loans and advances fell by 70% from ZWL5.08b to ZWL1.54b and inflation adjusted deposits fell by 63% from ZWL7.33b to ZWL2.74b. The Society's investment in real assets moved from ZWL408m to ZWL741m in 2019. The Society's regulatory capital increased from ZWL186m to ZWL666m in 2019 with Capital adequacy ratio improving from 18% in 2018 to 26% in 2019. Inflation adjusted total assets declined by 45% from ZWL9.3b to ZWL5.1b as financial assets' growth failed to match inflation.

Human Resources
The difficult operating environment has not spared our staff. However, we remain committed to preserving their well being. The Society has taken bold steps to relieve staff from the economic challenges. Consequently, industrial relations remained cordial throughout the year. The Society continues to invest in the training and upskilling of staff.

Operations
As cybercrime has increasingly become a global challenge, the Society has taken active steps to manage risks presented by this trend. The steps taken during the year include; the introduction of the CABS chip and pin debit cards, automation of the reconciliation processes, and introduction of the CABS mobile app 2.0 with enhanced security and functionality. The Society will continue to invest in systems to help manage cybercrime risk.

Recognition
The Society attained the 1st runner up for the Best Smart Technology in the banking sector under the Zimbabwe Smart-Tech Business editors' award for 2019.

Corporate Social Responsibility and Responsible Business
The Society recognises the need to invest in the communities in which it operates. Through the Old Mutual Group, it was involved in the Cyclone Idai relief efforts in 2019. The Society was also involved in various initiatives in support of education, sports, and culture throughout the country. These initiatives include the T20 cricket, golf, and national institute of allied arts sponsorship to primary schools.

The Society continues to extend funding to sectors such as agriculture, mining, and manufacturing which are the back bone of the economy.

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

Compliance Issues
The Society was largely compliant with its regulatory requirements.

Board and Senior Executive Changes
After 5 years as the Managing Director of CABS, Mr. Hammond proceeds on pre-retirement leave at the end of March 2020. Mr. Mpofu, who was previously the Deputy Managing Director for CABS has been appointed to succeed Mr. Hammond. On behalf of the Board, Management and Staff, I would like to extend our most sincere appreciation to Mr. Hammond for his contribution to CABS. We wish him the best during his retirement.

Chairman's Statement
For the Year Ended 31 December 2019

On 31 December 2019, the Society bade farewell to Mr. Zamchiya and Mr. Mukonoweshuro. Mr Zamchiya retired from the Board after seven years of service to the Society. Mr Mukonoweshuro took up another assignment within the Old Mutual Zimbabwe Group. He had served the Society for 4 years as the Chief Finance Officer. Mrs Loveness Mahara was appointed as the Acting Chief Finance Officer with effect from 1 January 2020.

The Board would like to thank Mr. Zamchiya and Mr. Mukonoweshuro for their great contribution in enhancing stakeholder value and wish them well in all their future endeavours.

Outlook
The outlook points to challenges on several fronts. The Society will focus on supporting customers and staff, ensuring that shareholder value is preserved and positioning the bank for the future. CABS will continue its digital transformation initiatives in the outlook period.

I thank the Board of Directors and staff for their dedication and hard work, and most importantly our customers for their support under these challenging conditions.

Washington Matsaira

Chairman
4 May, 2020

Report of the Directors'
For the Year Ended 31 December 2019

Responsibility
The Directors are responsible for the preparation and fair presentation of the Financial Statements of the Society in accordance with the applicable Financial Reporting Framework for entities in Zimbabwe, including the requirements of the Building Societies Act (Chapter 24:02). Financial Statements comprise the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the Notes to the Financial Statements.

The Directors are also responsible for such internal controls as they determine are necessary for the Financial Statements to be free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective risk management system.

Based on their assessment, the Directors are satisfied that the Society will continue to operate as a going concern into the foreseeable future.

The Independent Auditor is responsible for reporting on whether the Financial Statements approved by the Board are fairly presented in accordance with the applicable Financial Reporting Framework.

Compliance with legislation
These inflation adjusted Financial Statements are based on the application of the consumer price index on underlying accounting records that were maintained on the historical cost convention (except for fair value measurement where applicable), have been properly prepared in accordance with the Society's accounting policies, and comply with the disclosure requirements of the Building Societies Act (Chapter 24:02).

Compliance with IFRSs
The Financial Statements are prepared with the aim of complying fully with International Financial Reporting Standards ("IFRS"). IFRSs comprise interpretations adopted by the International Accounting Standards Board ("IASB"), which includes standards adopted by the IASB and interpretations developed by the International Financial Reporting Interpretations Committee or by the former Standing Interpretations Committee. Complying with IFRSs achieves consistency with the financial reporting framework adopted by the ultimate holding company, Old Mutual Limited, which is incorporated in South Africa.

While full compliance with IFRSs has been possible in previous reporting periods, only partial compliance was achieved in 2018, and this has had a carry-over effect on the comparative information presented in the 2019 Financial Statements. The IFRS Conceptual Framework, provides that in applying fair presentation to the Financial Statements, entities should go beyond consideration of the legal form of transactions and other factors impacting on the Financial Statements to also consider the underlying economic substance therein. International Accounting Standard 21 "The Effects of Changes in Foreign Exchange rates" (IAS21) requires an entity to apply certain parameters in determining the functional currency of an entity, for use in preparing its Financial Statements. IAS 21 also requires an entity to make certain judgements around appropriate exchange rates to be applied between currencies where exchangeability through a legal exchange mechanism (such as a formal currency market) is not achievable. In February 2019, the Government of Zimbabwe issued Statutory Instrument 33 of 2019 ("SI 33"), which, based on our legal interpretation, for accounting and other purposes, prescribes parity between the US Dollar and local currency as at and up to the effective date of 22 February 2019, and also prescribed the manner in which certain balances in the Financial Statements may be treated as a consequence of the recognition of the Zimbabwe Dollar as currency in Zimbabwe.

In our opinion, the requirement to comply with SI 33 has created inconsistencies with IAS 21 as well as with the principles embedded in the IFRS Conceptual Framework (see also guidance issued by the Public Accountants and Auditors Board on 21 March 2019). This has resulted in an accounting treatment being adopted in the 2018 Financial Statements and also in part of the 2019 financial year covered by SI 33 (January and February 2019), which is different from that which would have been adopted if the Society had been able to comply with IFRS. As such, the Directors and Management have been unable to produce Financial Statements which in their view would be true and fair and therefore, urge users of the Financial Statements to exercise due caution.

The impact of non-compliance with IAS 21 is not considered material for the months of January and February 2019 which also fall under the period defined in SI 33.

The Directors are not aware of any other areas of non-compliance with IFRS in the 2019 Financial Statements besides those related to IAS 21. However, the Directors would like to draw the attention of users of the Financial Statements to the fact that the prevailing market conditions in Zimbabwe have required an increased use of Management judgement than would normally be the case in the area of property valuations and measurement of legacy debt assets registered with the Reserve Bank of Zimbabwe. In addition, there are a wide range of views in the market concerning economic variables such as inflation and exchange rates.

Report of the Directors (continued)
For the Year Ended 31 December 2019

Financial results and appropriations
The financial results of the Society and appropriations for the year ended 31 December 2018 are summarised below. The detailed financial statements are set out on pages 22 - 85 of this Annual Report.

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
Results of operations				
Net interest income	288.96	617.36	107.71	76.12
Impairment loss on interest earning financial assets	(6.11)	(74.73)	(13.42)	(8.26)
Income from lending activities	**282.85**	**542.63**	**94.29**	**67.86**
Net non-interest income	279.42	387.33	345.60	43.37
Impairment loss on non-interest earning financial assets	(23.41)	(33.74)	(23.41)	(3.70)
Income from non-lending activities	**256.01**	**353.59**	**322.19**	**39.67**
Operating income	**538.86**	**896.22**	**416.48**	**107.53**
Operating expenses	(456.88)	(458.60)	(193.98)	(54.00)
Impairment on non financial assets	(10.01)	(20.29)	(3.52)	(4.29)
Monetary loss	(231.25)	(245.64)	-	-
Net surplus for the year before appropriations	**(159.28)**	**171.69**	**218.98**	**49.24**
The appropriations for the year are as follows:-				
Transfer to retained earnings	(159.28)	171.69	218.98	49.24
Regulatory impairment allowance	26.48	(32.18)	(0.52)	(5.18)
Dividends on ordinary class "A" share capital	-	(213.20)	-	(25.00)
	(132.80)	**(73.69)**	**218.46**	**19.06**

Inflationary pressures over the past year have narrowed the Society's restated and historical net income margins. Restated net interest income declined from ZWL617m in 2018 to ZWL289m in 2019 due to subdued effective interest rates in the current period compared to 2018. Non-interest income declined from ZWL387m in 2018 to ZWL279m in 2019 as disposable incomes were negatively affected by the inflationary environment. Asset quality improved resulting in the Non-Performing Loans ratio declining to 2.0% from 5.8% in 2018. The Society recorded a restated net deficit of ZWL159m in 2019.

Share Capital and reserves
Details of share capital of the Society are set out in note 20 to the Society's financial statements. There were no movements during the year except for IAS 29 restatements.

Going concern
The Directors have assessed the ability of the Society to continue operating as a going concern and believe that the preparation of Financial Statements using the going concern assumption is still appropriate. Additional detail on using this basis is provided in note 29. In addition, given the COVID-19 virus that has been declared a global pandemic by the World Health Organisation, the Directors have found it prudent to add additional disclosure in the Financial Statements on the possible impact to the business as detailed in note 30. The significant doubt associated with current uncertainties related to the COVID 19 virus at this time does not result in a material uncertainty related to events or conditions that may cast doubt on the Society's ability to continue operating as a going concern. However, considering the nature of the uncertainties, note 30 discloses the potential areas of short to medium term risk for the Society.

These financial statements were approved by the Board of Directors on 4 May 2020 and were signed on its behalf by:

W MATSAIRA
CHAIRMAN

RCD CHITENGU (MRS)
NON EXECUTIVE DIRECTOR

Harare
4 May, 2020

Corporate Governance Statement
For the Year Ended 31 December 2019

The Board adheres to the principles of corporate governance derived from the Reserve Bank Corporate Governance Guidelines, the Banking Act (Chapter 24:20), the Building Societies Act (Chapter 24:02), the Zimbabwean National Code on Corporate Governance and the Old Mutual Emerging Markets Corporate Governance framework as well as corporate governance best practice. The CABS Code of Conduct and CABS Board Charter are available to Directors for reference regarding their fiduciary duties and obligations. The Directors are aware that they may take independent professional advice at the Society's expense, if necessary, for the furtherance of their duties.

The Board and Director evaluation process is carried out annually as prescribed in the Reserve Bank of Zimbabwe Board and Director Evaluation Framework.

Board Composition
For the period ended 31 December 2019 the Board comprised; three (3) Executive Directors, four (4) Non-Executive Directors and five (5) Independent Non-Executive Directors, as shown under the table below.

Board and Board Committee meeting attendance
During the period ended 31 December 2019, the Board and its four Committees met at least five times. This included a strategy day where directors engaged with Management on the Society's strategy for the forthcoming year.

	Director	Main Board	Audit Committee	Risk and Compliance Committee	Credit Committee	Loans Review Committee
	Number of meetings held	**5**	**5**	**4**	**4**	**4**
1.	W Matsaira[1]	5	-	-	-	-
2.	RCD Chitengu[2]	4	5	3	-	-
3.	DEB Long[2]	4	4	3	3	-
4.	AE Siyavora[2]	4	-	-	4	-
5.	MJR Dube[2]	4	4	-	4	-
6.	B Zamchiya[3]	3	-	4	-	4
7.	J Mushosho[4]	5	-	-	-	-
8.	T Mutaviri[4]	4	-	-	-	4
9.	A Keller[4]	5	-	-	-	4
10.	SJ Hammond[5]	5	-	-	-	-
11.	M Mpofu[5]	5	-	-	-	-
12.	M Mukonoweshuro[6]	5	-	-	-	-

1. Independent Non-Executive Director. Appointed to the Board as Chairman on 1 January 2019.
2. Independent Non-Executive Director.
3. Non-Executive Director. Mr. B Zamchiya retired from the Board with effect from 31 December 2019.
4. Non-Executive Director.
5. Executive Director.
6. Executive Director. Mr. M Mukonoweshuro resigned from the Board with effect from 31 December 2019

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

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

The members of this Committee currently comprise three non-executive Directors and it is chaired by an independent and non-executive Director. The Committee met five times during the year ended 31 December 2019.

Corporate Governance Statement (continued)

For the Year Ended 31 December 2019

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

The Board Risk and Compliance Committee comprises three non-executive Directors and is chaired by an independent non-executive Director. The Committee met four times during the year ended 31 December 2019.

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

The Board Credit Committee currently comprises three independent and non-executive Directors and is chaired by an independent non-executive Director. The Board Credit Committee met four times during the year ended 31 December 2019.

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

The Committee currently comprises three non-executive Directors and is chaired by an independent non-executive Director. The Board Loans Review Committee met four times during the year ended 31 December 2019.

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

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

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

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

1. **Credit risk**
   The MCC is responsible for implementing the Board approved risk management strategies and policies for the management of credit risk under the oversight of the Board Credit Committee. The applicable activities include:
   - Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements;

Corporate Governance Statement (continued)

For the Year Ended 31 December 2019

- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Senior Managers, members of MCC, the Board Credit Committee and the Board of Directors according to the size of facility;
- Reviewing and assessing credit risk. The Society's Board Credit Committee assesses all credit exposures in excess of designated limits prior to facilities being committed to customers. Renewal and review of facilities are subject to the same review process;
- Limiting concentration of exposure to counter-parties, geographies and industries (for loans and advances) and by issuer, credit rating band, market and liquidity (for investment securities);
- Reviewing compliance with agreed exposure limits including those for selected industries and product types. Regular reports are provided to the Society's Board Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken;
- Providing advice, guidance and specialist skills to promote best practice throughout the Society in the management of credit risk; and
- Regular audits of the Society's credit processes are undertaken by the Old Mutual Group Internal Audit and the Society's Internal Audit.

Capital requirements for credit risk are subject to Basel II Modified Standardised approach.

2. Liquidity risk

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

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

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

3. Compliance risk

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

4. Market risk (Foreign Exchange and Interest Rate)

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

5. Operational risk

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

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

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

Corporate Governance Statement (continued)
For the Year Ended 31 December 2019

6. Strategic risk

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

7. Reputational risk

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

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

Risks and ratings

The RBZ conducts regular examinations of the banks and financial institutions it regulates. The latest Onsite Examination of the Society was in May 2018 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	May 2018 Ratings
Capital	1 - Strong
Asset Quality	3 - Fair
Management	3 - Fair
Earnings	1 - Strong
Liquidity and funds management	2 - Satisfactory
Sensitivity to market risk	2 - Satisfactory
Overall composite rating	2 - Satisfactory

Key

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

Summary of Risk Matrix - for RBZ Onsite Inspection of May 2018

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

Corporate Governance Statement (continued)

For the Year Ended 31 December 2019

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 must be recognised and are being addressed. Management information systems are generally adequate.
Strong	Management effectively identifies and controls all types of risk areas posed by the relevant functional areas or per inherent risk. The Board and senior management are active participants in managing risk and ensure appropriate policies and limits are in place. The policies comprehensively define the banking institution's risk tolerance. Responsibilities and accountabilities are effectively communicated.

Overall composite risk

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

Direction of overall composite risk

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

Internal control environment

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

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

Monitoring of controls

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

Corporate Governance Statement (continued)
For the Year Ended 31 December 2019

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

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

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

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

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Independent Auditors' Report

To the shareholder of Central Africa Building Society

Adverse Opinion

We have audited the inflation adjusted financial statements of Central Africa Building Society ("the Society") set out on pages 22 to 86 which comprise the inflation adjusted statement of financial position as at 31 December 2019, and the inflation adjusted statement of profit or loss and other comprehensive income, the inflation adjusted statement of changes in equity and the inflation adjusted statement of cash flows for the year then ended, and notes to the inflation adjusted financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters described in the *Basis for Adverse Opinion* section of our report, the inflation adjusted financial statements do not present fairly the inflation adjusted financial position of Central Africa Building Society Limited as at 31 December 2019, and its inflation adjusted financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and in the manner required by the Building Societies Act (Chapter 24:02).

Basis for Adverse Opinion

Non-compliance with International Financial Reporting Standards IAS 21- The Effects of Changes in Foreign Exchange Rates (IAS 21) in the prior and current financial year and inappropriate application of IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)

As described in note 1.5 to the inflation adjusted financial statements for the period 1 January 2019 to 22 February 2019 the Society applied the United States dollar (US$) as its functional currency. In order to comply with Statutory Instrument 33 (S.I. 33), issued on 22 February 2019, the Society changed its functional currency to the Zimbabwe dollar (ZWL) with effect from this date. S.1.33 precluded the use of any other currency other than US$ as functional currency prior to 22 February 2019 and this impacted on the financial statements as at 31 December 2018.The inflation adjusted financial statements are presented in Zimbabwe dollar, also referred to as the RTGS dollar in S.I.33.

The directors, based on their interpretation of IAS 21, acknowledged that there was a functional currency change in the prior year from the US$ to RTGS dollar, with effect from 1 October 2018, and that the market exchange rate between the US$ and RTGS dollar was not 1:1, the Society accounted for the change in functional currency prospectively from 22 February 2019 in compliance with S.1 33. This constitutes a departure from the requirements of IAS21 due to the need to comply with local regulations as enunciated under S.1 33. An adverse opinion was issued in the prior year for the departure from IAS 21. The Society has not restated the inflation adjusted financial statements, as required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors,* to resolve the matters which resulted in the adverse opinion in the prior year relating to the non-compliance with IAS 21, and therefore the matter continued into 2019.

Due to the matters discussed above, we were unable to obtain sufficient appropriate audit evidence that the closing balances as at 31 December 2018 were free of material misstatement and have been brought forward correctly. We were unable to satisfy ourselves by alternative means concerning the opening balances. Since opening balances have a bearing into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the movements in the statement of profit and loss and other comprehensive income, the statement of cash flows and the changes in equity.

Hyperinflation reporting
In addition, as described in note 1.3 and 1.5 to the inflation adjusted financial statements, Zimbabwe became a hyperinflationary economy on 1 July 2019. IAS 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29) has been applied to the 2018 comparatives with effect from1 January 2018. IAS29 has also been applied to the incorrect balances due to non-compliance with IAS 21 and IAS 8 as commented on above.

RBZ legacy debt asset
As described in note 9 to the inflation adjusted financial statements, included in other assets is a foreign currency denominated legacy debt asset amounting to ZWL259.66 million (net of impairment of ZWL 230.42 million) , related to the foreign liabilities of ZWL 423.04 million included in note 16 and ZWL67.04 million included in note 17 to the inflation adjusted financial statements. These foreign currency denominated liabilities were registered with the Reserve Bank of Zimbabwe (RBZ) during the year, in line with the Monetary Policy announcement made on 20 February 2019. The directors believe that the RBZ will assist the Society with sourcing foreign currency and settling the liabilities at a rate of US$1:1ZWL. As at the date of this report, there is no legally binding instrument that had been issued by the RBZ that defines how this commitment will be implemented and the specific terms and conditions thereof in order to settle such foreign liabilities on a 1:1 basis. Consequently, we were unable to obtain sufficient appropriate audit evidence to support the recognition and measurement of the foreign currency denominated legacy debt asset in terms of IFRS.

The effects of the above departures from IFRS are material and pervasive to the inflation adjusted financial statements.

The impact of uncertainties due to the Covid-19 on our audit
Note 30 to the inflation adjusted financial statements, deals with subsequent events and specifically the possible effects of the future implications of COVID-19 on the Society's future prospects, performance and cashflows. Management have also described how they plan to deal with these events and circumstances.

KPMG

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Inflation Adjusted Financial Statements* section of our report. We are independent of the Society in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the inflation adjusted financial statements in Zimbabwe, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the inflation adjusted financial statements of the current period. These matters were addressed in the context of our audit of the inflation adjusted financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Except for the matters described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to be communicated in our report.

Other Information

The Directors are responsible for the other information. The other information comprises the Directorate and Administration information, Notice to Members, Annual Financial Review, Chairman's Statement, Report of the Directors, Corporate Governance Statement, and the unaudited financial information in the inflation adjusted financial statements titled "Unaudited Historical, but does not include the financial statements and our auditors' report thereon.

Our opinion on the inflation adjusted financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the inflation adjusted financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the inflation adjusted financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the Basis for Adverse Opinion section above, the Society should have accounted for the change in functional currency from US$ to RTGS in the prior year and should have translated its US$ transactions and balances to local currency using a rate determined in accordance with IAS 21. We have therefore concluded that the other information is materially misstated for the same reason with respect to the financial information in the Directorate and Administration, Notice to Members, Annual Financial Review, Chairman's Statement, Report of the Directors, Corporate Governance Statement and inflation adjusted financial statements titled "Unaudited Historical", affected by the failure to comply with the requirements of IAS 21.

Responsibilities of the Directors for the Inflation Adjusted Financial Statements

The directors are responsible for the preparation and fair presentation of the inflation adjusted financial statements in accordance with International Financial Reporting Standards and the requirements of the Building Societies Act (Chapter 24:02) and for such internal control as the directors determine is necessary to enable the preparation of the inflation adjusted financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the inflation adjusted financial statements, the directors are responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Inflation Adjusted Financial Statements

Our objectives are to obtain reasonable assurance about whether the inflation adjusted financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these inflation adjusted financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the inflation adjusted financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the inflation adjusted financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Society to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of inflation adjusted financial statements, including the disclosures, and whether the inflation adjusted financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the inflation adjusted financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

Themba Mudidi
Registered Auditor
PAAB Practicing Certificate Number 0437

Date: 4 May 2020

For and on behalf of **KPMG Chartered Accountants (Zimbabwe), Reporting Auditor**
Mutual Gardens
100 The Chase West
Emerald Hill
Harare
Zimbabwe

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2019

	Notes	Audited Inflation Adjusted 31 December 2019 ZWLm	Audited Inflation Adjusted 31 December 2018 ZWLm	Unaudited Historical 31 December 2019 ZWLm	Unaudited Historical 31 December 2018 ZWLm
Interest income	2	488.04	883.88	188.92	108.57
Interest expense	2	(199.08)	(266.52)	(81.21)	(32.45)
Net interest income before impairment loss on financial assets		288.96	617.36	107.71	76.12
Impairment loss on interest earning financial assets	3	(6.11)	(74.73)	(13.42)	(8.26)
Income from lending activities		**282.85**	**542.63**	**94.29**	**67.86**
Fee and commission income	4.1	432.64	548.48	209.12	66.86
Fee and commission expense	4.1	(202.59)	(214.10)	(98.98)	(26.18)
Net fee and commission income		230.05	334.38	110.14	40.68
Other income	4.2	49.37	52.95	235.46	2.69
Net non-interest income before impairment loss on financial assets		279.42	387.33	345.60	43.37
Impairment loss on non-interest earning financial assets	3	(23.41)	(33.74)	(23.41)	(3.70)
Income from non-lending activities		**256.01**	**353.59**	**322.19**	**39.67**
Operating income for the year		**538.86**	**896.22**	**416.48**	**107.53**
Operating expenses	5	(456.88)	(458.60)	(193.98)	(54.00)
Impairment loss on non-financial assets	3	(10.01)	(20.29)	(3.52)	(4.29)
Monetary loss		(231.25)	(245.64)	-	-
Net (loss)/surplus for the year		**(159.28)**	**171.69**	**218.98**	**49.24**
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss net of tax		**252.67**	**30.88**	**432.97**	**(4.32)**
Movement in revaluation reserve		226.19	63.06	433.49	0.86
Movement in regulatory reserve		26.48	(32.18)	(0.52)	(5.18)
Total comprehensive income for the year		**93.39**	**202.57**	**651.95**	**44.92**

Statement of Financial Position

As at 31 December 2019

		Audited Inflation Adjusted		Unaudited Historical	
		31 December	31 December	31 December	31 December
		2019	2018	2019	2018
	Notes	ZWLm	ZWLm	ZWLm	ZWLm
ASSETS					
Cash and cash equivalents	7	1 405.55	1 040.66	1 405.55	167.48
Investment securities	8	386.50	2 069.54	386.50	333.07
Other assets	9	791.64	689.28	558.79	93.02
Loans and advances	10	1 487.03	4 849.50	1 487.03	779.65
Non-current assets held for sale	11	10.76	6.47	10.76	1.04
Property and equipment	12	724.82	431.58	573.49	63.42
Investment property	13	227.86	145.97	227.86	23.49
Intangible assets	14	58.65	65.75	8.08	7.86
Total assets		**5 092.81**	**9 298.75**	**4 658.06**	**1 469.03**
LIABILITIES					
Deposits	15	2 740.78	7 334.20	2 740.78	1 167.23
Credit lines	16	897.60	331.17	897.60	53.30
Other liabilities	17	243.13	311.42	148.00	45.85
Provisions	18	24.72	30.97	24.72	4.98
Deferred taxation	19	37.63	20.90	37.63	3.29
Total liabilities		**3 943.86**	**8 028.66**	**3 848.73**	**1 274.65**
SHAREHOLDER'S EQUITY					
Ordinary class "A" share capital	20.1	309.01	309.01	35.00	35.00
Retained earnings	20.2	669.19	801.99	345.79	127.33
Regulatory provision reserve	20.3	5.70	32.18	5.70	5.18
Non distributable reserve	20.4	12.77	12.77	1.45	1.45
Revaluation reserve	20.5	289.25	63.06	453.12	19.63
Share based payment reserve	20.6	51.25	51.08	5.82	5.79
Foreign currency translation reserve	20.7	(188.22)	-	(37.55)	-
		1 148.95	**1 270.09**	**809.33**	**194.38**
Total equity and liabilities		**5 092.81**	**9 298.75**	**4 658.06**	**1 469.03**

W MATSAIRA
CHAIRMAN

RCD CHITENGU (MRS)
NON-EXECUTIVE DIRECTOR

HARARE
4 May, 2020

Statement of Changes in Equity
For the Year Ended 31 December 2019

	Audited Inflation Adjusted							
	Share capital ZWLm	Retained earnings ZWLm	Regulatory provision reserves ZWLm	Non distributable reserves ZWLm	Revaluation reserves ZWLm	Share based payment reserves ZWLm	Foreign currency translation reserve ZWLm	Total equity ZWLm
Balance as at 1 January 2019	**309.01**	**801.99**	**32.18**	**12.77**	**63.06**	**51.08**	**-**	**1 270.09**
Net loss	-	(159.28)	-	-	-	-	-	(159.28)
Revaluation	-	-	-	-	226.19	-	-	226.19
Change in functional currency	-	-	-	-	-	-	(188.22)	(188.22)
Regulatory provisions	-	26.48	(26.48)	-	-	-	-	-
Share based payment reserves	-	-	-	-	-	0.17	-	0.17
Balance as at 31 December 2019	**309.01**	**669.19**	**5.70**	**12.77**	**289.25**	**51.25**	**(188.22)**	**1 148.95**

	Audited Inflation Adjusted							
	Share capital ZWLm	Retained earnings ZWLm	Regulatory provision reserves ZWLm	Non distributable reserves ZWLm	Revaluation reserves ZWLm	Share based payment reserves ZWLm	Foreign currency translation reserve ZWLm	Total equity ZWLm
Balance as at 1 January 2018	**309.01**	**890.87**	**158.54**	**12.77**	**-**	**49.68**	**-**	**1 420.87**
Impact of adopting IFRS 9	-	(15.19)	(158.54)	-	-	-	-	(173.73)
Restated balance as at 1 January 2018	**309.01**	**875.68**	**-**	**12.77**	**-**	**49.68**	**-**	**1 247.14**
Net surplus	-	171.69	-	-	-	-	-	171.69
Revaluation	-	-	-	-	63.06	-	-	63.06
Dividends paid	-	(213.20)	-	-	-	-	-	(213.20)
Regulatory provisions	-	(32.18)	32.18	-	-	-	-	-
Share based payment	-	-	-	-	-	1.40	-	1.40
Balance as at 31 December 2018	**309.01**	**801.99**	**32.18**	**12.77**	**63.06**	**51.08**	**-**	**1 270.09**

	Unaudited Historical							
	Share capital ZWLm	Retained earnings ZWLm	Regulatory provision reserves ZWLm	Non distributable reserves ZWLm	Revaluation reserves ZWLm	Share based payment reserves ZWLm	Foreign currency translation reserve ZWLm	Total equity ZWLm
Balance as at 1 January 2019	**35.00**	**127.33**	**5.18**	**1.45**	**19.63**	**5.79**	**-**	**194.38**
Net surplus	-	218.98	-	-	-	-	-	218.98
Revaluation	-	-	-	-	433.49	-	-	433.49
Change in functional currency	-	-	-	-	-	-	(37.55)	(37.55)
Regulatory provisions	-	(0.52)	0.52	-	-	-	-	-
Share based payment	-	-	-	-	-	0.03	-	0.03
Balance as at 31 December 2019	**35.00**	**345.79**	**5.70**	**1.45**	**453.12**	**5.82**	**(37.55)**	**809.33**

	Unaudited Historical							
	Share capital ZWLm	Retained earnings ZWLm	Regulatory provision reserves ZWLm	Non distributable reserves ZWLm	Revaluation reserves ZWLm	Share based payment reserves ZWLm	Foreign currency translation reserve ZWLm	Total equity ZWLm
Balance as at 1 January 2018	**35.00**	**109.99**	**17.95**	**1.45**	**18.77**	**5.63**	**-**	**188.79**
Impact of adopting IFRS 9	-	(1.72)	(17.95)	-	-	-	-	(19.67)
Restated balance as at 1 January 2018	**35.00**	**108.27**	**-**	**1.45**	**18.77**	**5.63**	**-**	**169.12**
Net surplus	-	49.24	-	-	-	-	-	49.24
Revaluation	-	-	-	-	0.86	-	-	0.86
Dividends paid	-	(25.00)	-	-	-	-	-	(25.00)
Regulatory provisions	-	(5.18)	5.18	-	-	-	-	-
Share based payment	-	-	-	-	-	0.16	-	0.16
Balance as at 31 December 2018	**35.00**	**127.33**	**5.18**	**1.45**	**19.63**	**5.79**	**-**	**194.38**

Statement of Cash Flows

For the Year Ended 31 December 2019

	Notes	Audited Inflation Adjusted 31 December 2019 ZWLm	Audited Inflation Adjusted 31 December 2018 ZWLm	Unaudited Historical 31 December 2019 ZWLm	Unaudited Historical 31 December 2018 ZWLm
Cash flows from operating activities					
Net (loss)/surplus for the year		(159.28)	171.69	218.98	49.24
Adjustments for:					
Net interest income	2	(288.96)	(617.36)	(107.71)	(76.12)
Impairment loss on interest earning financial assets	3	6.11	74.73	13.42	8.26
Impairment loss on non-interest earning financial assets	3	23.41	33.74	23.41	3.70
Fair value gain on investment property	4.2	(81.89)	(31.84)	(204.37)	(0.07)
Fair value (gain)/loss on non-current assets held for sale	4.2	(8.31)	1.68	(10.17)	(0.11)
Fair value loss/(gain) on equity investments	4.2	6.34	(4.60)	(2.41)	(0.92)
Depreciation and amortisation	5	91.80	81.24	14.76	8.62
Other provisions	18	(6.25)	6.47	19.74	2.21
Share based payments provisions	20.6	0.17	1.40	0.03	0.16
Unrealised foreign currency exchange gains		(246.75)	-	(246.75)	-
Operating cash flows before working capital changes		**(663.61)**	**(282.85)**	**(281.07)**	**(5.03)**
Decrease/(increase) in investment securities		1 694.05	(18.45)	(62.88)	(100.58)
Decrease in other assets		400.21	257.42	45.00	14.60
Decrease/(increase) in loans and advances		4 035.38	819.28	(189.46)	(137.61)
Decrease in non-current assets held for sale		4.02	1.56	0.45	0.17
(Decrease)/increase in deposits		(5 205.23)	(1 664.41)	1 039.23	148.01
(Decrease)/increase in other liabilities		(147.58)	52.11	36.54	16.47
Operating cash flows after working capital changes		**117.24**	**(835.34)**	**587.81**	**(63.97)**
Interest income received	2	488.04	883.88	188.92	108.57
Interest expense paid	2	(199.08)	(266.52)	(81.21)	(32.45)
Net cash flows from operating activities		**406.20**	**(217.98)**	**695.52**	**12.15**
Cash flows from investing activities					
Additions to property and equipment	12	(127.91)	(95.13)	(64.61)	(12.83)
Additions to intangible assets	14	(7.14)	(13.40)	(2.01)	(1.63)
Net cash flows from investing activities		**(135.05)**	**(108.53)**	**(66.62)**	**(14.46)**
Cash flows from financing activities					
Dividends paid		-	(213.20)	-	(25.00)
Credit lines (paid)/received		(678.44)	125.28	(79.82)	29.98
Net cash flows from financing activities		**(678.44)**	**(87.92)**	**(79.82)**	**4.98**
Net (decrease)/increase in cash and cash equivalents		**(407.29)**	**(414.43)**	**549.08**	**2.67**
Effects of exchange rate changes on cash and cash equivalents		772.18	-	688.99	-
Cash and cash equivalents at the beginning of the year		**1 040.66**	**1 455.09**	**167.48**	**164.81**
Cash and cash equivalents at the end of the year	**7**	**1 405.55**	**1 040.66**	**1 405.55**	**167.48**

Notes to the financial statements
For the Year Ended 31 December 2019

1 Significant Accounting Policies

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

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

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

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

1.3 Basis of preparation

Statement of compliance
The Society`s financial statements have been prepared with a view of complying with International Financial Reporting Standards (IFRSs). Partial compliance has been achieved due to the impact of SI 33 as fully described in note 1.4. IFRSs comprise of International Accounting Standards and Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC). These financial statements have been prepared in accordance with the requirements of the Building Societies Act (Chapter 24:02).

Basis of measurement
The Financial Statements are prepared from statutory records that are maintained under the historical cost convention as modified by the revaluation of properties and fair value adjustment of financial instruments. The PAAB in October 2019 confirmed the market consensus that the Zimbabwean economy had met the characteristics of a hyperinflationary economy and prescribing the application of inflation accounting for periods ended on or after 1 July 2019. The Society adopted the guidance as issued by the PAAB.

Accordingly, the inflation adjusted Financial Statements represent the principal Financial Statements of the Society. IAS 29 discourages the presentation of historical cost Financial Statements when inflation adjusted Financial Statements are presented, however, these have been presented as supplementary information to the restated Financial Statements.

IAS 29 requires that the Financial Statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date and that corresponding figures for previous periods be restated in the same terms.

The restatement of the historical cost numbers is based on the conversion factors derived from the consumer price index ("CPI") issued by the Zimbabwe Central Statistical Office ("C.S.O"). Notwithstanding the fact that the change in prices of some commodities were directly linked to exchange rate movements, the Society does not support using exchange rate movements as a direct proxy for average price movements in the economy. The Society believes the CPI best represents average price movements in the economy during 2019 and have thus applied it in preparation of these Financial Statements. The indices and conversion factors used to restate the accompanying Financial Statements as at 31 December 2019 are given below.

Dates	Indices	Conversion Factors
31 December 2019	551.82	1.00
31 December 2018	88.81	6.21
31 December 2017	62.50	8.83

The main procedures applied for the above-mentioned restatement are as follows:

a) All transactions and balances for the year ended 31 December 2018 have been restated as follows:
   i. Monetary assets and liabilities and items that are carried at fair value or at amounts that were current at 31 December 2018 were restated by applying the change in the index from 31 December 2018 to 31 December 2019;
   ii. Non-monetary assets and liabilities that were not carried at amounts current at 31 December 2018 and components of shareholders equity were restated by applying the change in the index from the date of the transaction that gave rise to them or if applicable from the date of their most recent revaluation to 31 December 2019 or if the transaction date was before 1 January 2018, they were restated from 1 January 2018 being the date of initial application of IAS 29.
   iii. Profit or loss items/transactions, except depreciation and amortisation, were restated by applying the change in the index from the date of the transaction to 31 December 2019. Depreciation and amortisation charges are based on restated costs.
   iv. Deferred tax was calculated based on restated carrying amounts.

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

b) Monetary assets and liabilities that were carried at amounts current at reporting date were not restated because they were already expressed in terms of the monetary unit current at the reporting date.
c) Non-monetary assets and liabilities that were not carried at amounts current at the reporting date and components of Shareholder's equity are restated by applying the change in the index from the date of the transaction or if applicable from the date of their most recent revaluation to 31 December 2019.
d) Property and equipment were restated by applying the change in the index from the date of purchase to 31 December 2019. Depreciation amounts are based on restated costs. Owner occupied buildings are revalued annually at the reporting date, and therefore are being carried at amounts current at the reporting date and are not restated. The depreciation charges are based on the opening revalued amounts.
e) Deferred tax was calculated on restated carrying amounts,
f) Profit or loss items/transactions, except the depreciation and amortisation charges explained above, were restated by applying the change in the index from the date of the transaction to 31 December 2019.
g) The effect of inflation on the net monetary position of the entity is included in the Statement of Profit or Loss and Other Comprehensive Income as a loss on monetary position.
h) All items in the Statement of Cash Flows are expressed in terms of the measuring unit current at the reporting date.

The Society's Financial Statements have been prepared on a going concern basis which the directors believe to be appropriate.

1.4 Approval of Financial Statements

The Financial Statements were approved by the board on 4 May 2019.

1.5 Functional currency

The Society has in previous financial periods adopted the United States Dollar (US$) as its functional currency. For the 2018 financial statements, in order to comply with local laws and regulations, particularly Statutory Instrument 33 of 2019 "SI 33" of February 2019, the Society adopted the US$ as its functional currency. SI 33 precluded the Society from applying an independent assessment of functional currency for reporting periods prior to the effective date of SI33 as provided for under International Accounting Standard 21 ***The Effects of Changes in Foreign Exchange Rates*** Resultantly US$ was treated as the functional currency for the 2018 financial statements. The Zimbabwe dollar, referred to in SI33 as the RTGS dollar (ZWL) has been adopted as the functional currency for the 2019 Financial Statements. No adjustments in the 2019 financial statements have been made to the Unaudited Historical financial information.

i. Background

In 2017 and 2018, various developments in the economy necessitated an assessment by the business as to whether the US$ was still the functional currency for financial reporting purposes. The factors assessed included but were not limited to the following:

Observed markets developments and responses are summarised as follows:
- Premiums on the unofficial currency market relative to Electronic Fund Transfers (EFT);
- A greater prevalence of multiple pricing regimes with higher prices being charged for non-US$ purchases, while foreign currency or US$ cash purchases were discounted;
- The Zimbabwe Stock Exchange (ZSE) volatility and movements not typical of a US$ environment; and
- Inflation, particularly towards the end of 2018, was not in line with inflation levels of a US$ based economic environment. Year on year inflation in the United States of America for December 2018 was 1.9% (2017: 2.1%) while in Zimbabwe, year on year inflation was 42.1% (2017:0.9%).

For the 2017 financial year the directors made the assessment that the US$ was still the functional currency. For the 2018 financial year, the directors took a different view, based on the extent to which the factors outlined above had become more pronounced. In addition the following factors were also considered in the assessment of funtional currency:

- The significant deterioration in the ability of the Society during 2018 to meet its foreign payment obligations, with some obligations remaining unpaid for over 12 months, despite sufficient electronic cash resources being held. The Society did not resort to unofficial foreign currency markets or pay premiums to obtain foreign currency, it relied on the official market to meet foreign payment obligations;
- The regulatory requirement, announced on 1 October 2018 to separate hard currency or Nostro balances from bond notes and RTGS balances, which was not the case in 2017;
- A significant majority of the Society's operating cashflows were retained in local RTGS accounts, as opposed to Nostro FCA accounts;
- The assessment that hard currency or nostro account based transactions, constituted a relatively small proportion of the overall transactions made by the Society;
- Upward asset price movements which seemed de-linked from the circulation of actual US$ within the economy;
- The Finance Bill of November 2018 provided for Value Added Tax on supplies invoiced in foreign currency to be remitted in the same currency used for invoicing, implying that the government perceived ZWL balances and foreign currency differently; and
- The self-evident increase in purchasing power disparities between the US$; and ZWL balances which was experienced in 2018, particularly in the last quarter of that year, and 2019. This was reflected that when the local currency was reintroduced in February 2019, it started trading on the interbank market at US$1:ZWL2.5.

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

ii. Directors conclusion in 2018

The directors were not able to conclude that the US$ was the Society's functional currency as in 2017. This was based on the directors' interpretation of IAS 21 *"The Effects of Changes in Foreign Exchange Rates"*. In particular IAS 21 defines a functional currency as the "currency of the primary economic environment in which an entity operates". The directors believed that while underlying regulatory and market conditions were more supportive of an exchange rate of 1:1 between ZWL and the US$ prior to 2018, a significant divergence in market perception of the relative values between the two currencies occurred during 2018.

iii. Monetary Policy Statement (MPS) of 20 February 2019

On 20 February 2019, the RBZ Governor announced a new "MPS" whose highlights were:

- Denomination of RTGS balances, bond notes and coins collectively as RTGS dollars. RTGS dollars become part of the multi-currency system;
- RTGS Dollars to be used by all entities (including government) and individuals in Zimbabwe for purposes of pricing of goods and services, record debts, accounting and settlement of domestic transactions; and
- Establishment of an inter-bank foreign exchange market where the exchange rate will be determined by market forces.

The MPS was followed by the publication of SI 33 on 22 February 2019. The Statutory Instrument gave effect to the introduction of the RTGS Dollar as legal tender and prescribed that "for accounting and other purposes" certain assets and liabilities on the effective date would be deemed to be RTGS dollars at a rate of 1:1 to the US$ and would become opening RTGS Dollar values from the effective date. SI 33 also covered the 2018 financial year.

iv. Impact on 2018 financial statements and on comparative information presented in the 2019 financial statements

The directors adopted the accounting treatment prescribed under SI 33 and applied an exchange rate of US$1:ZWL1. The amounts in the 2018 financial statements are the basis for the comparative financial information presented in 2019. This is different from the approach taken by the Society's ultimate parent company, Old Mutual Limited, which consolidated the results of the Zimbabwe business on the basis that a local currency was in existence in 2018 which did not hold the same value as an equivalent unit of the US$.

While SI 33 also prescribed the US$ as the functional currency for the first part of 2019 up to 22 February 2019, the impact of the difference between applying the directors interpretation of IAS 21 and applying the requirements of SI 33 is not considered material for the business over that period.

After 22 February 2019 all foreign denominated balances in the financial statements were translated into ZWL.

v. Impact of IAS 29 *"Financial Reporting in Hyperinflationary economies"*

While in terms of IAS 29, which has been adopted by the Society in preparing the 2019 financial statements, Audited Inflation Adjusted financial statements become the primary financial statements of the Society, the required inflation adjustments still have to be applied on numbers prepared on the Unaudited Historical cost basis. As such compliance with SI 33 for 2018 has also indirectly affected the comparative figures presented in the Audited Inflation Adjusted financial statements and the resulting opening balances for the 2019 financial statements.

1.6 Changes in significant accounting policies

The Society initially applied IFRS 16 "Leases" from 1 January 2019. A few other new standards are also effective from 1 January 2019, but they do not have a material effect on the Society's Financial Statements.

The Society applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not been applied to comparative information.

A. Definition of a lease

Previously, the Society determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 determining whether an arrangement contains a lease. The Society now assesses whether a contract contains a lease based on the definition of a lease, as explained in note 1.20.

On transition to IFRS 16, the Society elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Society applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed as to whether it is a lease as defined under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered or changed on or after 1 January 2019.

B. As a lessee

As a lessee, the Society leases many assets including property and computer equipment. The Society previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Society. Under IFRS 16, the Society recognises right-of-use assets and lease liabilities for most of these leases i.e. these leases are on on the statement of financial position. At commencement or on modification of a contract that contains a lease component, the Society allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of property the Society has elected not to separate non-lease components and account for

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

the lease and associated non-lease components as a single lease component. The Society elected not to recognise assets and liabilities for leases; with a lease term of 12 months or less, and of low value assets (all computer equipment).

i. Leases classified as operating leases under IAS 17

- Previously, the Society classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Society's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:
- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Society's incremental borrowing rate at the date of initial application: The Society applied this approach to its largest property lease; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: The Society applied this approach to all other leases.

The Society has tested its right of use assets for impairment on the date of transition and has concluded that there is no indication that the right of use assets are impaired.

The Society used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Society:

- did not recognise right of use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right of use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application and
- used hindsight when determining the lease term.

ii. Leases classified as finance leases under IAS 17

The Society did not have any leases classified as finance leases under IAS 17.

C. As a lessor

The Society leases out its own properties and right of use assets. The Society has classified these leases as operating leases. The Society is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Society has applied IFRS 15 ***Revenue from Contracts with Customers*** to allocate consideration in the contract to each lease and non-lease component.

D. Impact on financial statements

On transition to IFRS 16, the Society recognised right of use assets and lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	Audited Inflation Adjusted 1 January 2019 ZWLm	Unaudited Historical 1 January 2019 ZWLm
Right of use assets- property	8.12	3.22
Lease liabilities	(8.12)	(3.22)

1.7 Use of judgements and estimates

The preparation of Financial Statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

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

A. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Note 1.5 - Determination of the Society's functional currency;
- Note 1.3 - Hyper-inflationary considerations and
- Note 1.21 - Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payments of principal and interest on the principal amount outstanding.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following notes:

- Note 1.21 - Impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition;

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

- Note 9.3.1 - Determination of write downs for inventory with significant unobservable inputs and
- Note 21 - Determination of fair value on financial and non financial assets with significant unobservable inputs.

1.8 Cash and cash equivalents

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

1.9 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the ruling exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Exchange gains or losses on foreign currency transactions are recognised in the statement of profit or loss and other comprehensive income.

1.10 Taxation

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

1.11 Revenue

The Society's revenue is made up of interest and non interest income.

Interest income and expense

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

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

Non interest income

Non-interest income comprising of profit on investments, fees and commissions and other income is brought to account on an accrual basis.

1.12 Employee benefits

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

Short term benefits

Short term benefits are employee benefits (other than termination benefits) which fall due wholly within twelve months after the period in which the employees render the related services. Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short term cash bonus or profit sharing plan if the Society has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination benefits

Termination benefits are employee benefits payable as a result of the Society's decision to terminate employment before normal retirement date or contractual date or an employee's decision to accept voluntary redundancy in exchange for those benefits. Termination benefits are recognised as an expense when the Society is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Society has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Post employment benefits

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

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

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

The Society provides for retirement benefit obligations in respect of its employees as follows:
- Old Mutual Group Pension Fund - Defined Contribution Fund (note 23.1).
- National Social Security Authority Fund (NSSA) (note 23.2).

The defined contribution pension fund is funded at agreed fixed rates of contribution of 12.0% and 7.5% of pensionable salary by the Society and eligible employee respectively. The Society's contribution is charged to the statement of profit or loss and other comprehensive income in the year to which it relates.

The National Social Security Authority Fund has legislated contribution rates currently pegged at a maximum of $24.50 per employee.

Contributions by the Society are charged to the statement of profit or loss and other comprehensive income in the year to which they relate.

1.13 Share based payments

Equity-settled share-based payment transactions with employees
The Society receives services from employees as consideration for equity instruments of Old Mutual Limited Zimbabwe. The fair value of the employee services is measured at the grant date, by reference to the fair value of the equity instruments. If the equity instruments granted vest immediately and an employee is not required to complete a specified period of service before becoming unconditionally entitled to the instruments, the services received are recognised in profit or loss for the period in full on the grant date, with a corresponding increase in equity. Where the equity instruments do not vest until the employee has completed a specified period of service, it is assumed that the services rendered by the employee, as consideration for the equity instruments, will be received in the future during the vesting period. The services are accounted for in profit or loss in the statement of comprehensive income as they are rendered during the vesting period, with a corresponding increase in equity. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. Where the equity instruments are no longer outstanding, the accumulated share-based payment reserve in respect of those equity instruments is transferred to retained earnings.

Cash-settled share-based payment transactions with employees
The cost of cash-settled transactions is measured initially at fair value at the grant date. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in the statements of comprehensive income as staff costs.

Measurement of fair value of equity instruments granted
The equity instruments granted by the Society are measured at fair value at the measurement date using standard-option pricing valuation models. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments. Vesting conditions, other than market conditions, are not taken into account in determining fair value. Vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount.

1.14 Non-current assets held for sale

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

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

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

1.15 Property and equipment

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

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

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

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

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

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

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

The rates of depreciation are applied as follows:

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

1.17 Impairment of assets

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

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

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

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

1.18 Provisions

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

1.19 Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making operating decisions. The Society has related party relationships with fellow subsidiaries of OMZIL, the parent company and key management employees and their close family members. Transactions and balances with related parties are shown in note 22.

1.20 Leases

Policy applicable before1 January 2019

(a) Society as the lessee

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

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

(b) Society as the lessor

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

Policy applicable from 1 January 2019

At inception of a contract, the Society assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Society uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the Society allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Society has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Society recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In that case the right of use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Society's incremental borrowing rate. Generally, the Society uses its incremental borrowing rate as the discount rate. The Society determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Society is reasonably certain to exercise, lease payments in an optional renewal period if the Society is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Society is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Society's estimate of the amount expected to be payable under a residual value guarantee, if the Society changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Society presents right-of-use assets that do not meet the definition of investment property in property and equipment and lease liabilities in other liabilities in the statement of financial position.

Short-term leases and leases of low-value assets
The Society has elected not to recognise right of use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Society recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. As a lessor
At inception or on modification of a contract that contains a lease component, the Society allocates the consideration in the contract to each lease component on the basis of their relative standalone prices. When the Society acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Society makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease if not, then it is an operating lease. As part of this assessment, the Society considers certain indicators such as whether the lease is for the major part of the economic life of the asset. When the Society is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Society applies the exemption described above, then it classifies the sub-lease as an operating lease. If an arrangement contains lease and non-lease components, then the Society applies IFRS 15 to allocate the consideration in the contract. The Society applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Society further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease. The Society recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'. Generally, the accounting policies applicable to the Society as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

1.21 Financial instruments

Financial instruments are accounted for in terms of IFRS 9, *Financial Instruments*.

Recognition and initial measurement
The Society initially recognises loans and advances and debt securities issued on the date when they are originated. All other financial assets and liabilities are initially recognised on the trade date when the society becomes party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value, plus or less, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial Assets
On initial recognition, a financial asset is classified as measured at either: amortised cost, fair value through other comprehensive income or fair value through profit or loss. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if it meets the following conditions and is not designated as at fair value through profit or loss:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

On initial recognition of an equity investment that is not held for trading, the Society may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI). This election is made on an investment by investment basis.

All other financial assets are classified as measured at fair value through profit or loss.

In addition, on initial recognition, the Society may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment
The Society makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Society's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at fair value through profit or loss because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Society considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Society considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Society's claim to cash flows from specified assets (e.g. non-recourse asset arrangements) and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Society holds a portfolio of long-term fixed rate loans for which the Society has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Society has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Financial liabilities
The Society classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Society changes its business model for managing financial assets.

Derecognition of financial instruments

Financial assets
The Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Society neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Society retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Society neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Society continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Society retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Society securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Society transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are recognised as investment securities and carried at FVOCI. Gains or losses on securitisation are recorded in other revenue.

Financial liabilities
The Society derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the Society evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

Financial liabilities
The Society derecognises a financial liability when its contractual obligation is discharged or cancelled or expired.

The Society derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Society's trading activity.

Impairment of financial assets - Expected Credit Loss (ECL)
The Society recognises loss allowances for ECL on the following financial instruments that are not measured at fair value through profit or loss:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued and
- loan commitments issued.

No impairment loss is recognised on equity investments.

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Society in accordance with the contract and the cash flows that the Society expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Society if the commitment is drawn down and the cash flows that the Society expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Society expects to recover.

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

The Society measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Society considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of investment grade (a rating that indicates that a debt instrument has a relatively low risk of default).

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Society has adopted the General approach in the measurement of ECL.
Under the general approach, the Society determines whether the financial asset is in one of three stages in order to determine both the amount of ECL to recognise as well as how interest income should be recognised.

Stage 1 is where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, the Society recognises a 12 month ECL and recognises interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.

Stage 2 is where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2 the Society recognises lifetime ECL but interest income will continue to be recognised on a gross basis.

Stage 3 is where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event. For financial assets in stage 3, the Society continues to recognise lifetime ECL but will now recognise interest income on a net basis. This means that interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Society considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis (internal and external), based on the Society's Unaudited Historical experience and expert credit assessment and including forward-looking information. The Society also takes into account the 30 day past due backstop indicator and credit risk grades.

Credit risk grades
The Society allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Key inputs into the measurement of ECL
The key inputs into the measurement of ECL are the term structure of the following variables: probability of default (PD), loss given default (LGD), and exposure at default (EAD).

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Society estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan to value (LTV) ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Society derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on Unaudited Historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Society measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Society considers a longer period. The maximum contractual period extends to the date at which the Society has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include: instrument type, credit risk gradings, collateral type, date of initial recognition, remaining term to maturity, industry, and geographic location of the borrower.

For portfolios in respect of which the Society has limited Unaudited Historical data, external benchmark information is used to supplement the internally available data.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Restructured financial assets

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset and
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit impaired financial assets

At each reporting date, the Society assesses whether financial assets carried at amortised cost and debt financial assets carried at fair value through other comprehensive income are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Society on terms that the Society would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless if there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Society considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Society cannot identify the ECL on the loan commitment component separately from those on the drawn component:

The Society presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision and

- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

Write-off
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Society determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Society's procedures for recovery of amounts due.

Portfolio impairment
The portfolio impairment relates to the inherent risks of losses which although not specifically identified, are known to be present in any loan portfolio.

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

1.26 Fair value hierarchy

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

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

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

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

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The disclosure is included in note 21.

1.27 Hyperinflationary accounting

Initial application

In the reporting period in which the Society identifies the existence of hyperinflation in the economy of its functional currency, not having been hyperinflationary in the prior reporting period, the Society shall apply the requirements of this policy as if the economy had always been hyperinflationary.

Therefore, in relation to non-monetary items measured at Unaudited Historical cost, the Society's opening statement of financial position at the beginning of the earliest period presented in the financial statements shall be restated to reflect the effect of inflation from the date the assets were acquired and the liabilities were incurred or assumed until the end of the reporting period.

For non-monetary items carried in the opening statement of financial position at amounts current at dates other than those of acquisition or incurrence, that restatement shall reflect instead the effect of inflation from the dates those carrying amounts were determined until the end of the reporting period.

Profit or loss items/transactions, except the depreciation and amortisation charges, are to be restated by applying the change in the index from the date of the transaction to the current report period. Depreciation and amortisation amounts are based on restated costs.

At the end of the reporting period, deferred tax items are recognised and measured in accordance with IAS 12. However, the deferred tax figures in the opening statement of financial position for the reporting period shall be determined as follows:

i. the Society remeasures the deferred tax items in accordance with IAS 12 after it has restated the nominal carrying amounts of its non-monetary items at the date of the opening statement of financial position of the reporting period by applying the measuring unit at that date.

ii. the deferred tax items remeasured in accordance with (i) are restated for the change in the measuring unit from the date of the opening statement of financial position of the reporting period to the end of that reporting period.

The Society applies the approach in (i) and (ii) in restating the deferred tax items in the opening statement of financial position of any comparative periods presented in the restated financial statements for the reporting period in which the Society applies this policy.

Subsequent application

After the Society has restated its financial statements, all corresponding figures in the financial statements for a subsequent reporting period, including deferred tax items, are restated by applying the change in the measuring unit for that subsequent reporting period only to the restated financial statements for the previous reporting period.

Monetary loss or gain

The effect of inflation on the net monetary position of the Society is included in the income statement as loss or gain on monetary position.

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

1.28 Application of new and revised International Financial Reporting Standards (IFRSs)

A number of new standards or revised/amended standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted.

The Society has not early adopted the new or amended standards in preparing these financial statements. The following standard(s) are expected to have no material impact on the Society's financial statements in the period of first application.

New and revised International Financial Reporting Standards (IFRSs) adopted by the Society that became effective 1 January 2019:

Pronouncement	**Effective date**
Standards	
IFRS 16 Leases	1 January 2019
Interpretations	
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments	
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	1 January 2019
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

New and revised International Financial Reporting Standards (IFRSs) not yet effective:

Pronouncement	**Effective date**
Amendments	
Amendments to References to the Conceptual Framework in IFRS Standards	Annual periods beginning on or after 1 January 2020
Definition of a Business (Amendments to IFRS 3)	Business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	Annual reporting periods beginning on or after 1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	Annual reporting periods beginning on or after 1 January 2020
Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)	Annual reporting periods beginning on or after 1 January 2022

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
2 Net interest income				
Interest income	**488.04**	**883.88**	**188.92**	**108.57**
Loans and advances	428.56	725.34	169.26	91.96
Mortgage loans	105.05	247.23	35.14	29.92
Term Loans and Overdrafts	323.51	478.11	134.12	62.04
Investment securities	59.48	158.54	19.66	16.61
Treasury bills	40.90	113.74	12.03	13.82
Money market investments	18.58	44.80	7.63	2.79
Interest expense	**(199.08)**	**(266.52)**	**(81.21)**	**(32.45)**
Credit lines	(85.98)	(32.29)	(42.46)	(4.04)
Money market deposits	(108.30)	(226.24)	(37.21)	(27.44)
Term deposits	(0.05)	(0.10)	(0.02)	(0.01)
Savings deposits	(4.75)	(7.89)	(1.52)	(0.96)
Net interest income	**288.96**	**617.36**	**107.71**	**76.12**
3 Impairment reconciliation				
Impairment loss on interest earning financial assets	**6.11**	**74.73**	**13.42**	**8.26**
Loans and advances	23.89	69.62	19.88	7.57
Recovery of loans written off	(16.23)	-	(4.91)	-
Investment securities	(1.55)	5.11	(1.55)	0.69
Impairment loss on non interest earning financial assets	**23.41**	**33.74**	**23.41**	**3.70**
Unauthorised overdrafts and accrued rental income	7.31	33.74	7.31	3.70
Other financial assets	16.10	-	16.10	-
Impairment loss on non financial assets	**10.01**	**20.29**	**3.52**	**4.29**
Write off - discontinued project	10.01	20.29	3.52	4.29
	39.53	**128.76**	**40.35**	**16.25**

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

			Audited Inflation Adjusted		Unaudited Historical	
			31 December	31 December	31 December	31 December
4	**Net non interest income**		**2019**	**2018**	**2019**	**2018**
		Notes	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**
4.1	**Net fee and commission income**					
	Fee and commission income		**432.64**	**548.48**	**209.12**	**66.86**
	Commission fees		200.03	227.15	101.82	27.79
	Service fees		93.40	123.94	43.50	14.96
	Administration fees		139.21	197.39	63.80	24.11
	Fee and commission expense		**(202.59)**	**(214.10)**	**(98.98)**	**(26.18)**
	Transactional commission expense		(174.51)	(175.59)	(82.27)	(21.72)
	Other commissions and fee expense		(28.08)	(38.51)	(16.71)	(4.46)
	Net fee and commission income		**230.05**	**334.38**	**110.14**	**40.68**
4.2	**Other income**					
	Housing projects trading (loss)/profit	4.2.1	(65.43)	(17.16)	1.36	(2.62)
	Rental income from investment property	4.2.2	3.10	8.38	1.00	1.03
	Fair Value (loss)/gain on equity investments	9.2	(6.34)	4.60	2.41	0.92
	Fair value gain on non-current assets held for sale	11	8.31	(1.68)	10.17	0.11
	Fair value gain on investment property	13.1	81.89	31.84	204.37	0.07
	Dividend and other income from equity investments		6.89	9.71	4.41	1.26
	Foreign exchange gain		20.95	17.26	11.74	1.92
	Net other income		**49.37**	**52.95**	**235.46**	**2.69**
4.2.1	**Trading income**					
	Housing projects sales		52.91	177.26	13.48	21.59
	Cost of housing units sold		(47.44)	(171.21)	(11.68)	(20.83)
	Gross Profit		**5.47**	**6.05**	**1.80**	**0.76**
	Project operating expenses		(1.91)	(8.52)	(0.44)	(1.02)
	Write down on housing projects		(68.99)	(14.69)	-	(2.36)
	Net trading profit		**(65.43)**	**(17.16)**	**1.36**	**(2.62)**
4.2.2	**Investment property**					
	Rental income		17.90	30.33	5.78	3.73
	Less expenses		(14.80)	(21.95)	(4.78)	(2.70)
	Net rental income		**3.10**	**8.38**	**1.00**	**1.03**

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

		Audited Inflation Adjusted		Unaudited Historical	
		31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
5	**Operating expenses**				
	Advertising and marketing	13.43	13.79	6.28	1.65
	Auditors' remuneration	8.45	4.11	5.87	0.48
	Buildings security cost	14.09	14.57	6.13	1.76
	Cash in transit cost	4.28	4.52	1.88	0.54
	Deposit protection premiums	2.95	15.31	2.95	1.86
	Directors' remuneration	2.24	2.37	1.20	0.28
	General expenses	2.01	1.71	0.97	0.18
	Information systems maintenance	30.32	35.36	14.69	4.24
	Insurance premiums	14.40	7.34	6.04	0.91
	Maintenance of vehicles	10.92	4.91	5.42	0.59
	Occupancy cost	20.70	21.05	9.83	2.49
	Other expenses	6.52	3.41	11.63	0.22
	Outsourced services	32.56	45.50	7.98	5.52
	Stationery and printing	8.28	5.05	4.00	0.66
	Telephones and postage	4.05	5.58	1.64	0.68
	Travelling and subsistence	25.26	15.30	11.64	1.89
	Administration	**200.46**	**199.88**	**98.15**	**23.95**
	Property and equipment	77.56	50.51	12.97	5.44
	Intangible Assets	14.24	30.73	1.79	3.18
	Depreciation and amortisation	**91.80**	**81.24**	**14.76**	**8.62**
	Salaries, wages, and bonuses	137.13	149.23	67.20	17.99
	Pension contributions	6.16	13.45	2.10	1.63
	Equity-settled share based payments	0.17	1.40	0.03	0.16
	Cash-settled share based payments	3.08	0.33	3.08	0.05
	Other staff costs	18.08	13.07	8.66	1.60
	Staff costs	**164.62**	**177.48**	**81.07**	**21.43**
	Total operating expenses	**456.88**	**458.60**	**193.98**	**54.00**

The number of persons employed by the Society as at 31 December 2019 was 720 (2018: 747) constituting 403 men and 317 women. The women constitute 38% of the Society's management.

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

6 Financial instruments analysis

6.1 Classification of financial assets and liabilities

		Audited Inflation Adjusted		
As at 31 December 2019	**Notes**	**Fair value through profit or loss ZWLm**	**Amortised cost ZWLm**	**Total carrying amount ZWLm**
Assets				
Cash and cash equivalents	7	-	1 405.55	1 405.55
Investment securities	8	-	386.50	386.50
Other financial assets	9	8.63	1.12	9.75
Loans and advances	10	-	1 487.03	1 487.03
		8.63	**3 280.20**	**3 288.83**
Liabilities				
Deposits	15	-	2 740.78	2 740.78
Credit lines	16	-	897.60	897.60
Other liabilities	17	-	16.22	16.22
		-	**3 654.60**	**3 654.60**
As at 31 December 2018				
Assets				
Cash and cash equivalents	7	-	1 040.66	1 040.66
Investment securities	8	-	2 069.54	2 069.54
Other financial assets	9	11.56	5.29	16.85
Loans and advances	10	-	4 849.50	4 849.50
		11.56	**7 964.99**	**7 976.55**
Liabilities				
Deposits	15	-	7 334.20	7 334.20
Credit lines	16	-	331.17	331.17
Other liabilities	17	-	14.92	14.92
		-	**7 680.29**	**7 680.29**

		Unaudited Historical		
As at 31 December 2019		**Fair value through profit or loss ZWLm**	**Amortised cost ZWLm**	**Total carrying amount ZWLm**
Assets				
Cash and cash equivalents	7	-	1 405.55	1 405.55
Investment securities	8	-	386.50	386.50
Other financial assets	9	8.63	1.12	9.75
Loans and advances	10	-	1 487.03	1 487.03
		8.63	**3 280.20**	**3 288.83**
Liabilities				
Deposits	15	-	2 740.78	2 740.78
Credit lines	16	-	897.60	897.60
Other liabilities	17	-	16.22	16.22
		-	**3 654.60**	**3 654.60**
As at 31 December 2018				
Assets				
Cash and cash equivalents	7	-	167.48	167.48
Investment securities	8	-	333.07	333.07
Other financial assets	9	1.86	0.85	2.71
Loans and advances	10	-	779.65	779.65
		1.86	**1 281.05**	**1 282.91**
Liabilities				
Deposits	15	-	1 167.23	1 167.23
Credit lines	16	-	53.30	53.30
Other liabilities	17	-	2.41	2.41
		-	**1 222.94**	**1 222.94**

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

6.2 Composition of gains and losses on financial instruments

	Notes	Audited Inflation Adjusted Fair value through profit or loss ZWLm	Amortised cost financial assets ZWLm	Amortised cost financial liabilities ZWLm	Total ZWLm
December 2019					
Interest income	2	-	488.04	-	488.04
Dividends received	4.2	6.89	-	-	6.89
Fair value loss	4.2	(6.34)	-	-	(6.34)
Total income		**0.55**	**488.04**	**-**	**488.59**
Interest expense	2	-	-	(199.08)	(199.08)
Impairment loss	3	-	(6.11)	-	(6.11)
Total expenses		**-**	**(6.11)**	**(199.08)**	**(205.19)**
December 2018					
Interest income	2	-	883.88	-	883.88
Dividends received	4.2	9.71	-	-	9.71
Fair value gain	4.2	4.60	-	-	4.60
Total income		**14.31**	**883.88**	**-**	**898.19**
Interest expense	2	-	-	(266.52)	(266.52)
Impairment loss	3	-	(74.73)	-	(74.73)
Total expenses		**-**	**(74.73)**	**(266.52)**	**(341.25)**

	Notes	Unaudited Historical Fair value through profit or loss ZWLm	Amortised cost financial assets ZWLm	Amortised cost financial liabilities ZWLm	Total ZWLm
December 2019					
Interest income	2	-	188.92	-	188.92
Dividends received	4.2	4.41	-	-	4.41
Fair value gain	4.2	2.41	-	-	2.41
Total income		**6.82**	**188.92**	**-**	**195.74**
Interest expense	2	-	-	(81.21)	(81.21)
Impairment loss	3	-	(13.42)	-	(13.42)
Total expenses		**-**	**(13.42)**	**(81.21)**	**(94.63)**
December 2018					
Interest income	2	-	108.57	-	108.57
Dividends received	4.2	1.26	-	-	1.26
Fair value gain	4.2	0.92	-	-	0.92
Total income		**2.18**	**108.57**	**-**	**110.75**
Interest expense	2	-	-	(32.45)	(32.45)
Impairment loss	3	-	(8.26)	-	(8.26)
Total expenses		**-**	**(8.26)**	**(32.45)**	**(40.71)**

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

		Notes	Audited Inflation Adjusted 31 December 2019 ZWLm	Audited Inflation Adjusted 31 December 2018 ZWLm	Unaudited Historical 31 December 2019 ZWLm	Unaudited Historical 31 December 2018 ZWLm
7	**Cash and cash equivalents**					
	Cash balances		220.06	29.96	220.06	4.82
	Bank balances		1 100.81	772.64	1,100.81	124.34
	Statutory reserves		84.68	238.06	84.68	38.32
			1 405.55	**1 040.66**	**1 405.55**	**167.48**
8	**Investment securities**					
	Money market investments		153.12	687.08	153.12	110.58
	Bankers' acceptances		106.41	-	106.41	-
	Treasury bills		133.98	1 400.55	133.98	225.40
			393.51	**2 087.63**	**393.51**	**335.98**
	Loss allowance	8.2	(7.01)	(18.09)	(7.01)	(2.91)
			386.50	**2 069.54**	**386.50**	**333.07**
8.1	**Maturity analysis**					
	Less than 1e month		137.26	717.79	137.26	115.52
	1 to 3 months		108.33	374.40	108.33	60.25
	3 to 6 months		49.43	428.98	49.43	69.04
	6 months to 1 year		36.82	53.15	36.82	8.55
	1 to 5 years		48.91	341.09	48.91	54.90
	Over 5 years		5.75	154.13	5.75	24.81
			386.50	**2 069.54**	**386.50**	**333.07**

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

8.2 Impairment analysis

	Audited Inflation Adjusted 31 December 2019 Stage 1 Gross carrying amount	Audited Inflation Adjusted 31 December 2019 Stage 1 Allowance for ECL	Audited Inflation Adjusted 31 December 2018 Stage 1 Gross carrying amount	Audited Inflation Adjusted 31 December 2018 Stage 1 Allowance for ECL
As at 1 January	**2 087.63**	**(18.09)**	**2 061.82**	**(22.25)**
	(1 694.12)	**11.08**	**25.81**	**4.16**
Purchases and interest accruals	919.00	5.15	1 217.62	0.41
Repayments	(730.16)	(18.61)	(370.11)	(6.12)
Utilisation	-	-	-	2.48
Monetary adjustment	(1 882.96)	24.54	(821.70)	7.39
As at 31 December	**393.51**	**(7.01)**	**2 087.63**	**(18.09)**

	Unaudited Historical 31 December 2019 Stage 1 Gross carrying amount	Unaudited Historical 31 December 2019 Stage 1 Allowance for ECL	Unaudited Historical 31 December 2018 Stage 1 Gross carrying amount	Unaudited Historical 31 December 2018 Stage 1 Allowance for ECL
As at 1 January 2019	**335.98**	**(2.91)**	**233.53**	**(2.52)**
	57.53	**(4.10)**	**102.45**	**(0.39)**
Purchases and interest accruals	279.98	1.57	147.19	0.05
Repayments	(222.45)	(5.67)	(44.74)	(0.74)
Utilisation	-	-	-	0.30
As at 31 December 2019	**393.51**	**(7.01)**	**335.98**	**(2.91)**

The Society does not have any Investment securities that were subject to Stage 2 and 3 ECL.

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

9 Other assets

		Audited Inflation Adjusted		Unaudited Historical	
		31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
Overdrafts and accrued rental income	9.1.1	1.12	5.29	1.12	0.85
Investment in equity	9.2	8.63	11.56	8.63	1.86
Housing projects	9.3	160.52	226.17	36.26	34.72
RBZ legacy debts asset	9.4	259.66	-	259.66	-
Stock on hand		19.57	16.07	5.66	2.03
Other non financial assets		342.14	430.19	247.46	53.56
		791.64	**689.28**	**558.79**	**93.02**

9.1.1 Unauthorised overdrafts and accrued rental income

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
Unauthorised overdrafts	7.40	41.45	7.40	6.67
Accrued rental income	3.22	16.32	3.22	2.63
	10.62	57.77	10.62	9.30
Loss allowance	(9.50)	(52.48)	(9.50)	(8.45)
Net other financial assets	**1.12**	**5.29**	**1.12**	**0.85**

9.1.2 Loss allowance reconciliation

	Audited Inflation Adjusted					
	Stage 1		Originated credit impaired		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
As at 1 January 2019	**16.32**	**(11.03)**	**41.45**	**(41.45)**	**57.77**	**(52.48)**
	(13.10)	**8.93**	**(34.05)**	**34.05**	**(47.15)**	**42.98**
Originations and repayments	0.59	(0.32)	0.73	(0.73)	1.32	(1.05)
Monetary adjustment	(13.69)	9.25	(34.78)	34.78	(48.47)	44.03
As at 31 December 2019	**3.22**	**(2.10)**	**7.40**	**(7.40)**	**10.62**	**(9.50)**

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

9.1.2 Loss allowance reconciliation (continued)

	Audited Inflation Adjusted					
	Stage 1		Originated credit impaired		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
As at 1 January 2018	**21.45**	**(15.27)**	**44.85**	**(33.64)**	**66.30**	**(48.91)**
	(5.13)	**4.24**	**(3.40)**	**(7.81)**	**(8.53)**	**(3.57)**
Originations and repayments	0.66	(0.16)	5.22	(9.39)	5.88	(9.55)
Monetary adjustment	(5.79)	4.40	(8.62)	1.58	(14.41)	5.98
As at 31 December 2018	**16.32**	**(11.03)**	**41.45**	**(41.45)**	**57.77**	**(52.48)**

	Unaudited Historical					
	Stage 1		Originated credit impaired		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
As at 1 January 2019	**2.63**	**(1.78)**	**6.67**	**(6.67)**	**9.30**	**(8.45)**
Originations and repayments	0.59	(0.32)	0.73	(0.73)	1.32	(1.05)
As at 31 December 2019	**3.22**	**(2.10)**	**7.40**	**(7.40)**	**10.62**	**(9.50)**

	Unaudited Historical					
	Stage 1		Originated credit impaired		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
As at 1 January 2018	**2.43**	**(1.73)**	**5.08**	**(3.81)**	**7.51**	**(5.54)**
Originations and repayments	0.20	(0.05)	1.59	(2.86)	1.79	(2.91)
As at 31 December 2018	**2.63**	**(1.78)**	**6.67**	**(6.67)**	**9.30**	**(8.45)**

The Society does not have any unauthorised overdrafts or Accrued rental income that were subject to Stage 2 and 3 ECL.

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

		Notes	Audited Inflation Adjusted 31 December 2019 ZWLm	Audited Inflation Adjusted 31 December 2018 ZWLm	Unaudited Historical 31 December 2019 ZWLm	Unaudited Historical 31 December 2018 ZWLm
9.2	**Investments in equity**					
	Opening balance		11.56	6.96	1.86	0.94
	Change in functional currency		1.40	-	0.28	-
	Exchange gain		2.01	-	4.08	-
	Fair value (loss)\gain		(6.34)	4.60	2.41	0.92
	Closing balance		**8.63**	**11.56**	**8.63**	**1.86**

CABS' investments in equity are neither listed nor are they tracked on an active market. All investments in equity are valued at fair value.

9.3	**Housing projects**				
	- Chegutu housing project	9.23	-	4.79	-
	- Hatcliffe housing project	9.99	55.70	5.87	5.88
	- Budiriro housing project	105.78	133.80	21.56	24.77
	- Pumula housing project	35.52	36.67	4.04	4.07
		160.52	**226.17**	**36.26**	**34.72**
9.3.1	**Inventory work in progress**				
	Opening balance	226.17	364.91	34.72	54.28
	Additions	50.78	47.16	13.22	3.63
	Cost of sales	(47.44)	(171.21)	(11.68)	(20.83)
	Write down	(68.99)	(14.69)	-	(2.36)
		160.52	**226.17**	**36.26**	**34.72**
9.4	**RBZ Legacy debts asset**				
	Principal amount	29.23	-	29.23	-
	Fair value gain	460.85	-	460.85	-
	Gross amount owing	490.08	-	490.08	-
	Loss allowance	(230.42)	-	(230.42)	-
		259.66	**-**	**259.66**	**-**

On the 24th of June 2019, the Government issued Statutory Instrument 142 (SI 142) which was followed up by the Reserve Bank of Zimbabwe's ("RBZ") Exchange Control Directive RU/102 of 2019 which directed authorised dealers to transfer to the RBZ, Zimbabwe Dollar balances at an exchange rate of ZWL1:US$1 in relation to foreign currency legacy debts to be registered with the RBZ. The Society made applications relating to all its foreign currency obligations in relation to loan repayments for offshore lines of credit, and foreign suppliers of goods and services. The Society recognised a foreign currency denominated asset in respect of the funds transferred to the RBZ as a legitimate expectation to receive foreign currency had been created, however, details as to the exact structure and design of the instrument are yet to be availed by the RBZ. The carrying value of the financial instrument reflects management's assessment of the present value of expected net cashflows to be received under this arrangement.

		Audited Inflation Adjusted 31 December 2019 ZWLm	Audited Inflation Adjusted 31 December 2018 ZWLm	Unaudited Historical 31 December 2019 ZWLm	Unaudited Historical 31 December 2018 ZWLm
10	**Loans and advances**				
	Gross amount owing	1 540.42	5 078.33	1 540.42	816.48
	Loss allowance	(53.39)	(228.83)	(53.39)	(36.83)
		1 487.03	**4 849.50**	**1 487.03**	**779.65**
10.1	**Maturity analysis**				
	Less than one month	123.82	532.56	123.82	85.62
	1 to 3 months	60.67	221.81	60.67	35.66
	3 to 6 months	153.53	527.65	153.53	84.83
	6 months to 1 year	240.69	974.44	240.69	156.66
	1 to 5 years	865.83	2 294.72	865.83	368.92
	Over 5 years	42.49	298.32	42.49	47.96
		1 487.03	**4 849.50**	**1 487.03**	**779.65**

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

		Audited Inflation Adjusted		Unaudited Historical	
		31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
10.2	**Concentration**				
	Housing	233.04	1 617.19	233.04	260.27
	Individuals	218.81	1 177.02	218.81	189.42
	Commercial and industrial	1 088.57	2 284.12	1 088.57	366.79
		1 540.42	**5 078.33**	**1 540.42**	**816.48**

10.3 Sectorial analysis of loans and advances

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

Sector				
Agriculture	299.24	977.50	299.24	157.16
Construction and property	63.55	1 623.49	63.55	261.02
Energy and minerals	10.94	129.31	10.94	20.79
Light and heavy industry	100.97	372.32	100.97	59.86
Physical persons	404.23	1 208.38	404.23	194.28
State and state enterprises	484.67	181.24	484.67	29.14
Trade and services	18.20	172.23	18.20	27.69
Transport and distribution	158.62	413.86	158.62	66.54
Total	**1 540.42**	**5 078.33**	**1 540.42**	**816.48**
Impairment	(53.39)	(228.83)	(53.39)	(36.83)
	1 487.03	**4 849.50**	**1 487.03**	**779.65**

10.4 Age analysis of loans and advances

The table below gives an aged analysis of loans and advances representing primarily the exposures of the Society's operations:

Neither past due nor impaired	1 458.44	4 169.89	1 458.44	670.28
Past due but not impaired	50.50	616.71	50.50	99.25
Past due but less than 1 month	4.39	362.69	4.39	58.37
Past due, greater than 1 month but less than 3 months	46.11	254.02	46.11	40.88
Impaired loans and advances (non-performing loans)	31.49	291.73	31.49	46.95
Gross loans and advances	**1 540.43**	**5 078.33**	**1 540.43**	**816.48**
Provisions for impairment	(53.39)	(228.83)	(53.39)	(36.83)
Total net loans and advances	**1 487.04**	**4 849.50**	**1 487.04**	**779.65**

10.5 Commitment for loans and advances	**50.51**	**384.13**	**50.51**	**61.82**

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

10 Loans and advances

10.6 Impairment Analysis

	Audited Inflation Adjusted - Secured loans							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
As at 1 January 2019	**2 878.41**	**(39.58)**	**479.58**	**(38.64)**	**268.61**	**(85.18)**	**3 626.60**	**(163.40)**
	(1 864.79)	**10.55**	**(421.32)**	**38.28**	**(243.22)**	**76.75**	**(2 529.33)**	**125.58**
Originations and interest accruals	2 505.84	(92.79)	-	-	-	-	2 505.84	(92.79)
Repayments and derecognitions	(730.49)	19.56	(39.09)	4.37	(45.30)	14.11	(814.88)	38.04
Transfer to:								
Stage 1	157.03	(1.02)	(144.16)	17.50	(12.83)	1.87	0.04	18.35
Stage 2	(119.84)	0.85	124.40	(2.13)	(4.56)	1.18	-	(0.10)
Stage 3	(3.32)	-	(3.25)	0.07	6.56	(0.26)	(0.01)	(0.19)
Changes to risk parameters	-	(0.98)	-	(0.59)	-	(1.67)	-	(3.24)
Write-offs	-	-	-	-	(2.43)	2.10	(2.43)	2.10
Monetary adjustment	(3 674.01)	84.93	(359.22)	19.06	(184.66)	59.42	(4 217.89)	163.41
As at 31 December 2019	**1 013.62**	**(29.03)**	**58.26**	**(0.36)**	**25.39**	**(8.43)**	**1 097.27**	**(37.82)**

	Audited Inflation Adjusted - Unsecured loans							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
As at 1 January 2019	**1 337.26**	**(19.45)**	**63.26**	**(5.04)**	**51.21**	**(40.94)**	**1 451.73**	**(65.43)**
	(924.65)	**11.38**	**(42.11)**	**3.77**	**(41.81)**	**34.71**	**(1 008.57)**	**49.86**
Originations and interest accruals	810.45	(28.40)	-	-	-	-	810.45	(28.40)
Repayments and derecognitions	(91.02)	2.67	(16.76)	2.07	-	-	(107.78)	4.74
Transfer to:								
Stage 1	9.58	(0.20)	(8.07)	0.26	(1.51)	0.75	-	0.81
Stage 2	(63.58)	2.86	64.10	(4.10)	(0.53)	0.26	(0.01)	(0.98)
Stage 3	(17.53)	3.12	(3.25)	0.26	20.78	(13.56)	-	(10.18)
Changes to risk parameters	-	3.74	-	-	-	0.85	-	4.59
Write-offs	-	-	-	-	(14.94)	12.89	(14.94)	12.89
Monetary adjustment	(1 572.55)	27.59	(78.13)	5.28	(45.61)	33.52	(1 696.29)	66.39
As at 31 December 2019	**412.61**	**(8.07)**	**21.15**	**(1.27)**	**9.40**	**(6.23)**	**443.16**	**(15.57)**

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

10 Loans and advances

10.6 Impairment Analysis (continued)

	Audited Inflation Adjusted - Secured loans							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
As at 1 January 2018	**2 260.70**	**(9.53)**	**277.73**	**(17.96)**	**381.64**	**(143.36)**	**2 920.07**	**(170.85)**
	617.71	**(30.05)**	**201.85**	**(20.68)**	**(113.03)**	**58.18**	**706.53**	**7.45**
Originations and interest accruals	2 346.63	-	-	-	-	-	2 346.63	-
Repayments and derecognitions	(37.56)	(32.95)	284.10	(25.96)	3.77	11.92	250.31	(46.99)
Transfer to:								
Stage 1	123.42	15.75	(68.48)	0.33	(95.64)	33.15	(40.70)	49.23
Stage 2	(644.17)	(1.85)	(82.06)	1.27	(10.68)	2.15	(736.91)	1.57
Stage 3	(81.07)	16.24	486.43	(37.54)	(2.57)	0.29	402.79	(21.01)
Changes to risk parameters	-	47.03	(51.78)	2.95	112.66	(82.64)	60.88	(32.66)
Write-offs	-	-	-	-	(5.05)	5.05	(5.05)	5.05
Monetary adjustment	(1 089.54)	(74.27)	(366.36)	38.27	(115.52)	88.26	(1 571.42)	52.26
As at 31 December 2018	**2 878.41**	**(39.58)**	**479.58**	**(38.64)**	**268.61**	**(85.18)**	**3 626.60**	**(163.40)**

	Audited Inflation Adjusted - Unsecured loans							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
As at 1 January 2018	**2 926.23**	**(87.05)**	**126.43**	**(7.82)**	**70.12**	**(38.75)**	**3 122.78**	**(133.62)**
	(1 588.97)	**67.60**	**(63.17)**	**2.78**	**(18.91)**	**(2.19)**	**(1 671.05)**	**68.19**
Originations and interest accruals	917.91	(28.46)	-	-	-	-	917.91	(28.46)
Repayments and derecognitions	(1 803.31)	34.17	(91.08)	1.65	-	-	(1 894.39)	35.82
Transfer to:								
Stage 1	39.46	(0.17)	(22.83)	0.91	(16.63)	3.64	-	4.38
Stage 2	(85.37)	4.05	86.12	(6.54)	(0.74)	0.50	0.01	(1.99)
Stage 3	(30.19)	0.25	(6.45)	1.16	36.65	(27.46)	0.01	(26.05)
Changes to risk parameters	-	45.83	-	3.47	-	(11.66)	-	37.64
Write-offs	-	-	-	-	(16.79)	16.79	(16.79)	16.79
Monetary adjustment	(627.47)	11.93	(28.93)	2.13	(21.40)	16.00	(677.80)	30.06
As at 31 December 2018	**1 337.26**	**(19.45)**	**63.26**	**(5.04)**	**51.21**	**(40.94)**	**1 451.73**	**(65.43)**

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

10 Loans and advances

10.6 Impairment Analysis (continued)

	Unaudited Historical - Secured loans							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
As at 1 January 2019	**462.44**	**(6.37)**	**77.18**	**(6.22)**	**43.23**	**(13.71)**	**582.85**	**(26.30)**
	551.18	**(22.66)**	**(18.92)**	**5.86**	**(17.84)**	**5.28**	**514.42**	**(11.52)**
Originations and interest accruals	763.41	(28.27)	-	-	-	-	763.41	(28.27)
Repayments and derecognitions	(222.55)	5.96	(11.91)	1.33	(13.80)	4.30	(248.26)	11.59
Transfer to:								
Stage 1	47.84	(0.31)	(43.92)	5.33	(3.91)	0.57	0.01	5.59
Stage 2	(36.51)	0.26	37.90	(0.64)	(1.39)	0.36	-	(0.02)
Stage 3	(1.01)	-	(0.99)	0.02	2.00	(0.08)	-	(0.06)
Changes to risk parameters	-	(0.30)	-	(0.18)	-	(0.51)	-	(0.99)
Write-offs	-	-	-	-	(0.74)	0.64	(0.74)	0.64
As at 31 December 2019	**1 013.62**	**(29.03)**	**58.26**	**(0.36)**	**25.39**	**(8.43)**	**1 097.27**	**(37.82)**

	Unaudited Historical - Unsecured loans							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
As at 1 January 2019	**215.21**	**(3.13)**	**10.18**	**(0.81)**	**8.24**	**(6.59)**	**233.63**	**(10.53)**
	197.40	**(4.94)**	**10.97**	**(0.46)**	**1.16**	**0.36**	**209.53**	**(5.04)**
Originations and interest accruals	246.91	(8.65)	-	-	-	-	246.91	(8.65)
Repayments and derecognitions	(27.72)	0.81	(5.11)	0.63	-	-	(32.83)	1.44
Transfer to:								
Stage 1	2.92	(0.06)	(2.46)	0.08	(0.46)	0.23	-	0.25
Stage 2	(19.37)	0.87	19.53	(1.25)	(0.16)	0.08	-	(0.30)
Stage 3	(5.34)	0.95	(0.99)	0.08	6.33	(4.13)	-	(3.10)
Changes to risk parameters	-	1.14	-	-	-	0.26	-	1.40
Write-offs	-	-	-	-	(4.55)	3.92	(4.55)	3.92
As at 31 December 2019	**412.61**	**(8.07)**	**21.15**	**(1.27)**	**9.40**	**(6.23)**	**443.16**	**(15.57)**

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

10 Loans and advances

10.6 Impairment Analysis (continued)

	Unaudited Historical - Secured loans							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
As at 1 January 2018	**256.06**	**(1.08)**	**31.46**	**(2.03)**	**43.23**	**(16.24)**	**330.74**	**(19.35)**
	206.38	**(5.29)**	**45.72**	**(4.19)**	**-**	**2.53**	**252.10**	**(6.95)**
Originations and interest accruals	283.67	(12.45)	-	-	-	-	283.67	(12.45)
Repayments and derecognitions	(4.54)	2.54	(11.02)	0.05	(15.39)	5.33	(30.95)	7.92
Transfer to:								
Stage 1	14.92	(0.30)	(13.21)	0.20	(1.72)	0.35	(0.01)	0.25
Stage 2	(77.87)	2.61	78.28	(6.04)	(0.41)	0.05	-	(3.38)
Stage 3	(9.80)	7.57	(8.33)	0.47	18.13	(13.30)	-	(5.26)
Changes to risk parameters	-	(5.26)	-	1.13	-	9.49	-	5.36
Write-offs	-	-	-	-	(0.61)	0.61	(0.61)	0.61
As at 31 December 2018	**462.44**	**(6.37)**	**77.18**	**(6.22)**	**43.23**	**(13.71)**	**582.84**	**(26.30)**

	Unaudited Historical - Unsecured loans							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
As at 1 January 2018	**331.44**	**(9.86)**	**14.32**	**(0.89)**	**7.94**	**(4.39)**	**353.70**	**(15.14)**
	(116.23)	**6.73**	**(4.14)**	**0.08**	**0.30**	**(2.20)**	**(120.07)**	**4.61**
Originations and interest accruals	110.96	(3.44)	-	-	-	-	110.96	(3.44)
Repayments and derecognitions	(217.99)	4.13	(11.01)	0.20	-	-	(229.00)	4.33
Transfer to:								
Stage 1	4.77	(0.02)	(2.76)	0.11	(2.01)	0.44	-	0.53
Stage 2	(10.32)	0.49	10.41	(0.79)	(0.09)	0.06	(0.00)	(0.24)
Stage 3	(3.65)	0.03	(0.78)	0.14	4.43	(3.32)	-	(3.15)
Changes to risk parameters	-	5.54	-	0.42	-	(1.41)	-	4.55
Write-offs	-	-	-	-	(2.03)	2.03	(2.03)	2.03
As at 31 December 2018	**215.21**	**(3.13)**	**10.18**	**(0.81)**	**8.24**	**(6.59)**	**233.63**	**(10.53)**

	Audited Inflation Adjusted		**Unaudited Historical**	
	31 December 2019 ZWLm	**31 December 2018 ZWLm**	**31 December 2019 ZWLm**	**31 December 2018 ZWLm**
11 Non current assets held for sale				
Opening valuation	**6.47**	**9.71**	**1.04**	**1.10**
Disposals	(4.02)	(1.56)	(0.45)	(0.17)
Fair value gain	8.31	(1.68)	10.17	0.11
Closing valuation	**10.76**	**6.47**	**10.76**	**1.04**

Non-current assets held for sale comprise of repossessed properties that were held as collateral on defaulted loan facilities. The Society intends to dispose of the properties in the foreseeable future.

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

12 Property and equipment

	Audited Inflation Adjusted					
	Land at fair value ZWLm	Buildings at fair value ZWLm	Buildings at cost ZWLm	Office Equipment ZWLm	Vehicles ZWLm	Total ZWLm
As at 31 December 2019						
Opening net book value	28.84	233.35	-	156.63	12.76	431.58
Additions	-	27.87	-	79.47	20.57	127.91
IFRS 16 restatement	-	-	8.12	-	-	8.12
Revaluation gain	27.61	207.16	-	-	-	234.77
Depreciation charge	-	(11.66)	(2.28)	(53.16)	(10.46)	(77.56)
Closing net book value	**56.45**	**456.72**	**5.84**	**182.94**	**22.87**	**724.82**
Cost or valuation	56.45	456.72	8.12	392.66	54.71	968.66
Accumulated depreciation	-	-	(2.28)	(209.72)	(31.84)	(243.84)
Net book value	**56.45**	**456.72**	**5.84**	**182.94**	**22.87**	**724.82**
As at 31 December 2018						
Opening net book value	22.46	181.70	-	102.95	13.95	321.06
Additions	-	1.21	-	90.24	3.68	95.13
Revaluation gain	6.38	59.52	-	-	-	65.90
Depreciation charge	-	(9.08)	-	(36.56)	(4.87)	(50.51)
Closing net book value	**28.84**	**233.35**	**-**	**156.63**	**12.76**	**431.58**
Cost or valuation	28.84	233.35	-	313.19	34.14	609.52
Accumulated depreciation	-	-	-	(156.56)	(21.38)	(177.94)
Net book value	**28.84**	**233.35**	**-**	**156.63**	**12.76**	**431.58**

	Unaudited Historical					
	Land at fair value ZWLm	Buildings at fair value ZWLm	Buildings at cost ZWLm	Office Equipment ZWLm	Vehicles ZWLm	Total ZWLm
As at 31 December 2019						
Opening net book value	4.64	37.55	-	19.78	1.45	63.42
Additions	-	17.85		41.71	5.05	64.61
IFRS 16 restatement	-	-	3.22	-	-	3.22
Revaluation gain	51.81	403.40	-	-	-	455.21
Depreciation charge	-	(2.08)	(1.27)	(8.18)	(1.44)	(12.97)
Closing net book value	**56.45**	**456.72**	**1.95**	**53.31**	**5.06**	**573.49**
Cost or valuation	56.45	456.72	3.22	79.16	8.40	603.95
Accumulated depreciation	-	-	(1.27)	(25.85)	(3.34)	(30.46)
Net book value	**56.45**	**456.72**	**1.95**	**53.31**	**5.06**	**573.49**
As at 31 December 2018						
Opening net book value	4.61	37.28	-	11.66	1.58	55.13
Additions	-	0.15	-	12.26	0.42	12.83
Revaluation (loss)/gain	0.03	0.87	-	-	-	0.90
Depreciation charge	-	(0.75)	-	(4.14)	(0.55)	(5.44)
Closing net book value	**4.64**	**37.55**	**-**	**19.78**	**1.45**	**63.42**
Cost or valuation	4.64	37.55	-	37.50	3.87	83.56
Accumulated depreciation	-	-	-	(17.72)	(2.42)	(20.14)
Net book value	**4.64**	**37.55**	**-**	**19.78**	**1.45**	**63.42**

The properties were valued by Old Mutual Property Zimbabwe (Private) Limited's qualified valuers and the effective date of the valuation is 31 December 2019. The values of a selected number of properties constituting at least 65% of the portfolio were independently verified by Dawn Properties Limited, Homelux Real Estate, and Integrated Properties.

For the year ended 31 December 2019, valuations were carried out based on US$ parameters and not ZWL. The US$ valuation was converted to ZWL at the interbank rate at the reporting date of ZWL16.77: US$1. The use of US$ parameters is supported by:

- Thin market capitalisation;
- Rentals failing to keep pace with inflation or the exchange rate deteriorations; and
- There being only 10 months' worth of ZWL rental evidence.

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

12 Property and equipment (continued)

In accordance with International Valuation Standards (IVS), the valuation methodologies used were, the Income Approach for income generating properties and the Market Approach for landholdings and residential properties. For the Income Approach, a Two Stage Discounted Cash Flow Approach was used instead of the Direct Capitalisation Approach as the latter assumes stable cash flows into perpetuity, which is not applicable in the current economic environment of high levels of inflation and currency depreciation. The Two Stage Discounted Cash Flow Approach assumed that the current economic environment of depressed rental yields in real terms will last for at most 8 years with more stable real cash flows prevailing beyond the 8 year period into perpetuity.

Assets pledged as security are disclosed in note 16.

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
13 Investment property				
Opening fair value	145.97	114.13	23.49	23.42
Fair value gain	81.89	31.84	204.37	0.07
Closing fair value	**227.86**	**145.97**	**227.86**	**23.49**

Investment property comprises office buildings that are leased to third parties under operating leases.

For all investment property leases, the rental income is fixed under the contracts. The income and direct expenditure are shown under note 4.

Details of the valuation methodology have been disclosed in note 12 and 21.

A full list of locations where land and buildings are situated can be viewed at the Society's head office at Northridge Park, Harare. The properties are leased out under operating leases to various tenants. The initial contracts are for a minimum period of twelve months after which they may be extended as negotiated.

Assets pledged as security are disclosed in note 16.

13.1 Operating leases

Property and equipment comprise owned and leased assets that do not meet the definition of investment property. The leased assets are made up of land and buildings.

	Restated 31 December 2019 ZWLm	Restated 31 December 2018 ZWLm	Unaudited Historical 31 December 2019 ZWLm	Unaudited Historical 31 December 2018 ZWLm
13.1.1 Right of use assets				
Property				
Balance at 1 January	8.12	-	3.22	-
Depreciation charge for the year	(2.28)	-	(1.27)	-
Balance at 31 December	**5.84**	**-**	**1.95**	**-**
13.1.2 Lease Liabilities				
Maturity analysis				
- contractual undiscounted cash flows				
Less than one year	2.86	-	2.86	-
One to five years	2.73	-	2.73	-
Total undiscounted lease liabilities at 31 December	**5.59**	**-**	**5.59**	**-**
Lease liabilities included in the statement of financial position				
Current	1.04	-	1.04	-
Non - current	0.89	-	0.89	-
Total	**1.93**	**-**	**1.93**	**-**

Lease liabilities are in other liabilities (note 17)

	Restated 31 December 2019 ZWLm	Restated 31 December 2018 ZWLm	Unaudited Historical 31 December 2019 ZWLm	Unaudited Historical 31 December 2018 ZWLm
13.1.3 Amounts recognised in profit or loss				
Interest on lease liabilities	0.33	-	0.15	-
Depreciation charge for the year	2.28	-	1.27	-
	2.61	**-**	**1.42**	**-**

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

		Audited Inflation Adjusted 31 December 2019 ZWLm	Audited Inflation Adjusted 31 December 2018 ZWLm	Unaudited Historical 31 December 2019 ZWLm	Unaudited Historical 31 December 2018 ZWLm
14	**Intangible assets**				
	Opening carrying amount				
	Cost or valuation	216.29	202.89	24.61	22.98
	Accumulated amortisation	(150.54)	(119.81)	(16.75)	(13.57)
		65.75	**83.08**	**7.86**	**9.41**
	Movement in intangible assets				
	Additions	7.14	13.40	2.01	1.63
	Amortisation charge	(14.24)	(30.73)	(1.79)	(3.18)
		(7.10)	**(17.33)**	**0.22**	**(1.55)**
	Closing carrying amount				
	Cost /valuation	223.43	216.29	26.62	24.61
	Accumulated amortisation	(164.78)	(150.54)	(18.54)	(16.75)
		58.65	**65.75**	**8.08**	**7.86**

Intangible assets comprise of right of use licences.

		Audited Inflation Adjusted 31 December 2019 ZWLm	Audited Inflation Adjusted 31 December 2018 ZWLm	Unaudited Historical 31 December 2019 ZWLm	Unaudited Historical 31 December 2018 ZWLm
15	**Deposits**				
	Money market deposits	622.87	3 776.11	622.87	594.62
	Term deposits	0.21	4.41	0.21	0.71
	Savings deposits	2 117.70	3 553.68	2 117.70	571.90
		2 740.78	**7 334.20**	**2 740.78**	**1 167.23**
	Maturity analysis				
	Less than 1 month	2 332.97	5 140.69	2 332.97	818.14
	1 to 3 months	70.17	1 060.54	70.17	168.77
	3 to 6 months	1.72	240.60	1.72	38.31
	6 months to 1 year	228.82	107.69	228.82	17.14
	1 to 5 years	38.23	343.55	38.23	54.68
	Over 5 years	68.87	441.13	68.87	70.19
		2 740.78	**7 334.20**	**2 740.78**	**1 167.23**

	Audited Inflation Adjusted 31 December 2019 ZWLm	Audited Inflation Adjusted 31 December 2018 ZWLm	Unaudited Historical 31 December 2019 ZWLm	Unaudited Historical 31 December 2018 ZWLm
Concentration				
Financial institutions	699.88	3 112.37	699.88	495.33
Companies	1 555.47	3 516.01	1 555.47	559.57
Individuals	485.43	705.82	485.43	112.33
	2 740.78	**7 334.20**	**2 740.78**	**1 167.23**

	Audited Inflation Adjusted 31 December 2019 %	Audited Inflation Adjusted 31 December 2018 %	Unaudited Historical 31 December 2019 %	Unaudited Historical 31 December 2018 %
Concentration				
Financial institutions	25.5%	42.4%	25.5%	42.4%
Companies	56.8%	47.9%	56.8%	47.9%
Individuals	17.7%	9.7%	17.7%	9.7%
	100%	**100%**	**100%**	**100%**

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
16 Credit lines				
Trade and Development Bank (TDB)	358.10	121.87	358.10	19.62
Shelter Afrique	104.85	49.71	104.85	8.00
African Development Bank (AFDB)	434.65	159.59	434.65	25.68
	897.60	**331.17**	**897.60**	**53.30**
Maturity analysis				
Less than 1 month	19.13	5.47	19.13	0.88
1 to 3 months	120.72	22.99	120.72	3.70
3 to 6 months	30.38	23.23	30.38	3.74
6 months to 1 year	183.91	44.74	183.91	7.20
1 to 5 years	543.46	234.74	543.46	37.78
	897.60	**331.17**	**897.60**	**53.30**

	Tier of debt	First Call Date	Maturity Date	Type of loan
TDB Bank US$ 25 Million	Senior	Oct-17	Mar-21	Term Loans
Shelter Afrique US$ 9.6 million	Senior	Jul-14	Dec-23	Term Loans
Shelter Afrique US$ 4.8 million	Senior	Jul-14	Sep-22	Term Loans
AFDB US$ 25 Million	Senior	Sep-18	Sep-21	Term Loans

As security for the TDB loan, the Society registered bonds of US$7m and issued powers of attorney to register bonds (in the event of default) over property with a fair value of US$30.18m as at 31 December 2019 (both Investment property and Owner occupied property). The Shelter Afrique loan is secured by a guarantee from OMZIL as well as a cession of the performing loan book covering two times the exposure at any given time.

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
17 Other liabilities				
Trade creditors	106.73	206.27	102.56	33.20
Cash-settled share based liability	3.12	0.26	3.12	0.04
Other liabilities	16.22	14.92	16.22	2.41
Deferred Revenue	117.06	89.97	26.10	10.20
	243.13	**311.42**	**148.00**	**45.85**
18 Provisions				
Opening balance	30.97	24.50	4.98	2.77
Net movements	(6.25)	6.47	19.74	2.21
Closing balance	**24.72**	**30.97**	**24.72**	**4.98**

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
19 Deferred taxation	**37.63**	**20.90**	**37.63**	**3.29**
As at 1 January	**20.90**	**16.34**	**3.29**	**3.26**
Other timing differences	16.73	4.56	34.34	0.03
As at 31 December	37.63	20.90	37.63	3.29
Impact of adopting IFRS 9, 15 & 16	-	-	-	-
As at 31 December	**37.63**	**20.90**	**37.63**	**3.29**

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

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

		Audited Inflation Adjusted		Unaudited Historical	
		31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
20	**Share capital and reserves**				
20.1	**Ordinary class "A" share capital**				
	Comprising 35 000 000 authorised, issued, and fully paid shares of $1 each.	**309.01**	**309.01**	**35.00**	**35.00**

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

		Audited Inflation Adjusted		Unaudited Historical	
		31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
20.2	**Retained earnings**				
	Opening balance	801.99	890.87	127.33	109.99
	Impact of adopting IFRS 9	-	(15.19)	-	(1.72)
	Restated balance 1 January	801.99	875.68	127.33	108.27
	Net surplus for the year	(159.28)	171.69	218.98	49.24
	Dividend payable	-	(32.18)	-	(25.00)
	Regulatory loan loss provision	26.48	(213.20)	(0.52)	(5.18)
	Closing balance	**669.19**	**801.99**	**345.79**	**127.33**
20.3	**Regulatory provision reserve**				
	Opening balance	32.18	158.54	5.18	17.95
	Impact of adopting IFRS 9	-	(158.54)	-	(17.95)
	Restated balance 1 January	32.18	-	5.18	-
	Regulatory impairment allowance	(26.48)	32.18	0.52	5.18
	Closing balance	**5.70**	**32.18**	**5.70**	**5.18**
20.4	**Non distributable reserve**	**12.77**	**12.77**	**1.45**	**1.45**
	The reserve relates to amounts which are not available for distribution to shareholders.				
20.5	**Revaluation reserve**				
	Opening balance	63.06	-	19.63	18.77
	Revaluation gain net of deferred tax	226.19	63.06	433.49	0.86
	Closing balance	**289.25**	**63.06**	**453.12**	**19.63**
	The revaluation reserve relates to the revaluation of properties.				
20.6	**Share based payment reserve**				
	Opening balance	51.08	49.68	5.79	5.63
	Share based payment reserve	0.17	1.40	0.03	0.16
	Closing balance	**51.25**	**51.08**	**5.82**	**5.79**
	The reserve relates to the cost incurred by the Society for transactions which are equity settled (note 24).				
20.7	**Foreign currency translation reserve**				
	Opening balance	-	-	-	-
	Change in functional currency	(188.22)	-	(37.55)	-
	Closing balance	**(188.22)**	**-**	**(37.55)**	**-**

The reserve comprises exchange differences that arose on translating foreign currency denominated assets and liabilities on the date of change in the Society's functional currency.

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

21.0 Determination of fair value of financial and non financial assets

21.1 Fair value hierarchy

Description of hierarchy	Types of instruments classified in the respective levels
Level 1 – quoted market prices - financial assets and liabilities with quoted prices for identical instruments in active markets.	Listed equity securities, listed government securities, and other listed debt securities and similar instruments that are actively traded.
Level 2 – valuation techniques using observable inputs - financial assets and liabilities with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable.	Unlisted equity and debt securities where the valuation is based on models involving no significant unobservable data, with a majority being determined with reference to observable prices.
Level 3 – valuation techniques using significant unobservable inputs - financial assets and liabilities valued using valuation techniques where one or more significant unobservable inputs.	Unlisted equity and securities with significant unobservable inputs, securities where the market is not considered sufficiently active, including certain inactive pooled investments.

The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices, and the size of bid/offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process.

Most valuation techniques employ only observable data and so the reliability of the fair value measurement is high. However, certain financial assets and liabilities are valued on the basis of valuation techniques that feature one or more significant inputs that are unobservable and, for them, the derivation of fair value is more judgemental. A financial asset or liability in its entirety is classified as valued using significant unobservable inputs if a significant proportion of that asset or liability's carrying amount is driven by unobservable inputs.

In this context, 'unobservable' means that there is little or no current market data available for which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Furthermore, in some cases most of the fair value derived from a valuation technique with significant unobservable data may be attributable to observable inputs. Consequently, the effect of uncertainty in determining unobservable inputs will generally be restricted to uncertainty about the overall fair value of the asset or liability being measured.

The Society deems a transfer to have occurred between Level 1 and Level 2 when an active, traded primary market ceases to exist for that financial instrument. A transfer between Level 2 and Level 3 occurs when most of the significant inputs used to determine fair value of the instrument become unobservable.

The table on the next page analyses assets measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised. Financial instruments whose carrying amount approximate fair value have been excluded from the analysis on the next page.

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

21.0 Determination of fair value of financial and non financial assets (continued)

21.1 Fair value hierarchy (continued)

	Notes	Audited Inflation Adjusted Level 1 ZWLm	Level 2 ZWLm	Level 3 ZWLm	Total ZWLm
As at 31 December 2019					
Assets at fair value through profit or loss					
Investment in equity	9	-	-	8.63	8.63
Investment property	13	-	-	227.86	227.86
Non-current assets held for sale	11	-	-	10.76	10.76
Assets at fair value through other comprehensive income					
Owner occupied property (land and buildings)	12	-	-	513.17	513.17
		-	**-**	**760.42**	**760.42**
As at 31 December 2018					
Assets at fair value through profit or loss					
Investment in equity	9	-	-	11.56	11.56
Investment property	13	-	-	145.97	145.97
Non-current assets held for sale	11	-	-	6.47	6.47
Assets at fair value through other comprehensive income					
Owner occupied property (land and buildings)	12	-	-	262.19	262.19
		-	**-**	**426.19**	**426.19**

	Notes	Unaudited Historical Level 1 ZWLm	Level 2 ZWLm	Level 3 ZWLm	Total ZWLm
As at 31 December 2019					
Assets at fair value through profit or loss					
Investment in equity	9	-	-	8.63	8.63
Investment property	13	-	-	227.86	227.86
Non-current assets held for sale	11	-	-	10.76	10.76
Assets at fair value through other comprehensive income					
Owner occupied property (land and buildings)	12	-	-	513.17	513.17
		-	**-**	**760.42**	**760.42**
As at 31 December 2018					
Assets at fair value through profit or loss					
Investment in equity	9	-	-	1.86	1.86
Investment property	13	-	-	23.49	23.49
Non-current assets held for sale	11	-	-	1.04	1.04
Assets at fair value through other comprehensive income					
Owner occupied property (land and buildings)	12	-	-	42.19	42.19
		-	**-**	**68.58**	**68.58**

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

21.0 Determination of fair value of financial and non financial assets (continued)

21.2 Reconciliation of level 3 items

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
Balance as at 1 January	**426.19**	**328.00**	**68.58**	**66.41**
Change in functional currency	1.40	-	0.28	-
Transfer in (investment in equity)	-	11.56	-	1.86
Additions	27.87	1.21	17.85	0.15
Disposal of non current assets held for sale	(4.02)	(1.56)	(0.45)	(0.17)
Depreciation recognised on owner occupied property	(11.67)	(9.08)	(2.08)	(0.75)
Gains or losses for the period:				
Fair value gain through profit or loss	83.86	30.16	216.95	0.18
Revaluation gain on owner occupied property	234.78	65.90	455.21	0.90
Exchange gains	2.01	-	4.08	-
Closing balance	**760.42**	**426.19**	**760.42**	**68.58**

The fair value of the Society's properties are categorised into Level 3 of the fair value hierarchy through their use of unobservable units.

21.3 Fair value estimation

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

When the fair value of a financial asset or liability is affected by more than one unobservable assumption, the figures shown reflect the most favourable or most unfavourable change from varying the assumptions individually.

The valuations of the private equity investments are performed on an asset by asset basis using a valuation methodology appropriate to the specific investment and in line with industry guidelines. In determining the valuation of the investment the principal assumption used is the valuation multiples applied to the main financial indicators (such as adjusted earnings). The source of these multiples may include multiples for comparable listed companies which have been adjusted for discounts for non-tradability and valuation multiples earned on transactions in comparable sectors.

Effect of changes in significant unobservable assumptions to reasonable possible alternatives.

Favourable and unfavourable changes are determined based on changes in the value of the financial asset or liability as a result of varying the levels of the unobservable parameters using statistical techniques. When parameters are not amenable to statistical analysis, quantification of uncertainty is judgemental.

Assets	Valuation technique and inputs
Owner occupied property (land and buildings)	Sales comparison method, market rentals, and yields
Investment Property	Sales comparison method, market rentals, and yields
Non-current assets held for sale	Sales comparison method, market rentals, and yields
Investment in equity	Income approach - discount rates, cashflows, and growth

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

21.0 Determination of Fair Value of financial and non financial assets (continued)

21.3 Fair value estimation (continued)

Type of property	Valuation approach	Key unobservable inputs	Inter-relationship between unobservable inputs and the fair value measurement
Office, Retail, and Industrial Properties	Income capitalisation	Rental income per square meter and capitalisation rates and vacancies	The estimated fair value would increase if: >net rental income increased; >capitalisation rates decreased; and >vacancies decreased. The estimated fair value would decrease if the unobservable inputs changed the other way.
Residential property	Sales comparison approach.	Price for comparable properties	The estimated fair value would increase if prices for comparable properties increased. The estimated fair value would decrease if the unobservable inputs changed the other way.
Land	Sales comparison approach.	Price for comparable properties	The estimated fair value would increase if prices for comparable properties increased. The estimated fair value would decrease if the unobservable inputs changed the other way.
Investment in equity	Discounted cash flows (DCF) EBITDA multiples, price earnings ratios, adjusted net asset values, and discounted dividend growth model approach.	Valuation multiples, volatilities, credit spreads, dividend growth rates, internal rates of return, cost of capital, and risk premiums	The estimated fair value would increase if the discount rates were decreased. The estimated fair value would decrease if the unobservable inputs changed the other way.

21.4 Fair value hierarchy for assets and liabilities not measured at fair value

Certain financial instruments of the Society are not carried at fair value, principally investments securities, loans and advances, credit lines, and other financial assets and financial liabilities at amortised cost. The calculation of the fair value of these financial instruments represents the Society's best estimate of the value at which these financial assets could be exchanged, or financial liabilities transferred, between market participants at the measurement date. The Society's estimate of fair value does not necessarily represent the amount it would be able to realise on the sale of the asset or transfer the financial liability in an involuntary liquidation or distressed sale.

The table below shows the fair value hierarchy only for those assets and liabilities for which the fair value is different to the carrying value and which is being estimated for the purpose of IFRS disclosure. Additional information regarding these and other financial instruments not carried at fair value is provided in the narrative following the table:

Audited Inflation Adjusted	Carrying amount ZWLm	Level 1 ZWLm	Fair Value Level 2 ZWLm	Level 3 ZWLm	Total ZWLm
31 December 2019					
Treasury bills	133.98	-	-	110.80	110.80
31 December 2018					
Treasury bills	1 400.55	-	-	1 367.62	1 367.62
Unaudited Historical					
31 December 2019					
Treasury bills	133.98	-	-	110.80	110.80
31 December 2018					
Treasury bills	225.40	-	-	220.10	220.10

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

21.0 Determination of Fair Value of financial and non financial assets (continued)

21.4 Fair value hierarchy for assets and liabilities not measured at fair value (continued)

Investment securities

For investment securities other than Treasury bills presented within note 8 at amortised cost in terms of IFRS 9 and therefore not carried at fair value, the fair value has been determined based either on discounted cash flow analysis where an instrument is not quoted or the market is considered to be inactive (Level 3).

Loans and advances

Loans and advances presented within note 10 at amortised cost in terms of IFRS 9 and therefore not carried at fair value, principally comprise of fixed rate financial assets and are classified as Level 3.

Loans and advances are not actively traded and it is therefore not possible to determine the fair value of these loans and advances using observable market prices and market inputs. Due to the unique characteristics of the loans and advances portfolio and the fact that there have been no recent transactions involving the disposals of such loans and advances, there is no basis to determine a price that could be negotiated between market participants in an orderly transaction. The Society is not currently in the position of a forced sale of such underlying loans and advances, and it would therefore be inappropriate to value the loans and advances on a forced-sale basis.

For specifically impaired loans and advances, the carrying value as determined after consideration of the Society's IFRS 9 credit impairments, is considered the best estimate of fair value.

Credit lines

Credit lines presented within note 16 as financial liabilities at amortised cost in terms of IFRS 9 are not carried at fair value. The fair value is determined using discounted cash flow analysis where an instrument is not quoted or the market is considered to be inactive (Level 3).

22 Related party disclosures

Group companies

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

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

Subsidiaries of parent company

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

Key management personnel

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

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

22 Related party disclosures (continued)

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
22.1 Loans to Directors				
Opening balance	98.76	148.06	15.90	16.77
Issued during the year	10.37	-	3.16	-
Interest and insurance charges	3.15	17.33	0.96	2.10
Repayments during the year	(52.26)	(24.57)	(15.92)	(2.97)
Monetary adjustment	(55.92)	(42.06)	-	-
Closing balance	**4.10**	**98.76**	**4.10**	**15.90**

Loans and advances to Directors are made on the same terms and conditions as in the normal course of business at arm's length, except for executive Directors which are in accordance with staff loan schemes.

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
22.2 Balances with Group companies				
During the year the Society entered into normal business transactions with Group companies and the outstanding balances at year end were:				
Amounts due to fellow subsidiaries	239.20	1 553.40	239.20	250.12
Amounts due from fellow subsidiaries	1.69	0.12	1.69	0.02
Amounts due to the holding company	-	-	-	-

22.3 Transactions with Group companies

The Society entered into normal business transactions with Group companies. Income earned and interest paid in respect to these transactions as listed below:

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
Insurance paid to RM Insurance holdings	-	6.78	-	0.82
Interest paid to fellow subsidiaries	31.64	74.37	9.64	8.99
Fees paid to Old Mutual Properties (Private) Limited	3.64	8.02	1.47	0.97
Outsourced services to Old Mutual Shared Services (Private) Limited	32.56	45.50	7.98	5.52
22.4 Loans to executives and senior management	**4.25**	**14.24**	**4.25**	**2.29**

These loans were granted at arm's length.

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

22 Related party disclosures (continued)

22.5 Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
Short term employment benefits	39.02	49.55	16.69	5.99
Post employment benefits	0.65	1.49	0.22	0.18
Share based payments	3.25	1.82	3.11	0.22
	42.92	52.86	20.02	6.39
22.6 Directors fees	**2.24**	**2.32**	**1.20**	**0.28**

23 Post employment employee benefits

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
Old Mutual Group pension fund	4.30	8.69	1.47	1.06
NSSA	1.70	3.97	0.53	0.48
	6.00	12.66	2.00	1.54

Old Mutual Group Pension Fund - Defined contribution fund
The pension fund is a defined contribution pension fund and the amount of benefits is determined by contributions made into the fund plus profits that are declared from time to time by the fund's trustees. The contributions to the pension fund by the employer are charged to the statement of profit or loss.

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

23.1 Old Mutual Group Pension Fund - Defined contribution fund

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

23.2 National Social Security Authority (NSSA)

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

24 Share-based payments

24.1.1 Equity settled share option program

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

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

24 Share-based payments (continued)

24.1.1 Equity settled share option program (continued)

OMZIL Management Incentive Share Scheme

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

24.1.2 Composition of equity settled share based payment liabilities

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
Total Liability	**51.25**	**51.08**	**5.82**	**5.79**

Movement relating to share entitlements and awards during the year are as follows:

Share options	31 December 2019 Number of shares (m)	31 December 2018 Number of shares (m)
Outstanding, at beginning of year	0.47	0.77
Exercised during year	-	(0.30)
Outstanding, at end of year	**0.47**	**0.47**

Shares exercised in 2018 were exercised at an average price of ZWL1.09. The shares are listed on the Finsec Automated Trading Platform (ATP). The ATP price as at 31 December 2019 was ZWL12.00 (2018:ZWL4.95).

As stated above, the shares available for the share schemes were acquired and warehoused in special purpose vehicles at the parent company, Old Mutual Zimbabwe Limited. The equity-settled share based payment reserve is maintained in the company from the date of issue of the share awards. On exercise of the share awards settlement will be made through the special purpose vehicles controlled by OMZIL.

24.2.1 Cash settled share program

Broad Based Employee Share Plan (BBESP)

In the financial year ending 31 December 2018, OMZIL granted share awards to all eligible employees as part of the primary listing of Old Mutual Limited on the Johannesburg Stock Exchange (JSE). All permanent employees of the Group on the date of listing of Old Mutual Limited were eligible to participate, if they were still permanently employed by OMZIL on the grant date of 18 September 2018.

All participants received a fixed Rand value offer of ZAR10 000 converted into the local currency, after reducing the award by the amount needed to cover the tax liability on the award for each employee in compliance with tax legislation which states that share awards are taxable on grant. The actual number of shares granted to each employee was calculated on the grant date using the price of the Old Mutual Limited share on the Johannesburg Stock Exchange.

The BBESP award will be restricted for a period of two years from the grant date. Participants are entitled to receive dividends in respect of the share awards during the restricted period. At the end of the restricted period, the value of the vested share awards will be paid in cash to the participants. The BBESP awards will not be subject to performance conditions; however, the award is subject to the condition that participants remain employed by the Old Mutual Group during the restricted period.

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

24 Share-based payments (continued)

24.2.1 Cash settled share program (continued)

The fair value of services received in return for the BBESP is measured by reference to the fair value of share entitlements granted over the service period. The fair value is measured using the closing price of the Old Mutual Limited share on the Johannesburg Stock Exchange at each reporting date. The cash-settled share based payment liability is maintained in the Society and remeasured at each reporting date during the period up to exercise of the share options, with changes in fair value recorded in profit or loss.

24.2.2 Composition of cash settled share based payments liability

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
Outstanding liability	**3.12**	**0.26**	**3.12**	**0.04**

Movement relating to share entitlements and awards during the year are as follows:	31 December 2019 Number of shares m	31 December 2018 Number of shares m
Outstanding, at beginning of year	**0.16**	**-**
Granted during year	0.06	0.16
Forfeited during year	(0.02)	-
Transferred in	0.01	-
Vested	(0.01)	-
Outstanding, at end of year	**0.20**	**0.16**

25 Risk management

CABS risk management framework is enshrined in the three lines of defence principle of enterprise risk management, where all officers in the institution are responsible for risk management, albeit with differing levels of responsibility.

The principles of CABS' enterprise risk management policy are: risk management skills, competencies, and resources; risk govenance; risk culture; risk strategy and appetite; risk identification, assessment, management, monitoring, and reporting; risk acceptance; risk transfer; and combined assurance.

CABS' risk universe is clearly defined, monitored, and managed through the Society's risk management framework.

The Society's major risks are:

- Credit risk;
- Liquidity risk;
- Market risk;
- Compliance risk;
- Operational risk;
- Strategic risk and
- Reputational risk.

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

25 Risk management (continued)

25.1 Credit risk

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

Impaired Loans and Securities

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

Past due but not Impaired Loans

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

Exposure to Counterparties

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

Loans and Advances Renegotiated

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

The Management Credit Committee

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

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

Write off policy

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

Credit risk mitigation

Credit risk mitigation refers to the actions that can be taken by the Society to manage its exposure to credit risk so as to align such exposure with its risk appetite. This is influenced by external forces such as the economic cycle or internal factors such as a change in risk appetite. Credit risk mitigation normally focus on the taking of collateral as well as the management of such collateral.

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

25 Risk management (continued)

25.1 Credit risk (continued)

Credit risk mitigation

In granting a credit facility the Society considers both the counterparty's collateral and financial position. Should a counterparty be unable to settle its obligations, the Society takes possession of collateral as full or part settlement of such amounts. In general, the Society seeks to dispose the collateral which is not readily convertible into cash as soon as the market for the relevant asset permits. Non-current assets held for sale (note 11) represents repossessed collateral property which the Society intends on converting into cash within the coming year. The Society generally segregates collateral received into the following two classes:

Financial collateral

The Society takes financial collateral to support credit exposures in the trading book. This includes cash and debt securities in respect of derivative transactions.

These transactions are entered into under terms and conditions that are standard industry practice in securities borrowing and lending activities.

Non-financial collateral

In secured financial transactions the Society takes other physical collateral to recover outstanding exposure in the event of the borrower being unable or unwilling to fulfil its obligations. This includes mortgages over property (both residential and commercial), liens over business assets (including, but not limited to, plant, vehicles, inventories, trade debtors, and financial securities that have a tradable market, such as shares and other securities) and guarantees from parties other than the borrower.

The valuation and management of collateral is governed by the Credit Policy. The total registered collateral value for advances was ZWL1 107.35m (2018:ZWL528.50m).

The Society holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Collateral held and other credit enhancements

Percentage of exposure subject to collateral requirements

	31 December 2019 ZWLm	**31 December 2018 ZWLm**	**Principal type of Collateral/credit enhancements held**
Type of credit exposure			
Treasury Bills	0%	0%	None
Fixed deposits	100%	63%	Treasury Bills
Mortgage loans	100%	100%	Property
Corporate loans	19%	18%	Property, Notarial general covering bond and guarantees
Consumer loans	100%	100%	Insurance

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Society generally requests that corporate borrowers provide it. The Society may take collateral in the form of a first charge over real estate, floating charges over all corporate assets, and other liens and guarantees. Because of the Society's focus on corporate customers creditworthiness, the Society does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely.

For credit-impaired loans, the Society obtains appraisals of collateral because it provides input into determining the management credit risk actions.

The following tables stratify credit exposures from mortgage loans and advances by ranges of loan to value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan or the amount committed for loan commitments to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for loans and advances is based on the collateral value at origination updated based on changes in house price indices.

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

25 Risk management (continued)

25.1 Credit risk (continued)

LTV Ratio	Audited Inflation Adjusted 31 December 2019 ZWLm	Audited Inflation Adjusted 31 December 2018 ZWLm	Unaudited Historical 31 December 2019 ZWLm	Unaudited Historical 31 December 2018 ZWLm
Non credit impaired loans				
less than 50%	10.68	120.86	10.68	19.45
51%-75%	13.02	214.06	13.02	34.45
76%-100%	27.99	705.63	27.99	113.56
More than 100%	161.68	407.06	161.68	65.51
Total	**213.37**	**1 447.61**	**213.37**	**232.97**
Credit impaired loans				
Less than 50%	0.40	3.67	0.40	0.59
51%-75%	0.51	6.77	0.51	1.09
76%-100%	0.72	21.00	0.72	3.38
More than 100%	17.22	146.77	17.22	23.62
Total	**18.85**	**178.21**	**18.85**	**28.68**

Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Society during the year by taking possession of collateral held as security against loans and advances and held at the year end, are shown below.

	Audited Inflation Adjusted 31 December 2019 ZWLm	Audited Inflation Adjusted 31 December 2018 ZWLm	Unaudited Historical 31 December 2019 ZWLm	Unaudited Historical 31 December 2018 ZWLm
Property	-	-	-	-

The Society's policy is to pursue timely realisation of the collateral in an orderly manner. The Society does not generally use the non-cash collateral for its own operations.

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

25 Risk management (continued)

25.1 Credit risk (continued)

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

31 December 2019- Audited Inflation Adjusted

Class	Type	Provisioning criteria	Gross loans ZWLm	Allowance for impairment ZWLm	Net loans ZWLm
Grade A,B,C	Pass	1-2% general provision	1 261.82	29.60	1 232.22
Grade D,E,F,G	Special mention	3-10% general provision	247.12	11.45	235.67
Grade H	Sub standard	20% specific provision on balance less security value	2.88	1.64	1.24
Grade I	Doubtful	50% of total outstanding balance less security value	4.52	2.88	1.64
Default	Loss	100% of total outstanding balance less security held	24.08	13.52	10.56
		Portfolio total	**1 540.42**	**59.09**	**1 481.33**

31 December 2018- Audited Inflation Adjusted

Class	Type	Provisioning criteria	Gross loans ZWLm	Allowance for impairment ZWLm	Net loans ZWLm
Grade A,B,C	Pass	1-2% general provision	3 737.98	69.79	3 668.19
Grade D,E,F,G	Special mention	3-10% general provision	1 046.39	50.39	996.00
Grade H	Sub standard	20% specific provision on balance less security value	49.03	21.06	27.97
Grade I	Doubtful	50% of total outstanding balance less security value	44.99	12.49	32.50
Default	Loss	100% of total outstanding balance less security held	199.94	107.25	92.69
		Portfolio total	**5 078.33**	**260.98**	**4 817.35**

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

25 Risk management (continued)

25.1 Credit risk (continued)

31 December 2019- Unaudited Historical

Class	Type	Provisioning criteria	Gross loans ZWLm	Allowance for impairment ZWLm	Net loans ZWLm
Grade A,B,C	Pass	1-2% general provision	1 261.82	29.60	1 232.22
Grade D,E,F,G	Special mention	3-10% general provision	247.12	11.45	235.67
Grade H	Sub standard	20% specific provision on balance less security value	2.88	1.64	1.24
Grade I	Doubtful	50% of total outstanding balance less security value	4.52	2.88	1.64
Default	Loss	100% of total outstanding balance less security held	24.08	13.52	10.56
		Portfolio total	**1 540.42**	**59.09**	**1 481.33**

31 December 2018- Unaudited Historical

Class	Type	Provisioning criteria	Gross loans ZWLm	Allowance for impairment ZWLm	Net loans ZWLm
Grade A,B,C	Pass	1-2% general provision	600.77	11.23	589.54
Grade D,E,F,G	Special mention	3-10% general provision	168.40	8.11	160.29
Grade H	Sub standard	20% specific provision on balance less security value	7.89	3.39	4.50
Grade I	Doubtful	50% of total outstanding balance less security value	7.24	2.01	5.23
Default	Loss	100% of total outstanding balance less security held	32.18	17.26	14.92
		Portfolio total	**816.48**	**42.00**	**774.48**

The Society also considers provisioning requirements of IFRS 9 *Financial Instruments* and makes the most prudent provisions for its loans and advances based on the two methods. Where the regulatory provisions are higher than the IFRS 9 impairment, the excess is treated as an appropriation from retained earnings.

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

25 Risk management (continued)

25.2 Liquidity risk

Liquidity risk is the risk that the Society will encounter difficulty in meeting obligations for its financial liabilities. The key measures used by the Society for managing liquidity risk are the liquidity ratio, the liquidity gap, and the interest rate repricing gap.

Liquidity ratio

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

Liquidity gap

The liquidity gap is the difference between assets and liabilities in each maturity period.

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

Assets and Liabilities Committee

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 the submission of monthly liquidity returns to the Reserve Bank of Zimbabwe (RBZ). In addition, the Society matches long term liabilities to long term investments and this is monitored through the Board Risk and Compliance Committee.

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

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
Total liquid assets	2 291.29	3 110.19	2 291.29	500.54
Total liabilities to the public	3 638.38	7665.37	3 638.38	1 220.53
Liquidity ratio	63%	41%	63%	41%
Maximum for the period	63%	43%	63%	43%
Minimum for the period	34%	31%	34%	31%
Average for the period	50%	38%	50%	38%

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

25 Risk management (continued)

25.2 Liquidity risk (continued)

25.2.1 Liquidity gap analysis

	Audited Inflation Adjusted					
Liquidity gap analysis as at 31 December 2019	**On demand to 3 months ZWLm**	**3 months to 1 year ZWLm**	**1 year to 5 years ZWLm**	**Over 5 years ZWLm**	**Non-determinant maturity ZWLm**	**Total ZWLm**
Assets						
Cash and cash equivalents	1 405.55	-	-	-	-	1 405.55
Investment securities	245.59	86.25	48.91	5.75	-	386.50
Other assets	-	-	-	-	791.64	791.64
Loans and advances	184.49	394.22	865.83	42.49	-	1 487.03
Non-current assets held for sale	-	-	-	-	10.76	10.76
Property and equipment	-	-	-	-	724.82	724.82
Investment property	-	-	-	-	227.86	227.86
Intangible assets	-	-	-	-	58.65	58.65
Total assets	**1 835.63**	**480.47**	**914.74**	**48.24**	**1 813.73**	**5 092.81**
Liabilities						
Deposits	2 403.14	230.54	38.23	68.87	-	2 740.78
Credit lines	139.86	214.28	543.46	-	-	897.60
Other liabilities	-	-	-	-	243.13	243.13
Provisions	-	-	-	-	24.72	24.72
Deferred taxation	-	-	-	-	37.63	37.63
Shareholder equity	-	-	-	-	1 148.95	1 148.95
Total liabilities	**2 543.00**	**444.82**	**581.69**	**68.87**	**1 454.43**	**5 092.81**
Net liquidity gap	**(707.37)**	**35.65**	**333.05**	**(20.63)**	**359.30**	**-**
Cumulative liquidity gap	**(707.37)**	**(671.72)**	**(338.67)**	**(359.30)**	**-**	**-**

	Audited Inflation Adjusted					
Liquidity gap analysis as at 31 December 2018	**On demand to 3 months ZWLm**	**3 months to 1 year ZWLm**	**1 year to 5 years ZWLm**	**Over 5 years ZWLm**	**Non-determinant maturity ZWLm**	**Total ZWLm**
Assets						
Cash and cash equivalents	1 040.66	-	-	-	-	1 040.66
Investment securities	1 092.19	482.13	341.09	154.13	-	2 069.54
Other assets	-	-	-	-	689.28	689.28
Loans and advances	754.50	1 502.05	2 294.68	298.27	-	4 849.50
Property and equipment	-	-	-	-	431.58	431.58
Non-current assets held for sale	-	-	-	-	6.47	6.47
Investment property	-	-	-	-	145.97	145.97
Intangible assets	-	-	-	-	65.75	65.75
Total assets	**2 887.35**	**1 984.18**	**2 635.77**	**452.40**	**1 339.05**	**9 298.75**
Liabilities						
Deposits	6 201.23	348.39	343.55	441.03	-	7 334.20
Credit lines	28.46	67.97	234.74	-	-	331.17
Other liabilities	-	-	-	-	311.42	311.42
Provisions	-	-	-	-	30.97	30.97
Deferred taxation	-	-	-	-	20.90	20.90
Shareholder equity	-	-	-	-	1 270.09	1 270.09
Total liabilities	**6 229.69**	**416.36**	**578.29**	**441.03**	**1 633.38**	**9 298.75**
Net liquidity gap	**(3 342.34)**	**1 567.82**	**2 057.48**	**11.37**	**(294.33)**	**-**
Cumulative liquidity gap	**(3 342.34)**	**(1 774.52)**	**282.96**	**294.33**	**-**	**-**

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

25 Risk management (continued)

25.2 Liquidity risk (continued)

25.2.1 Liquidity gap analysis (continued)

	Unaudited Historical					
Liquidity gap analysis as at 31 December 2019	**On demand to 3 months ZWLm**	**3 months to 1 year ZWLm**	**1 year to 5 years ZWLm**	**Over 5 years ZWLm**	**Non-determinant maturity ZWLm**	**Total ZWLm**
Assets						
Cash and cash equivalents	1 405.55	-	-	-	-	1 405.55
Investment securities	245.59	86.25	48.91	5.75	-	386.50
Other assets	-	-	-	-	558.79	558.79
Loans and advances	184.49	394.22	865.83	42.49	-	1 487.03
Non-current assets held for sale	-	-	-	-	10.76	10.76
Property and equipment	-	-	-	-	573.49	573.49
Investment property	-	-	-	-	227.86	227.86
Intangible assets	-	-	-	-	8.08	8.08
Total assets	**1 835.63**	**480.47**	**914.74**	**48.24**	**1 378.98**	**4 658.06**
Liabilities						
Deposits	2 403.14	230.54	38.23	68.87	-	2 740.78
Credit lines	139.86	214.28	543.46	-	-	897.60
Other liabilities	-	-	-	-	148.00	148.00
Provisions	-	-	-	-	24.72	24.72
Deferred taxation	-	-	-	-	37.63	37.63
Shareholder equity	-	-	-	-	809.33	809.33
Total liabilities	**2 543.00**	**444.82**	**581.69**	**68.87**	**1 019.68**	**4 658.06**
Net liquidity gap	**(707.37)**	**35.65**	**333.05**	**(20.63)**	**359.30**	**-**
Cumulative liquidity gap	**(707.37)**	**(671.72)**	**(338.67)**	**(359.30)**	**-**	**-**

	Unaudited Historical					
Liquidity gap analysis as at 31 December 2018	**On demand to 3 months ZWLm**	**3 months to 1 year ZWLm**	**1 year to 5 years ZWLm**	**Over 5 years ZWLm**	**Non-determinant maturity ZWLm**	**Total ZWLm**
Assets						
Cash and cash equivalents	167.48	-	-	-	-	167.48
Investment securities	175.77	77.59	54.90	24.81	-	333.07
Other assets	-	-	-	-	93.02	93.02
Loans and advances	121.28	241.49	368.92	47.96	-	779.65
Non-current assets held for sale	-	-	-	-	1.04	1.04
Property and equipment	-	-	-	-	63.42	63.42
Investment property	-	-	-	-	23.49	23.49
Intangible assets	-	-	-	-	7.86	7.86
Total assets	**464.53**	**319.08**	**423.82**	**72.77**	**188.83**	**1 469.03**
Liabilities						
Deposits	986.91	55.45	55.29	69.58	-	1 167.23
Credit lines	4.58	10.94	37.78	-	-	53.30
Other liabilities	-	-	-	-	45.85	45.85
Provisions	-	-	-	-	4.98	4.98
Deferred taxation	-	-	-	-	3.29	3.29
Shareholder equity	-	-	-	-	194.38	194.38
Total liabilities	**991.49**	**66.39**	**93.07**	**69.58**	**248.50**	**1 469.03**
Net liquidity gap	**(526.96)**	**252.69**	**330.75**	**3.19**	**(59.67)**	**-**
Cumulative liquidity gap	**(526.96)**	**(274.27)**	**56.48**	**59.67**	**-**	**-**

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

25 Risk management (continued)

25.3 Market risks

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

25.3.1 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.

Sensitivity analysis

At the reporting date, the net interest income sensitivity of the banking book for a ± 2% parallel movement in interest rates measured over 12 months is highlighted below:

	Audited Inflation Adjusted		Unaudited Historical	
	31 December 2019 ZWLm	31 December 2018 ZWLm	31 December 2019 ZWLm	31 December 2018 ZWLm
Impact on net interest income of an increase/(decrease) in interest rates				
(0.50)%	(0.36)	(1.90)	(0.11)	(0.23)
(1)%	(0.75)	(3.89)	(0.23)	(0.47)
(2)%	(1.48)	(7.69)	(0.45)	(0.93)
0.50%	0.36	1.90	0.11	0.23
1%	0.75	3.89	0.23	0.47
2%	1.48	7.69	0.45	0.93

Interest rate repricing gap

The interest rate repricing gap is the difference between interest bearing assets and interest bearing liabilities in a given maturity interval.

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

25 Risk management (continued)

25.3.1 Exposure to interest rate risk (continued)

Interest rate repricing and gap analysis as at December 2019	Audited Inflation Adjusted On demand to 3 months ZWLm	3 months to 1 year ZWLm	1 year to 5 years ZWLm	Over 5 years ZWLm	Total
Assets					
Investment securities	245.59	86.25	48.91	5.75	386.50
Loans and advances	184.49	394.22	865.83	42.49	1 487.03
Total assets	**430.08**	**480.47**	**914.74**	**48.24**	**1 873.53**
Liabilities					
Deposits	285.44	230.54	38.23	68.87	623.08
Credit lines	139.86	214.28	543.46	-	897.60
Total liabilities	**425.30**	**444.82**	**581.69**	**68.87**	**1 520.68**
Net liquidity gap	**4.78**	**35.65**	**333.05**	**(20.63)**	**352.85**
Cumulative interest rate repricing liquidity gap	**4.78**	**40.43**	**373.48**	**352.85**	**-**

Interest rate repricing and gap analysis as at December 2018	Audited Inflation Adjusted On demand to 3 months ZWLm	3 months to 1 year ZWLm	1 year to 5 years ZWLm	Over 5 years ZWLm	Total
Assets					
Investment securities	1 092.19	482.13	341.09	154.13	2 069.54
Loans and advances	754.50	1 502.05	2 294.68	298.27	4 849.50
Total assets	**1 846.69**	**1 984.18**	**2 635.77**	**452.40**	**6 919.04**
Liabilities					
Deposits	2 829.95	348.39	343.55	441.03	3 962.92
Credit lines	28.46	67.97	234.74	-	331.17
Total liabilities	**2 858.41**	**416.36**	**578.29**	**441.03**	**4 294.09**
Net liquidity gap	**(1 011.72)**	**1 567.82**	**2 057.48**	**11.37**	**2 624.95**
Cumulative interest rate repricing liquidity gap	**(1 011.72)**	**556.10**	**2 613.58**	**2 624.95**	**-**

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

25 Risk management (continued)

25.3.1 Exposure to interest rate risk (continued)

	Unaudited Historical				
Interest rate repricing and gap analysis as at December 2019	**On demand to 3 months ZWLm**	**3 months to 1 year ZWLm**	**1 year to 5 years ZWLm**	**Over 5 years ZWLm**	**Total**
Assets					
Investment securities	245.59	86.25	48.91	5.75	386.50
Loans and advances	184.49	394.22	865.83	42.49	1 487.03
Total assets	**430.08**	**480.47**	**914.74**	**48.24**	**1 873.53**
Liabilities					
Deposits	285.44	230.54	38.23	68.87	623.08
Credit lines	139.86	214.28	543.46	-	897.60
Total liabilities	**425.30**	**444.82**	**581.69**	**68.87**	**1 520.68**
Net liquidity gap	**4.78**	**35.65**	**333.05**	**(20.63)**	**352.85**
Cumulative interest rate repricing liquidity gap	**4.78**	**40.43**	**373.48**	**352.85**	**-**

	Unaudited Historical				
Interest rate repricing and gap analysis as at December 2018	**On demand to 3 months ZWLm**	**3 months to 1 year ZWLm**	**1 year to 5 years ZWLm**	**Over 5 years ZWLm**	**Total**
Assets					
Investment securities	175.77	77.59	54.90	24.81	333.07
Loans and advances	121.28	241.49	368.92	47.96	779.65
Total assets	**297.05**	**319.08**	**423.82**	**72.77**	**1 112.72**
Liabilities					
Deposits	450.38	55.45	55.29	69.58	630.70
Credit lines	4.58	10.94	37.78	-	53.30
Total liabilities	**454.96**	**66.39**	**93.07**	**69.58**	**684.00**
Net liquidity gap	**(157.91)**	**252.69**	**330.75**	**3.19**	**428.72**
Cumulative interest rate repricing liquidity gap	**(157.91)**	**94.78**	**425.53**	**428.72**	**-**

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

25 Risk management (continued)

25.3.2 Exposure to foreign currency risk
The Society is exposed to exchange rate movement of various currencies against the Zimbabwe dollar. Below are the foreign currency exposures for the Society as at 31 December:

	Exchange rate	
	31 December 2019 ZWL	31 December 2018 ZWL
Currency name		
United States Dollar (USD)	16.77	1.00
South African Rands (ZAR)	1.19	14.43
Great British pound (GBP)	22.00	1.27
EURO (EUR)	18.81	1.14
Botswana Pula (BWP)	1.58	0.09

	Cash and cash equivalents 2019	Cash and cash equivalents 2018	Net ZWL equivalent as at 31 December 2019	Net ZWL equivalent as at 31 December 2018	Effect on profit of a 10% depreciation 2019	Effect on profit of a 10% depreciation 2018	Effect on profit of a 10% appreciation 2019	Effect on profit of a 10% appreciation 2018
United States Dollar (USD)	**US$m**	**US$m**	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**
	30.12	163.80	505.17	163.80	(50.52)	(16.38)	50.52	16.38
South African Rands	**ZARm**	**ZARm**	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**
	36.54	16.65	43.40	1.15	(4.34)	(0.12)	4.34	0.12
Great British Pounds	**GBPm**	**GBPm**	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**
	-	0.07	-	0.09	-	(0.01)	-	0.01
EUR	**EURm**	**EURm**	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**
	0.79	0.41	14.49	0.47	(1.49)	(0.05)	1.49	0.05
Botswana Pula (BWP)	**PULAm**	**PULAm**	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**	**ZWLm**
	1.08	0.05	1.17	0.01	(0.17)	-	0.17	-

Notes to the financial statements (continued)

For the Year Ended 31 December 2019

25 Risk management (continued)

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

Compliance environment

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

25.5 Operational risks

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Management 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 the Group Internal Audit. The results of these audits are discussed with the management of the department to which they relate and summaries are submitted to EXCO and the Board Audit Committee. Capital requirements for operational risk are subject to Basel II Alternative Standardised approach.

25.6 Strategic risk

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

25.7 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.

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

26 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 May 2018 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	May 2018 Ratings
Capital	1 - Strong
Asset Quality	3 - Fair
Management	3 - Fair
Earnings	1 - Strong
Liquidity and funds management	2 - Satisfactory
Sensitivity to market risk	2 - Satisfactory
Overall composite rating	2 - Satisfactory

Key

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

Summary of Risk Matrix - for RBZ Onsite Inspection of May 2018

Type of Risk	Level of Inherent risk	Adequacy of Risk Management Systems	Overall Composite Risk	Direction of Overall Risk
Credit	Moderate	Acceptable	Moderate	Increasing
Liquidity	Moderate	Acceptable	Moderate	Stable
Foreign Exchange	Low	Acceptable	Low	Stable
Interest Rate	Moderate	Acceptable	Moderate	Increasing
Strategic Risk	Moderate	Acceptable	Moderate	Stable
Operational Risk	High	Acceptable	High	Stable
Legal and Compliance	Moderate	Acceptable	Moderate	Stable
Reputation	Moderate	Acceptable	Moderate	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 Year Ended 31 December 2019

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 must 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.

27 Capital Management

The RBZ sets and monitors capital requirements for the Society through quarterly BSD1 returns. In implementing current capital requirements, the RBZ requires the Society to maintain a minimum capital requirement of US$30m equivalent and capital adequacy ratio of 12% as measured by the ratio of total capital to risk weighted assets with effect from 31 December 2020. As at 31 December 2019 the Society was still to be compliant with regards to the minimum capital requirement.

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

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

- Tier 2 capital which include revaluation reserves, and subordinated debt.

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

27 Capital Management (continued)

The Society's policy is to maintain a strong capital base so as to maintain depositor confidence and sustain future developments of the business. The Society's regulatory position as at 31 December 2019 was as follows:

	Unaudited Historical 31 December 2019 ZWLm	31 December 2018 ZWLm
Tier 1 Capital		
Ordinary class "A" share capital	35.00	35.00
Retained earnings	302.06	127.35
Exposures to insiders and connected parties	(4.10)	(15.90)
Less Tier 1 allocated for market risk	(8.29)	-
Less Tier 1 allocated for operational risk	(22.91)	(15.87)
Total Tier 1 Capital	**301.76**	**130.58**
Tier 2 Capital		
Revaluation reserve (limited by Tier 1)	290.40	19.63
General provisions (limited to 1.25% of TRWA)	32.17	13.00
Other	10.39	7.28
Total Tier 2 Capital	**332.96**	**39.91**
Tier 3 Capital		
Tier 1 allocated for market risk	8.29	-
Tier 1 allocated for operational risk	22.91	15.87
Total Tier 3 Capital	**31.20**	**15.87**
Total Regulatory capital	**665.92**	**186.36**
Total risk weighted assets	**2 573.22**	**1 040.08**
Capital adequacy ratio	**26%**	**18%**
Regulatory minimum capital adequacy ratio	**12.00%**	**12.00%**

28 External credit rating

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

Rating class	Rating scale	Ratings	Rating outlook	Expiry date
Long-term	National	A+	Stable	Aug-2020
Long-term	National	A+	Stable	Aug-2019
Long-term	National	A+	Stable	Aug-2018

29 Going concern

Despite the net loss incurred in 2019, the Society managed to maintain a strong Liquidity and Capital position and has put in place a roadmap to achieve the RBZ's minimum capital requirement for the year ended 31 December 2020. The Directors have assessed the ability of the Society to continue operating as a going concern and believe that the preparation of these financial statements on a going concern basis is still appropriate.

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

30. Subsequent events

COVID-19

COVID - 19 was declared a global pandemic by the World Health Organisation (WHO) on the 11th of March 2020. The first cases in Zimbabwe were diagnosed on the 20th and 21st of March with the first fatality being announced on 23rd of March 2020. On the 27th of March 2020, the Government of Zimbabwe announced the first phase of a nationwide lockdown, commencing on the 30th of March 2020 during which the public would be expected to stay at home and business activity would be limited only to essential services.

The Society had even prior to the announcement of the lockdown, activated various crisis management actions, including increasing awareness around hygiene, providing sanitary equipment and cleaning aids, limiting non-critical business and personal travel, decongesting the office and enabling staff to work from home. A total of ZWL4m has been spent on IT hardware to support remote working as well as on sanitary equipment such as gloves, masks and sanitisers. The Society has also insisted on mandatory self-quarantine for staff members who have recently travelled out of the country as well as those who feel unwell, or may have encountered individuals who had been exposed to the virus. In addition, the use of digital and electronic means of transacting, particularly through internet and mobile platforms is well embedded across the Society. In particular, the following services will still be available during the lockdown:

- online and mobile banking to make payments;
- ability to transact through point of sale networks; and
- the Real Time Gross Settlement (RTGS).

This will enable us to continue to service our customers during a period where face to face contact must be limited.

Stress tests on the impact of COVID-19 were performed on the Society's Liquidity and Capital Adequacy Position. The following risk areas were identified; interest rate risk, liquidity risk, credit risk, foreign exchange risk, and operational risk.

The following risks were identified amongst others as likely to materialise:
- a migration of performing loans into a non-performing status;
- a negative shift in liquid asset interest rates;
- a prolonged instalment holiday on repayments;
- a shock on withdrawals of demand deposits;
- reduced foreign currency liquidity; and
- escalated cybercrime.

The results of the stress tests indicate resilience on the part of the Society's Liquidity and Capital Adequacy Position in the short to medium term; however, management actions will need to be taken to maintain the position in the long term.

The Society has put in place the following key measures amongst others to reinforce its Liquidity and Capital Adequacy Position in the foreseeable future:

- continued management of client relations to maintain and grow the current portfolio;
- continued proactive monitoring of facilities to mitigate migrations into a nonperforming status;
- continued critical credit assessment of new loan disbursements;
- continued mobilisation of diverse deposits with staggered maturity profiles;
- continued growth of the Society's FX income and the purchasing of foreign currency on the interbank market to repay foreign currency liabilities;
- completion of the roll out of chip and pin debit cards; and
- retention of earnings.

Based on the above assessment, COVID-19 will not have significant impact on the Society's ability to continue to operate as a going concern. The Pandemic is still in its infancy and as such the Directors cannot reliably estimate its future impact on the Society; however, mitigants have been put in place to safeguard the Society going concern position.

Notes to the financial statements (continued)
For the Year Ended 31 December 2019

30 Subsequent events

Litigation against the Society
Sometime in 2018, a customer of CABS approached the High Court seeking an order for the payment of US$0.14m in cash or into a Nostro Foreign Currency Account of their nomination. In the alternative, the customer also sought a declaration setting aside the Exchange Control Directive Number RT 120/2018 which was issued by the Reserve Bank of Zimbabwe. If the declaration was set aside, the customer sought that the Reserve Bank of Zimbabwe and the Minister of Finance and Economic Development should pay the amount claimed.

The Exchange Control Directive RT 120/2018
This directive instructed banks to separate US$ balances from RTGS balances and bond notes and required the opening of RTGS Foreign Currency Account (FCA) for local electronic money transfers and bond note transactions and the Nostro FCA for actual foreign currency transactions. The Society's customer was challenging this separation and argued that they wanted to be paid in US$ as they argued that their initial deposits were made in US$ prior to the introduction of bond notes and other forms of local currency.

The High Court Judgement
On the 14th May 2020, the High Court ruled in favour of the Society's customer and ordered the Society to pay them US$0.14m together with interest thereon at the rate of 5% per annum calculated from the 17th October 2018 to the date of payment in full. The High Court also declared that Exchange Control Directive Number RT 120/2018 was unconstitutional and therefore invalid. The Society, the Reserve Bank and the Minister of Finance and Economic Development were ordered to pay costs of suit jointly and severally.

Effect of the High Court Judgement
The effect of the judgement is that the Society has been ordered to pay the customer the sum of US$0.14m plus interest and RBZ Directive RT 120/2018 has been set aside. The judgement has no broader legal effect beyond the parties to the case.

What was set aside by the High Court is the directive only. Therefore, without setting aside the SI 33 of 2019 as codified in the Finance Act Number 2 of 2019, which provides that all the debts should be paid in local currency at a one as to one rate, and that all deposits in banks, except those that are in the FCA Nostro accounts remain in the local currency.

Appeal to the Supreme Court and its effect on the operation of the High Court ruling
The Society has filed an appeal against the High Court judgement in the Supreme Court. Therefore, with effect from the 20th May 2020, the High Court judgment has been suspended and is of no effect until the outcome of the appeal. The RBZ and Ministry of Finance have also issued a statement that they will appeal against the judgement.

The Directors believe, based on legal advice that has been given, that the appeal has good prospects of success.


CABS