2018 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]
Dr LL Tsumba	BS BA Finance, MA Econs., PhD Econs. [Chairman - Retired 30 June 2018]
J Mushosho[1]	BAcc. (UZ), BCompt (SA), FCIS, CA(Z), MBA [Deputy Chairman]
RCD Chitengu (Mrs)[2]	BCom (Fin), GCMA [Acting Chairman From 1 July 2018 - 31 December 2018]
T Kruger	B. Eng (Civil), Hons B. Bus Mgt and Admin., Master of Bus. Mgt and Admin., Dip. in Advanced Banking Law. (Resigned 31March 2018)
T Mutaviri (Mrs)[3]	BBS (UZ), MBA (USA) (Appointed 30 January 2018)
MJR Dube [4]	BAcc (UZ), MBA (MSU) CA (Z) (Appointed 30 January 2018)
DEB Long	BL, MBA
AE Siyavora	B Acc, CA(Z), MBL
B Zamchiya[5]	LLB (Com Law)
A Keller[6]	B Acc, B Compt, CA(SA) (appointed 11 September 2018)
SJ Hammond[7]	B Comm, CA(Z) [Managing Director]
M Mpofu[7]	B Sc Eng., CFA, MBA (Deputy Managing Director)
M Mukonoweshuro[7]	BBS (Hons), CA(Z) [Chief Finance Officer]

Board Audit Committee

RCD Chitengu (Mrs)	Chairman (Appointed 30 January 2018)
DEB Long	Member
MJR Dube	Member (Appointed 30 January 2018)

Board Risk and Compliance Committee

DEB Long	Chairman
B Zamchiya	Member
RCD Chitengu (Mrs)	Member (Appointed 30 January 2018)

Board Credit Committee

AE Siyavora	Chairman (Appointed 30 January 2018)
DEB Long	Member
MJR Dube	Member (Appointed 30 January 2018)

Board Loans Review Committee

B Zamchiya	Chairman
A Keller	Member (Appointed 11 September 2018)
T Mutaviri (Mrs)	Member (Appointed 30 January 2018)
T Kruger	Member (Appointed 30 January 2018)

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
M Mukonoweshuro	Chief Finance Officer
CT Ndoro	Head of Corporate Banking
L Taaziva	Head of Information and Communication Technology (ICT)

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
M Mukonoweshuro	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
BL Nkomo	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 is also Managing Director - Old Mutual Rest of Africa Segment; and Chief Executive Officer - Old Mutual Zimbabwe Limited (OMZIL) of the Society's parent company.

2 Non-independent Director. Mrs RCD Chitengu is also a member of the OMZIL Group Audit and Group Risk and Compliance Committees.

3 Non-independent Director. T Mutaviri (Mrs) has interests in Stiefel Investments (Private) Limited, which holds 3.5% in the share capital of OMZIL as described in Note 22.1. She was appointed to the Board on 30th January 2018.

4 Non-independent Director. Mr MJR Dube is also a member of the Old Mutual Investment Group Zimbabwe (Private) Limited and the Old Mutual Property Zimbabwe (Private) Limited Boards.

5 Non-independent Director. B Zamchiya is also a member of the OMZIL Group Audit and Group Risk and Compliance Committees and a member of the Old Mutual Insurance Company (Private) Limited Board.

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

7 Executive Director

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

Notice to Members

For the year ended 31 December 2018

Notice is hereby given that the sixty fourth (64th) Annual General Meeting (AGM) of Members of CABS (the Society) will be held in the Auditorium, CABS Head Office, 3 North end Close, Northridge Park, Highlands, Harare on, Tuesday, 30th April 2019 at the close of the Board Meeting.

ORDINARY BUSINESS

Minutes of last Annual General Meeting

1. To approve minutes of the Annual General Meeting held on 17th April, 2018.

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, 2018.

Directorate

3. To note the retirement of Dr LL Tsumba with effect from 30 June December 2018 in terms of the Banking Act (Chapter 24:20) as amended.
4. To note the retirement of Messrs. A Keller and W Matsaira, who were appointed to the Board after the previous AGM and retire in terms of Rule 64, and being eligible, offer themselves for re-election.
5. Messrs. A Siyavora, B Zamchiya and Mrs. T Mutaviri retire by rotation in terms of Rule 71 of the CABS Rules and being eligible, offer themselves for re-election.
6. To confirm the remuneration of Directors amounting to $0.28m for the year ended 31 December 2018.

Dividends

7. To approve the amounts appropriated by the Board of Directors to meet the payment of Dividends to Members.

External Auditors

8. To fix the remuneration for the past year's audit.
9. To approve the appointment of Mr Themba Mudidi, of KPMG Zimbabwe as Independent Auditor for the past year's audit.
10. To elect an independent auditor for the ensuing year.

SPECIAL BUSINESS

Purchase of Shares in Old Mutual Finance (Private) Limited

1. That Directors be and are hereby authorized to purchase all the shares in Old Mutual Finance (Private) Limited from Old Mutual Zimbabwe Limited, at a value to be determined by independent valuers appointed for these purposes.
2. That the Sale Agreement in more or less the form submitted to the meeting, and the transactions contemplated thereby, including, without limitation, the terms and conditions of the Sale as set forth in the Sale Agreement, be and are hereby approved.

Merger with CABS Custodial Services (Private) Limited

3. That Directors be and are hereby authorized to merge the Society with CABS Custodial Services (Private) Limited.
4. That the Merger Agreement in more or less the form submitted to the meeting, and the transactions contemplated thereby, including, without limitation, the terms and conditions of the Merger as set forth in the Merger Agreement, be and are hereby approved.
5. That the Directors be and are hereby authorized to apply for a Custodial Services licence for CABS to conduct Custody business, as contemplated in the Securities and Exchange Act (Chapter 24:25), and relevant Regulations.
6. That the Directors be and are hereby authorized to carry out any other acts necessary to effect the merger of CABS Custodial Services (Private) Limited with CABS, in line with the legal and regulatory framework governing Custodial Services.

Notice to Members (continued)
For the year ended 31 December 2018

Signing of Documents

7. That any two Directors be and are hereby empowered, authorized and directed to sign and execute on behalf of the Society all such agreements and any other necessary documents and attend ZIMRA interviews to enable the aforesaid transactions.
8. 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.

Amendment of CABS Rules

9. To approve the amendment of the CABS Rules.

Any other Business

10. To transact all such other business as may be transacted at an Annual General Meeting.

ELECTRONIC ANNUAL REPORT

The Society's 2018 Annual Report is now available on the Society's website www.cabs.co.zw.

By Order of the Board

Nqobile Munzara (Mrs)
GROUP COMPANY SECRETARY

Registered Office
3 Northend Close
Northridge Park
Highlands
Harare

27 March, 2019

Annual Financial Review
For the year ended 31 December 2018

	31 December 2018 $m	31 December 2017 $m
ASSETS		
Cash and cash equivalents	167.48	164.81
Investment securities	333.07	233.53
Other assets	93.02	110.51
Loans and advances	779.65	668.82
Non-current assets held for sale	1.04	1.10
Property and equipment	63.42	55.13
Investment property	23.49	23.42
Intangible assets	7.86	9.41
Total assets	**1 469.03**	**1 266.73**
LIABILITIES		
Deposits	1 167.23	1 019.22
Credit lines	53.30	23.32
Trade and other liabilities	45.85	29.37
Provisions	4.98	2.77
Deferred taxation	3.29	3.26
Shareholder's equity	194.38	188.79
Total liabilities and Shareholder's equity	**1 469.03**	**1 266.73**
Income and expenses		
Net interest income	76.12	58.57
Impairment (loss)/reversal on interest earning financial assets	(8.26)	1.94
	67.86	60.51
Net non-interest income	39.67	34.40
Operating income	107.53	94.91
Operating expenses	(54.00)	(52.80)
- Administration	(23.95)	(23.22)
- Depreciation	(8.62)	(8.39)
- Staff costs	(21.43)	(21.19)
	53.53	42.11
Impairment loss on non financial assets	(4.29)	-
Net surplus for the year	**49.24**	**42.11**

Annual Financial Review (continued)

For the year ended 31 December 2018

	31 December 2018 $m	31 December 2017 $m
Tier 1 Capital		
Ordinary class "A" share capital	35.00	35.00
Retained earnings	127.33	109.99
Exposures to insiders and connected parties	(15.90)	(17.25)
Less Tier 1 allocated to market risk	-	(0.10)
Les Tier 1 allocated for operational risk	(15.87)	(14.14)
Total Tier 1 Capital	**130.56**	**113.50**
Total Tier 2 capital	**39.90**	**37.69**
Tier 3 Capital		
Allocation of capital for market risk	-	0.10
Allocation of capital for operational risk	15.87	14.14
Total Tier 3 capital	**15.87**	**14.24**
Total Regulatory capital	**186.33**	**165.43**
Total risk weighted assets	**1 040.08**	**947.48**
Capital adequacy ratio	18%	17%
Regulatory minimum capital adequacy ratio	12%	12%
Liquidity ratio	**41%**	**38%**
• Total liquid assets	500.53	398.34
• Total liabilities to the public	1 220.53	1 042.54
Return on average assets	**4%**	**4%**
• Surplus for the year	49.24	42.11
• Average assets	1 367.88	1 171.54
Return on equity	**26%**	**22%**
• Surplus for the year	49.24	42.11
• Shareholder's equity	194.38	188.79
Cost to income ratio	**46%**	**56%**

Chairman's Statement
For the year ended 31 December 2018

Dear Shareholder

Board Changes
As I commence my first year as Chairman of CABS, I pay tribute to my predecessors: Dr LL Tsumba who provided distinguished service as Chairman of the Board until he retired on 30 June 2018, and Mrs RCD Chitengu who capably led the Board as Acting Chairman after Dr Tsumba retired and ensured a smooth on-boarding upon my arrival on 1 January 2019. Together with fellow Board Members, Management and Staff, they steered the Society through an increasingly complex operating environment. Mrs Chitengu continues to serve on the Board as Chairman of the Board Audit Committee.

I must also acknowledge the sterling and invaluable service of the former Members who, on the cusp of the current financial year, retired from the Board and the Board Committees on which they sat. These are Messrs BL Nkomo, LEM Ngwerume and DL Stephenson, who retired from the Board on 31 December 2017 after a long and fruitful period of service. Their retirement triggered several Board changes in 2018.

In place of Mr BL Nkomo, Mrs Chitengu became Chair of the Board Audit Committee and Member of the Board Risk and Compliance Committee. She temporarily suspended participation in the Board Committees during the period of her tenure as Acting Chairman of the Board, from 1 July 2018 to 31 December 2018.

Mrs T Mutaviri and Mr MJR Dube were appointed to the Board on 30 January 2018. Mrs Mutaviri took over from Mr Ngwerume on the Board Loans Review Committee and Mr Dube now serves in place of Mr DL Stephenson, as a Member of the Board Audit Committee and the Board Credit Committee. Mr Dube was Chairman of the Board Audit Committee during the period that Mrs Chitengu served as Acting Board Chairman.

On 31 March 2018, the Society bade farewell to Mr T Kruger who resigned from the CABS Board upon having left Old Mutual Group in South Africa. I acknowledge his effective contribution prior to my arrival and wish him well in his new endeavours. Mr A Keller joined the Board on 11 September 2018. He is the current Head of Banking, Old Mutual Limited (based in South Africa) and brings a wealth of experience in international banking in Europe and Africa. The Board and Management welcome Mr Keller and wish him well during his tenure.

Overview
Our results for 2018 demonstrate resilience. Compared to 2017, the Society grew its net surplus for the year from $42 million to $49 million (a 27% increase), while restricting the growth in operating expenses to 2% from $53 million to $54 million. The Society adopted IFRS 9 (International Financial Reporting Standard 9 – Financial Instruments) in 2018 and as a result increased impairments on interest-earning financial assets from a reversal of $2 million in 2017 to a charge of $8 million in 2018. However, the quality of the loan book remained consistent.

Total assets increased from $1,267 million in 2017 to $1,469 million in 2018 and the Society's capital and liquidity remained strong. Total equity was $194 million (2017: $189 million), after the initial IFRS 9 adjustment of $20 million as well as dividends of $25 million. Tier 1 capital was $131 million (2017: $114 million), which remained above the current Reserve Bank of Zimbabwe ("RBZ") requirement for a minimum of $20 million Tier 1 capital for Building Societies. It was also above the RBZ requirement for a minimum of $100 million Tier 1 capital, for Tier 1 banks by 2020. The liquidity ratio was 41% (2017: 38%). Statutory reserves were introduced in October 2018 and the Society held a balance of $38 million with the RBZ at 31 December 2018.

During the period under review, year on year inflation peaked at 42% and the market continued to face nostro funding challenges.

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

Operations
The Society continues to exert efforts to enhance service delivery to its customers and to improve controls and efficiencies.

Investments to this effect included:
- On-going branch refurbishments to improve customer experience;
- Investments in digital networks and customer contact points;
- Introduction of the prepaid MasterCard; and
- On-going staff training programmes.

Chairman's Statement

For the year ended 31 December 2018

In 2018 the Society received the following awards:

- 1st prize, Best performing bank in Zimbabwe [Independent Newspaper's "Banks and Banking Survey 2018" awards].
- 1st prize, Overall Best Governed Banking Institution [Institute of Chartered Secretaries and Administrators of Zimbabwe, Excellence in Corporate Governance 2018 awards];
- 1st prize, Best Governance Practices [Institute of Chartered Secretaries and Administrators of Zimbabwe, Excellence in Corporate Governance 2018 awards]; and
- 1st prize, Best Banking Risk Management Practices [Institute of Chartered Secretaries and Administrators of Zimbabwe, Excellence in Corporate Governance 2018 awards].

Corporate Social Responsibility and Responsible Business

The Society recognises the need to invest in the communities in which it operates. In 2018, it was involved in several initiatives in support of education, sports and culture throughout the country.

The Society continues to extend funding to sectors that stimulate the economy and provide jobs such as agriculture, mining and manufacturing.

Corporate Governance

The Board of Directors and Management remain committed to best 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 compliant with all laws and regulations governing its activities during the period under review.

Directorate

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

Outlook

The risks and opportunities in Zimbabwe have further escalated. Chief among these are those elements linked to foreign exchange shortages and the relationship between income and expenses under inflationary conditions. It is vital that all stakeholders play their part to stabilise and strengthen the platform on which a strong and sustainable business can be built. We remain committed to the long term well-being of our valued customers, who form the fabric of our society and economy. To this end we will continue to execute a long-term strategy to serve our customers better.

I thank the Board of Directors and staff for their dedication and hard work and most importantly our customers for their support.

Washington Matsaira

Chairman
27 March 2019

Report of the Directors

For the year ended 31 December 2018

The Directors have pleasure in presenting the Financial Statements and their Report for the year ended 31 December 2018.

Principal activities

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

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 control 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 system of risk management.

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

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

Compliance with legislation

These Financial Statements prepared under the historical cost convention (except for fair value measurement where applicable), agree with the underlying books and records, have been properly prepared in accordance with the Accounting Policies set out in note 1, 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 ("IFRSs"). 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. Using a globally recognized reporting framework also allows comparability with similar businesses and consistency in the interpretation of the Financial Statements.

While full compliance with IFRSs has been possible in previous reporting periods, only partial compliance has been achieved for 2018. 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, 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 prescribes the manner in which certain balances in the Financial Statements may be treated as a consequence of the recognition of the RTGS Dollar as currency in Zimbabwe.

In our opinion, the requirement to comply with Statutory Instrument 33 of 2019 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 accounting treatment being adopted in the 2018 Financial Statements, 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 urge users of the financial statements to exercise due caution. Note 30 seeks to provide users with more information given the context and the aforementioned guidance.

Report of the Directors (continued)
For the year ended 31 December 2018

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 - 75 of this Annual Report.

	31 December 2018 $m	31 December 2017 $m
Results of operations		
Net interest income	76.12	58.57
Impairment loss/(reversal) on interest earning financial assets	(8.26)	1.94
	67.86	60.51
Net non-interest income	39.67	34.40
	107.53	94.91
Operating expenses	(54.00)	(52.80)
	53.53	42.11
Impairment on non financial assets	(4.29)	-
Net surplus for the year before appropriations	**49.24**	**42.11**
The appropriations for the year are as follows:-		
Transfer to retained earnings	49.24	42.11
Regulatory impairment allowance	(5.18)	(1.44)
Dividends on ordinary class "A" share capital	(25.00)	(30.00)
	19.06	10.67

As a result of improved interest margins, net interest income grew by 23% as compared to the 19% growth in gross loans and advances. The growth in digital volumes resulted in a 15% improvement in net non-interest income in 2018. Operating expenses grew by 2%. The adoption of IFRS 9 resulted in a sizable increase in loss allowances. Accordingly, the Society recorded a growth in net surplus from $42.11 million in 2017 to $49.24 million. The Society's gross loans and advances grew by 19% to $816 million from $684 million in 2017. Deposits grew by 15% to $1 167 million from $1 019 million as the Society continues to source long term deposits to fund long term mortgage lending.

Share Capital and reserves
Details of share capital of the Society are set out in note 20 to the Society's financial statements. There were no movements during the year except for the $25 million paid as dividends.

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

These Financial Statements were approved by the Board of Directors on 27 March 2019 and were signed on its behalf by:

W MATSAIRA
CHAIRMAN

RCD CHITENGU (MRS)
NON EXECUTIVE DIRECTOR

Harare
27 March 2019

Corporate Governance Statement
For the year ended 31 December 2018

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

Board of Directors (Board)
The Board met six times during the year ended 31 December 2018 (including special meetings, sessions devoted to strategy and business planning). Attendance was as tabled below;

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

[1] Appointed to the Board as Chairman on 1 January 2019.
[2] Retired from the Board with effect from 30 June 2018.
[3] Appointed Acting Board Chairman with effect from 30 June 2018 to 31 December 2018. Temporarily ceased being a member of the Audit Committee and the Risk and Compliance Committee during that period and resumed on 1 January 2019.
[4] Appointed to the Board and to the Board Audit Committee and the Board Credit Committee on 30 January 2018.
[5] Appointed to the Board and to the Board Loans Review Committee on 11 September 2018.
[6] Resigned from the Board with effect from 31 March 2018.
[7] Appointed to the Board and to the Board Loans Review Committee on 30 January 2018.
[8] Executive directors.

A Corporate Governance Code of Best Practice and Board Charter are available to Directors for reference regarding their duties and obligations. Directors are aware that they may take independent professional advice at the Society's expense, if necessary, for the furtherance of their duties. Every year the Directors conduct Board and peer Director evaluations.

The Board currently comprises nine non-executive Directors, as shown above. With the exception of Messrs J Mushosho, MJR Dube, A Keller, B Zamchiya and Mmes. RCD Chitengu and T Mutaviri, the other non-executive Directors are considered independent and free from business or other relationships which could materially interfere with the exercise of their independent judgment.

The Rules of the Society require that one third of the non-executive Directors (in addition to those appointed by the Board during the year), shall retire each year by rotation. Proposals for re-election are considered by the Shareholders and are not automatic.

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

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

The members of this Committee currently comprise three non-executive Directors and it is chaired by an independent and non-executive Director. The Committee met four times during the year ended 31 December 2018.

Corporate Governance Statement (continued)

For the year ended 31 December 2018

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 2018.

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 2018.

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 2018.

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 2018

- 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; 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 2018

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 2018

Interpretation of the Risk Matrix

Levels of inherent risk

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

Adequacy of risk management systems

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

Overall composite risk

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

Direction of overall composite risk

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

Internal control environment

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

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

Monitoring of controls

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

Corporate Governance Statement (continued)

For the year ended 31 December 2018

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 Auditor's Report

To the Members of Central Africa Building Society

Adverse Opinion

We have audited the financial statements of Central Africa Building Society (the Society), set out on pages 22 to 75, which comprise the statement of financial position as at 31 December 2018, the statement of profit and loss and comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the financial statements do not present fairly, in all material respects, the financial position of Central Africa Building Society as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Building Societies Act (Chapter 24:02).

Basis for Adverse Opinion

As described in Note 1.5, during the year ended 31 December 2018, the Society transacted using a combination of the United States Dollars (US$), bond notes and bond coins, electronic money and other foreign currencies. Acute shortage of US$ cash and other foreign currencies in the country resulted in an increase in the utilisation of different modes of payment for goods and services such as settlement via the Real Time Gross Settlement (RTGS) system overseen by the Reserve Bank of Zimbabwe (RBZ) and mobile money platforms. The note further explains that during the year there was a significant divergence in the market of the relative values between the US$, and the bond note, bond coin, mobile money platforms and RTGS, collectively referred to as "local currency". Although RTGS and mobile money platforms were not legally recognised as currency during the year ended 31 December 2018, the substance of the economic phenomenon suggested that it was currency. As a result of these factors, the directors performed an assessment on the functional currency of the Society in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* (IAS 21) and acknowledge that the functional currency of the Society was no longer the US$.

In February 2019, an electronic currency called the RTGS dollar was introduced through Statutory Instrument 33 of 2019 (S.I 33) with an effective date of 22 February 2019 and the currency commenced trading at a rate of 2.5 to the US$. In addition, S.I. 33 fixed the exchange rate between the RTGS dollar and the US$ at a rate of 1:1 for periods before the effective date. The rate of 1:1 is consistent with the rate mandated by the Reserve Bank of Zimbabwe (RBZ) at the time it issued the bond notes and coins as currency.

Although the directors acknowledge that there was a functional currency change and that the market exchange rate between the US$ and local currency was not 1:1, they have maintained the US$ as the functional currency of the Society and have presented the financial statements in US$ using an exchange rate of 1:1, in compliance with S.I 33. This constitutes a departure from the requirements of IAS 21.

The directors have performed a sensitivity analysis of how different exchange rates would impact the Society's statement of financial position in note 30 to the financial statements However, the amounts presented may not reflect the opening balances in RTGS dollars going forward. This confirms that had the local currency been translated to US$ in accordance with IAS 21, elements in the statement of financial position would have been materially affected and therefore the departure from the requirements of IAS 21 is considered to be pervasive. The effects of this departure on the Society's financial statements have not been determined.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and which are not materially impacted by the matter described in the *Basis for Adverse Opinion* section. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our adverse opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Adverse Opinion* section we determined the matter below to be a key audit matter to communicate in our report.

KPMG

1. Valuation of inventory

Refer to the use of judgements and estimates note 1.7, accounting policy note 1.23 inventories, and note 9.3 on the valuation of inventory work in progress (housing units).

Key audit matter	How the matter was addressed in the audit
The Society's inventory amounts to US$34.72m. In accordance with IAS 2, *Inventories*, the housing units are recognised at the lower of cost or net realisable value of the completed housing units. The Society also has a project in which it invested funds for servicing land to be sold as stands. The investment, classified as inventory, is to be recovered upon sale of the serviced stands. The significant judgement is the estimation of the inventory write-down on the inventory. Due to the significant judgement involved, this has been considered as a key audit matter.	Our audit procedures included the following: • evaluated the independence, objectivity and professional competence of the external property valuers who were engaged by management to value the Society's properties; • tested that housing units were appropriately valued at the lower of cost or the assessed net realisable value by comparing the selling price less costs to sell to the recorded cost; • inspected the terms and conditions of the various contractual agreements to determine if there were potential impairment considerations; • physically verified the existence of the housing units; and • evaluated the adequacy of the disclosures made in the financial statements in relation to the requirements of IAS 2, *Inventories*.

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Adverse Opinion* section above, the Society should have translated its local currency transactions and balances to US$ using a rate determined in accordance with IAS 21. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Annual Financial Review, Chairman's Statement and the Report of the Directors affected by the failure to translate the local currency transactions and balances using a rate which complies with the requirements of IAS 21.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG

KPMG Zimbabwe
Registered Accountants and Auditors
Chartered Accountants (Zimbabwe)
Per: Themba Mudidi
Partner
Registered Auditor
PAAB Practising Certificate Number 0437

29 March 2019

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

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	31 December 2018 $m	31 December 2017 $m
Interest income	2	108.57	91.31
Interest expense	2	(32.45)	(32.74)
Net interest income before impairment		76.12	58.57
Impairment (loss)/reversal on interest earning financial assets	3	(8.26)	1.94
Income from lending activities		**67.86**	**60.51**
Fee and commission income	4.1	66.86	54.02
Fee and commission expense	4.1	(26.18)	(17.62)
Net fee and commission income		40.68	36.40
Other income	4.2	2.69	1.47
Non-interest income		43.37	37.87
Impairment loss on non-interest earning financial assets	3	(3.70)	(3.47)
Net non-interest income		**39.67**	**34.40**
Operating income for the year		**107.53**	**94.91**
Operating expenses	5	(54.00)	(52.80)
Impairment loss on non-financial assets		(4.29)	-
Net surplus for the year		**49.24**	**42.11**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss net of tax		**0.86**	**0.32**
Movement in revaluation reserve		0.86	0.32
Total comprehensive income for the year		**50.10**	**42.43**

Statement of Financial Position

As at 31 December 2018

	Notes	31 December 2018 $m	31 December 2017 $m
ASSETS			
Cash and cash equivalents	7	167.48	164.81
Investment securities	8	333.07	233.53
Other assets	9	93.02	110.51
Loans and advances	10	779.65	668.82
Non-current assets held for sale	11	1.04	1.10
Property and equipment	12	63.42	55.13
Investment property	13	23.49	23.42
Intangible assets	14	7.86	9.41
Total assets		**1 469.03**	**1 266.73**
LIABILITIES			
Deposits	15	1 167.23	1 019.22
Credit lines	16	53.30	23.32
Trade and other liabilities	17	45.85	29.37
Provisions	18	4.98	2.77
Deferred taxation	19	3.29	3.26
Total liabilities		**1 274.65**	**1 077.94**
SHAREHOLDER'S EQUITY			
Ordinary class "A" share capital	20.1	35.00	35.00
Retained earnings	20.2	127.33	109.99
Regulatory provision reserve	20.3	5.18	17.95
Non-distributable reserve	20.4	1.45	1.45
Revaluation reserve	20.5	19.63	18.77
Share based payment reserve	20.6	5.79	5.63
		194.38	**188.79**
Total equity and liabilities		**1 469.03**	**1 266.73**

W MATSAIRA
CHAIRMAN

RCD CHITENGU (MRS)
NON-EXECUTIVE DIRECTOR

HARARE
27 March 2019

Statement of Changes in Equity
For the year ended 31 December 2018

2018	Notes	Share capital $m	Retained earnings $m	Regulatory provision reserves $m	Non distributable reserves $m	Revaluation reserves $m	Share based payment reserves $m	Total equity $m
Balance as at 1 January		**35.00**	**109.99**	**17.95**	**1.45**	**18.77**	**5.63**	**188.79**
Impact of adopting IFRS 9 on 1 January 2018	6.6	-	(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**
Other comprehensive income		-	-	-	-	0.86	-	**0.86**
Dividends on Ordinary class “A” share capital		-	(25.00)	-	-	-	-	**(25.00)**
Regulatory reserve		-	(5.18)	5.18	-	-	-	**-**
Share based payment reserves		-	-	-	-	-	0.16	**0.16**
Balance as at 31 December		**35.00**	**127.33**	**5.18**	**1.45**	**19.63**	**5.79**	**194.38**

2017	Share capital $m	Retained earnings $m	Regulatory provision reserves $m	Non distributable reserves $m	Revaluation reserves $m	Share based payment reserves $m	Total equity $m
Balance as at 1 January	**35.00**	**99.32**	**16.51**	**1.45**	**18.45**	**5.35**	**176.08**
Net surplus	-	42.11	-	-	-	-	**42.11**
Other comprehensive income	-	-	-	-	0.32	-	**0.32**
Dividends on Ordinary class “A” share capital	-	(30.00)	-	-	-	-	**(30.00)**
Regulatory impairment allowance	-	(1.44)	1.44	-	-	-	**-**
Share based payment reserves	-	-	-	-	-	0.28	**0.28**
Balance as at 31 December	**35.00**	**109.99**	**17.95**	**1.45**	**18.77**	**5.63**	**188.79**

Statement of Cash Flows
For the year ended 31 December 2018

	Notes	31 December 2018 $m	31 December 2017 $m
Cash flows from operating activities			
Net surplus for the year		49.24	42.11
Adjustments for:			
Net interest income	2	(76.12)	(58.57)
Depreciation and amortisation	5	8.62	8.39
Impairment loss/ (reversal) on interest earning financial assets	3	8.26	(1.94)
Impairment loss on non-interest earning financial assets	3	3.70	3.47
Fair value gain on investment property	4.2	(0.07)	-
Fair value (gain)/loss on non-current assets held for sale	4.2	(0.11)	0.27
Fair value gain on equity investments	4.2	(0.92)	(0.09)
Other provisions	18	2.21	(2.70)
Share based payments provisions	20.6	0.16	0.28
Operating cash flows before working capital changes		**(5.03)**	**(8.78)**
Decrease/(Increase) in other assets		14.60	(32.70)
Decrease in non-current assets held for sale		0.17	0.04
Increase in loans and advances		(137.61)	(87.10)
Increase in investment securities		(100.58)	(27.59)
Increase in deposits		148.01	174.17
Increase in other liabilities		16.47	11.52
Operating cash flows after working capital changes		**(63.97)**	**29.56**
Interest income received	2	108.57	91.31
Interest expense paid	2	(32.45)	(32.74)
Net cash flows from operating activities		**12.15**	**88.13**
Cash flows from investing activities			
Additions to property and equipment	12	(12.83)	(7.16)
Additions to intangible assets	14	(1.63)	(2.68)
Net cash used in investing activities		**(14.46)**	**(9.84)**
Cash flows from financing activities			
Dividends paid		(25.00)	(30.00)
Increase/(decrease) in credit lines		29.98	(5.33)
Net cash raised from/used in financing activities		**4.98**	**(35.33)**
Net increase in cash and cash equivalents		**2.67**	**42.96**
Cash and cash equivalents at the beginning of the year		**164.81**	**121.85**
Cash and cash equivalents at the end of the year	7	**167.48**	**164.81**

Notes to the Financial Statements

For the year ended 31 December 2018

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 1.5 below. IFRSs comprise International Accounting Standards and Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC). These financial statements have been prepared in accordance with the requirements of the Building Societies Act (Chapter 24:02).

Basis of measurement

The financial statements are prepared from statutory records that are maintained under the historical cost convention as modified by the revaluation of investment properties and owner occupied properties and fair value adjustment of financial instruments.

1.4 Approval of financial statements

The financial statements were approved by the board on 27 March 2019.

1.5 Functional currency

The Society has in previous financial periods adopted the United States Dollar as its functional currency. For the 2018 Financial Statements, in order to comply with local laws and regulations, particularly Statutory Instrument 33 of 2019 (SI33), the Society has adopted the US Dollar as its functional currency. SI33 has precluded the Society from applying an independent assessment of functional currency as provided for under International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates".

Functional currency disclosure as relates to the 2017 Financial statements

Since 2009, Zimbabwe has been under a multi-currency system, under which the United States Dollar (USD) has emerged as the currency of reference for business and Government. New legislation was promulgated in the form of Statutory Instruments 133 of 2016 and 122a of 2017 which prescribed bond notes and coins issued by the Reserve Bank of Zimbabwe as legal tender at parity with the USD. With the acute shortage of USD cash and other foreign currencies in the country, increases in the utilisation of different modes of payment for goods and services such as settlement via the Real time Gross Settlement (RTGS) system overseen by the Reserve Bank of Zimbabwe (RBZ), Point of sale machines (POS) and mobile money platforms, were observed. In addition:

- There were media reports dating back from 2017 of instances, of some businesses pricing products and services differently, depending on the mode of payment, with the USD cash or payments from USD denominated nostro accounts being the cheapest alternative and RTGS the most expensive. This practice however, has been discouraged by the monetary authorities;
- The significant unavailability of the USD in cash and in Nostro accounts made processing of payments to foreign suppliers and creditors difficult for businesses, with waiting periods being experienced.

As a result of these and other factors, management had to make an assessment of whether the use of the United States dollar as the Society's functional currency was still appropriate. In doing so management considered the following parameters as set out in IAS 21(Paragraph 8):

- The currency that mainly influences sales prices for goods and services (normally the currency in which the sales price for goods or services are denominated and settled);
- The currency of the competitive forces and regulations that mainly determine the sales prices of goods and services;
- The currency that mainly influences labour, material and other costs of providing goods or services; (normally the currency in which such costs are denominated and settled);
- The currency in which funds from financing activities are generated; and
- The currency in which receipts from operating activities are usually retained.

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

It was the view of the Directors, that the United States dollar remained the primary driver for most of the factors above. It should be also be noted that in line with guidance set by the RBZ, banks and other financial intermediaries, including the Society, did not maintain separate customer accounts for USD; Bond notes and coins; and payments made electronically; whose values are considered to be at par. Obligations to our clients were settled via cash, in the case of small banking withdrawals, as well as through various electronic platforms available through the national payments system, including RTGS.

The Directors therefore took the view for purposes of preparing the 2017 Financial Statements, that the USD was still the Society's functional currency for accounting and financial reporting purposes. This was also consistent with guidance provided by the Public Accountants and Auditors Board (PAAB).

Key developments during 2018 and early 2019
In February 2018 the RBZ instructed the banks to ring fence actual foreign currency deposits from RTGS transfer deposits in customer accounts.

Through the Monetary Policy Statement (MPS) delivered on 1 October 2018, the RBZ bank further instructed banks to separate USD balances from RTGS Balances and bond notes and required the opening of an RTGS Foreign Currency Account (FCA) for local electronic money transfers and bond note transactions and the Nostro FCA for actual foreign currency deposits or export proceeds. The MPS referred to the need to "eliminate the commingling or dilution effect of RTGS balances on Nostro foreign currency accounts" The RBZ set the rate of exchange between the two at 1:1. However the same MPS also alluded to the existence of "escalating foreign currency premiums" and "a thriving parallel market". The RBZ has reported money supply in Zimbabwe at $9 billion as at 30 June 2018, of which the estimated foreign currency is less than US$500 million. The increase in money supply has seen a corresponding increase in premiums obtaining in the unofficial parallel market for hard currency. Although RTGS FCA and the Nostro FCA bank accounts were pegged at 1:1 during 2018, local banks have had difficulty meeting foreign payment requests, unless an entity has directly deposited actual USD cash in advance of the bank facilitating payment, received export proceeds or has been allocated foreign currency officially through the RBZ for imports on the priority list which includes fuel and medicines, among others.

In the budget speech delivered in November 2018, the Minister of Finance and Economic development, announced that import duty on certain goods would have to be paid in the underlying foreign currency, instead of RTGS transfers or bond notes as had been the case previously. The Finance Bill of November 2018 provides for Value Added Tax on supplies invoiced in foreign currency to be remitted in the same currency used for invoicing.

Observed markets developments and responses are summarized as follows:

- Significant increases in premiums on the unofficial currency market since the beginning of October 2018.
- A greater prevalence of multiple pricing regimes with higher prices being charged for non-USD and other foreign payments , while foreign currency or USD cash purchases were at heavily discounted prices. This has been justified by the need to secure foreign currency for vital imports on the part of the suppliers and retailers concerned. The difference in the USD and local prices seems indicative of a premium for hard currency outside the official parity rate prescribed.
- The Zimbabwe Stock Exchange has risen over 30% since 1 October 2018 (increase of 46% for the full year 2018), amid reports of a sharp decline in sell offers on the market, especially in the months of October and November.
- Monthly inflation during the month of October was 16% while October 2018 year on year inflation was recorded at 21% compared to 5% in September. In November year on year inflation further increased to 31% and then to 42.1% in December 2018 (2017: 3.46%), which is far above the inflation levels that would be typical of a USD based economic environment. Inflation in the United States of America for December 2018 was 1.9% (2017: 2.1%).
- On 12 January 2019, the government increased fuel prices by 150% in response to worsening fuel shortages.

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.
- 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 Statutory Instrument 33 of 2019 (SI33) 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 USD and would become opening RTGS Dollar values from the effective date.

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

Functional currency assessment for the 2018 financial statements
In making a functional currency assessment for 2018, the Directors have made a critical evaluation of the same factors as for 2017 as outlined above, The Directors also considered the following additional factors:
- The significant deterioration in the ability by the business during 2018 to meet foreign payment obligations, with some obligations remaining unpaid for over 12 months, despite sufficient electronic cash resources held. The Society does not resort to unofficial foreign currency markets or pay premiums to obtain foreign currency, and relies 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;
- The fact that a significant majority of the Society's operating cashflows are retained in RTGS accounts, as opposed to Nostro FCA accounts;
- The assessment that hard currency or nostro account based transactions, constitute a relatively small proportion of the overall transactions done by the Society;
- The self-evident increase in the extent of purchasing power disparities between the USD on one hand; and local bond notes and RTGS balances on the other hand, which was experienced in 2018, particularly in the last quarter of that year, and which have continued into 2019;
- Upward asset price movements which seem de-linked from the circulation of actual USD within the economy.

The Directors were not able to arrive at the same conclusion that was arrived at in the preparation of the 2017 financial statements, which was that the USD is the Society's functional currency. This outcome is based on the Directors' interpretation of International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" (IAS21). In particular IAS 21 defines a functional currency as the "currency of the primary economic environment in which an entity operates". The Directors also believe that while underlying regulatory and market conditions were more supportive of an exchange rate of 1:1 between Bond/RTGS and the USD in 2017, during 2018 a significant divergence in market perception of the relative values between the two currencies occurred. The fact that the interbank foreign currency market which was established towards the end of February 2019, opened trading at USD1: RTGS$2.5 is an indicator of the relative loss of value of bond notes and RTGS balances during 2018.

The Directors in the spirit of complying with the law, have however taken the option of adopting the accounting treatment prescribed under SI33 and have used an exchange rate of 1:1 between RTGS balances and bond notes on one hand; and the USD. The Society has adopted the United States Dollar as its functional currency which is denoted by "$". This is consistent with the approach taken by the Society's Zimbabwean parent company, Old Mutual Zimbabwe Limited.

1.6 Hyperinflation Considerations
The Society has assessed that the operating environment was not hyperinflationary at 31st December 2018. The assessment of inflation as hyperinflation is a result of the functional currency of the entity which is not stable. The cumulative inflation has not yet exceeded 100% over the last 3 years. Management will continue to assess the operating environment on its hyperinflationary status.

1.7 Use of judgments and estimates
The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported 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 1.6 - Hyperinflationary 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 2018 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;
- 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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 Tax Act (Chapter 23:01). International Accounting Standard 12 (IAS 12) requires the provision of deferred tax on all temporary differences. Since the Society is exempt from income tax, only deferred capital gains tax is provided on certain qualifying temporary differences. Deferred capital gains tax is provided on those temporary differences which are expected to reverse as a result of the Society's intention to sell the specified assets.

1.11 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

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

to pay all employee benefits relating to employees' services in current and prior periods.

The Society provides for retirement benefit obligations in respect of its employees as follows:
- Old Mutual Group Pension Fund - Defined Contribution Fund (note 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

is measured based on the fair value model, and is not reclassified as property and equipment during redevelopment.

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

1.17 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
Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

1.21 Financial instruments
Financial instruments are accounted for in terms of International Financial reporting Standard (IFRS) 9, Financial Instruments, which became effective from 1 January 2018.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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.

  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

Notes to the Financial Statements (continued)

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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.

The Society enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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.

  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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

external), based on the Society's 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 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.

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 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;
- 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;
- 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.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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 recognized 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.

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;
- 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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

1.27 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 2018 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 2018

- IFRS 15 Revenue from contracts with customers
- IFRS 9 Financial Instruments
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- Transfers of Investment Property (Amendments to IAS 40)
- Annual Improvements to IFRSs 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Tax Treatments
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards
- Amendments to References to Conceptual Framework in IFRS Standards

New and amended standards adopted by the Society

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Society has not early adopted the new or amended standards in preparing these financial statements. Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the Society's financial statements in the period of initial application.

A. IFRS 16 Leases

The Society is required to adopt IFRS 16 Leases from 1 January 2019. The Society has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

i. Leases in which the Society is a lessee

The Society will recognise new assets and liabilities for its operating leases of warehouse and factory facilities. The nature of expenses related to those leases will now change because the Society will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Society recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Society will no longer recognise provisions for operating leases that it assesses to be onerous as described in Note 31(D). Instead, the Society will include the payments due under the lease in its lease liability.

No significant impact is expected for the Society's finance leases.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

Based on the information currently available, the Society estimates that it will recognise additional lease liabilities of $3 million as at 1 January 2019. The Society does not expect the adoption of IFRS 16 to impact its ability to comply with the minimum capital requirements as stated by the RBZ.

ii. Leases in which the Society is a lessor

The Society will reassess the classification of sub-leases in which the Society is a lessor.

iii. Transition

The Society plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Society plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

		Notes	31 December 2018 $m	31 December 2017 $m
2	**Net interest income**			
	Interest income		**108.57**	**91.31**
	Loans and advances		**91.96**	**75.44**
	Mortgage loans		29.92	29.06
	Term loans and overdrafts		62.04	46.38
	Investment securities		**16.61**	**15.87**
	Treasury bills		13.82	12.64
	Money market investments		2.79	3.23
	Interest expense		**(32.45)**	**(32.74)**
	Credit lines		(4.04)	(2.77)
	Money market deposits		(27.44)	(29.49)
	Term deposits		(0.01)	(0.01)
	Savings deposits		(0.96)	(0.47)
	Net interest income		**76.12**	**58.57**
3	**Impairment loss**			
	Impairment loss on interest earning financial assets		8.26	(1.94)
	Loans and advances	10.6	7.57	(1.94)
	Investment securities	8.2	0.69	-
	Impairment loss on non interest earning financial assets		3.70	3.47
	Rental debtors and unauthorised overdraft	9.1.2	3.70	3.47
			11.96	**1.53**
3.1	**Impairment reconciliation**			
	Opening balance		38.96	39.36
	IFRS 9 initial application		21.55	-
	Regulatory provision movement		(12.77)	1.44
	Movements through profit or loss - current year		11.96	1.53
	Amounts utilised during the year		(6.33)	(3.37)
	Closing balance		**53.37**	**38.96**
	Loss allowance on loans and advances		36.83	15.58
	Loss allowance on unauthorised overdrafts and accrued rentals		8.45	5.43
	Loss allowance on investment securities		2.91	-
	Regulatory provision on loans and advances		5.18	17.95
	Closing balance		**53.37**	**38.96**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

		Notes	31 December 2018 $m	31 December 2017 $m
4	**Net non-interest income**			
4.1	**Net fee and commission income**			
	Fee and commission income		**66.86**	**54.02**
	Commissions		27.79	20.42
	Service fees		14.96	17.31
	Administration fees		24.11	16.29
	Fee and commission expense		**(26.18)**	**(17.62)**
	Transactional commission expense		(21.72)	(11.64)
	Other commissions and fee expense		(4.46)	(5.98)
	Net fee and commission income		**40.68**	**36.40**
4.2	**Other income**			
	Housing projects trading loss	4.2.1	(2.62)	(2.13)
	Rental income from investment property	4.2.2	1.03	0.64
	Dividend and other income from equity investments		1.26	0.86
	Fair value gain on investment property		0.07	-
	Fair value gain/(loss) on non-current assets held for sale		0.11	(0.27)
	Fair value gain on equity investments		0.92	0.09
	Income from other banking activities		1.92	2.28
	Net other income		**2.69**	**1.47**
4.2.1	**Trading Income**			
	Housing projects sales		21.59	6.06
	Cost of housing units sold		(20.83)	(5.98)
	Gross Profit		**0.76**	**0.08**
	Project operating expenses		(1.02)	(1.06)
	Write down on housing projects		(2.36)	(1.15)
	Net trading loss		**(2.62)**	**(2.13)**
4.2.2	**Investment property**			
	Rental income		3.73	3.20
	Less expenses		(2.70)	(2.56)
	Net rental income		**1.03**	**0.64**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

5 Operating expenses

	Notes	31 December 2018 $m	31 December 2017 $m
Administration			
Advertising and marketing		1.66	1.04
Auditors' remuneration		0.48	0.52
Buildings security cost		1.76	1.69
Cash in transit cost		0.54	0.74
Deposit protection premiums		1.86	1.59
Directors' remuneration		0.28	0.29
Information systems maintenance		4.24	4.20
Insurance premiums		0.91	0.85
Maintenance of vehicles		0.59	0.55
Occupancy cost		2.50	2.57
Other expenses		0.41	0.61
Outsourced services - Old Mutual Shared Services (Pvt) Ltd		5.52	5.96
Stationery and printing		0.66	0.55
Telephones and postage		0.68	0.57
Travelling and subsistence		1.86	1.49
Total administration expenses		**23.95**	**23.22**
Depreciation and amortisation			
Property and equipment	12	5.44	4.78
Intangible assets	14	3.18	3.61
Total depreciation and amortisation costs		**8.62**	**8.39**
Staff costs			
Salaries, wages and bonuses		16.97	16.83
Pension contributions		1.63	1.53
Medical aid allowance		1.02	1.01
Equity-settled share based payment expenses		0.16	0.28
Cash-settled share based payment expenses		0.05	-
Other staff costs		1.60	1.54
Total staff costs		**21.43**	**21.19**
Total operating expenses		**54.00**	**52.80**

The number of persons employed by the Society as at 31 December 2018 was 748 (2017: 736).

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6 Financial Instruments analysis

6.1 Classification of financial assets and liabilities

As at 31 December 2018	Notes	Mandatorily at fair value through profit or loss $m	Amortised cost $m	Total carrying amount $m
Assets				
Cash and cash equivalents	7	-	167.48	167.48
Investment securities	8.1	-	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
Trade creditors	17	-	32.20	32.20
		-	**1 252.73**	**1 252.73**

As at 31 December 2017	Notes	Fair value through profit or loss $m	Loans and receivables $m	Other amortised cost $m	Total carrying amount $m
Assets					
Cash and cash equivalents	7	-	164.81	-	164.81
Investment securities	8.1	233.53	-	-	233.53
Other financial assets	9	0.94	2.08	-	3.02
Loans and advances	10	-	668.82	-	668.82
		234.47	**835.71**	**-**	**1 070.18**
Liabilities					
Savings and money market deposits	15	525.70	-	493.04	1 018.74
Term deposits	15	-	-	0.48	0.48
Credit lines	16	-	-	23.32	23.32
Trade creditors	17	-	-	18.67	18.67
		525.70	**-**	**535.51**	**1 061.21**

6.2 Composition of gains and losses on financial instruments

	Notes	Mandatorily at fair value through profit or loss $m	Amortised cost - financial assets $m	Amortised cost - financial liabilities $m	Total $m
December 2018					
Banking interest and similar income	2	-	108.57	-	108.57
Banking trading, investment and similar income	4.2	1.26	-	-	1.26
Fair value gains	4.2	0.92	-	-	0.92
Total income		**2.18**	**108.57**	**-**	**110.75**
Banking interest payable and similar expenses	2	-	-	(32.45)	(32.45)
Credit impairment charges	3	-	-	(8.26)	(8.26)
Total expenses		**-**	**-**	**(40.71)**	**(40.71)**
December 2017					
Banking interest and similar income	2	-	91.31	-	91.31
Banking trading, investment and similar income	4.2	0.86	-	-	0.86
Fair value gains	4.2	0.09	-	-	0.09
Total income		**0.95**	**91.31**	**-**	**92.26**
Banking interest payable and similar expenses	2	-	-	(32.74)	(32.74)
Credit impairment charges	3	-	-	1.94	1.94
Total expenses		**-**	**-**	**(30.80)**	**(30.80)**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6.3 Classification of financial assets and liabilities on the date of initial application of IFRS 9

The Society prospectively adopted without adjustment, IFRS 9 on 1 January 2018.

	Notes	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 $m	New Carrying amount under IFRS 9 $m
Assets					
Cash and cash equivalents	7	Loans and receivables	Amortised cost	164.81	164.81
Investment securities	8	Fair value through profit or loss (designated)	Amortised cost	233.53	232.89
Other financial assets	9	Amortised cost	Amortised cost	2.08	1.97
Loans and advances	10	Loans and receivables	Amortised cost	668.82	649.90
Total				**1 069.24**	**1 049.57**
Liabilities					
Money market deposits	15	Amortised cost	Amortised cost	525.70	525.70
Savings deposits	15	Fair value through profit or loss (designated)	Amortised cost	493.04	493.04
Term deposits	15	Amortised cost	Amortised cost	0.48	0.48
Credit lines	16	Amortised cost	Amortised cost	23.32	23.32
Other liabilities	17	Amortised cost	Amortised cost	18.67	18.67
Total				**1 061.21**	**1 061.21**

Application of the Society's IFRS 9 accounting policy resulted in the reclassifications set out in the table above and explained below:

Treasury Bills are classified under IFRS 9 as amortised cost because they are held within a business model to hold and collect contractual cash flows. Before the adoption of IFRS 9, Treasury Bills were designated at fair value through profit or loss because the Society managed them on a fair value basis. The fair value of these Treasury Bills was $220.10 million as at 31 December 2018. If these instruments were accounted for as financial assets at fair value through profit or loss, a fair value loss of $2.38 million would have been recognised for these instruments for the reporting period. The original effective interest rate of these instruments ranges between 4% and 23% per annum and $13.82 million of interest income on these instruments has been recognised during in the reporting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6.4 Transitional adjustments on Financial assets and liabilities on the date of initial application of IFRS 9

	Original carrying amount under IAS 39 as at 31 December 2017 $m	Re-classification $m	Re-measurement $m	New Carrying amount under IFRS 9 as at 1 January 2018 $m
Financial assets				
Amortised cost				
Cash and cash equivalents	164.81	-	-	164.81
Investment securities				
Opening balance	233.53	-	-	-
From at fair value through profit or loss	-	1.88	-	-
Re-measurement	-	-	(2.52)	-
Closing balance	233.53	1.88	(2.52)	232.89
Other assets				
Opening balance	2.08	-	-	-
Re-measurement	-	-	(0.11)	-
Closing balance	2.08	-	(0.11)	1.97
Loans and advances				
Opening balance	668.82	-	-	-
Re-measurement	-	-	(18.92)	-
Closing balance	668.82	-	(18.92)	649.90
Total amortised cost	**1069.24**	**1.88**	**(21.55)**	**1049.57**
Financial liabilities				
Amortised cost				
Savings deposits	525.70	-	-	525.70
Money Market deposits	493.04	-	-	493.04
Term deposits	0.48	-	-	0.48
Credit lines	23.32	-	-	23.32
Other liabilities	18.67	-	-	18.67
Total amortised cost	**1 061.21**	**-**	**-**	**1 061.21**

6.5 Reconciliation of the impairment allowance on the date of initial application of IFRS 9

	Notes	Original carrying amount under IAS 39 as at 31 December 2017 $m	Re-classification $m	Re-measurement $m	New Carrying amount under IFRS 9 as at 1 January 2018 $m
Cash and cash equivalents		-	-	-	-
Investment securities	6.4	-	-	2.52	2.52
Other financial assets	9.1.1	5.43	-	0.11	5.54
Loans and advances	10.1	15.58	-	18.92	34.50
		21.01	-	21.55	42.56

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

6.6 Transitional adjustments on equity on the date of initial application of IFRS 9

	Notes	Impact of adopting IFRS 9 as at 1 January 2018 $m
Regulatory reserve		
Closing balance as at 31 December 2017 under IAS 39		17.95
Transfer to retained earnings		(17.95)
Restated closing balance under IFRS 9		-
Retained earnings		
Closing balance as at 31 December 2017 under IAS 39		109.99
Net impact of adopting IFRS 9 on 1 January 2018		(1.72)
Transfer from regulatory reserve		17.95
Reclassification and measurement of investment securities	6.4	1.88
Recognition of expected credit losses on loans and advances	6.4	(0.11)
Recognition of expected credit losses on other assets	6.4	(18.92)
Recognition of expected credit losses on investment securities	6.4	(2.52)
Total restated closing balance of impacted reserves		**108.27**

7 Cash and cash equivalents

	31 December 2018 $m	31 December 2017 $m
Cash balances	4.82	2.09
Bank balances	124.35	162.72
Statutory reserves	38.31	-
	167.48	**164.81**

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

The RBZ through the October 2018 monetary policy statement mandated the bank to create separate FCA RTGS account for local currency deposits and a separate FCA Nostro for balances with RBZ and foreign banks. The FCA RTGS and the FCA Nostro were officially pegged at 1:1.

The Society will only be able to provide foreign currency to depositors who have either deposited foreign currency directly in the FCA Nostro account or have received export proceeds which was deposited as foreign currency. The bank will not be able to provide foreign currency by withdrawing from the FCA RTGS account at 1:1. Please also refer to note 1.5 on the determination of functional currency.

In 2018 the RBZ introduced a statutory reserve requirement which is equal to 5% of total deposits.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

		Notes	31 December 2018 $m	31 December 2017 $m
8	**Investment securities**			
8.1	**Investment securities analysis**			
	Money market investments		110.58	46.64
	Treasury bills		225.40	186.89
			335.98	233.53
	Loss allowance	8.2	(2.91)	-
			333.07	**233.53**
	Maturity analysis - gross			
	On demand to 3 months		175.77	95.82
	3 months to 1 year		77.59	42.53
	1 year to five years		54.90	90.15
	Over 5 years		24.81	5.03
			333.07	**233.53**

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

8.2 Impairment analysis

	Notes	2018 12 months ECL $m	ECL - Not credit impaired $m	ECL - Credit impaired $m	ECL - Total $m
Gross carrying value					
Balance as at 1 January		233.53	-	-	**233.53**
		102.45	-	-	**102.45**
- Repayments		(44.74)	-	-	**(44.74)**
- Originations		147.19	-	-	**147.19**
Closing balance 31 December		**335.98**	**-**	**-**	**335.98**
Loss allowance					
Balance as at 1 January	6.5	2.52	-	-	**2.52**
Utilisation		(0.30)	-	-	**(0.30)**
Movement through profit and loss		0.69	-	-	**0.69**
- Repayments		(0.05)	-	-	**(0.05)**
- Originations		0.74	-	-	**0.74**
Balance as at 31 December		**2.91**	**-**	**-**	**2.91**

		Notes	31 December 2018 $m	31 December 2017 $m
9	**Other assets**			
	Net unauthorised overdrafts and accrued rental income	9.1.1	0.85	2.08
	Investment in equity	9.2	1.86	0.94
	Stock on hand		2.03	0.75
	Housing projects	9.3	34.72	54.28
	Other assets		53.56	52.46
			93.02	**110.51**
9.1.1	**Net unauthorised overdrafts and accrued rental income**			
	Unauthorised overdrafts		6.67	5.08
	Accrued rental income		2.63	2.43
	Gross other financial assets at amortised cost		9.30	7.51
	Loss allowance		(8.45)	(5.43)
	Net other financial assets at amortised cost		**0.85**	**2.08**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

9.1.2 Loss allowance reconciliation

		2018			
	Notes	12 months ECL $m	ECL - Not credit impaired $m	ECL - Credit impaired $m	ECL - Total $m
Gross carrying value					
Balance as at 1 January		2.43	-	5.08	7.51
		0.20	-	1.59	1.79
- Originations and repayments		0.20	-	1.59	1.79
Balance as at 31 December		**2.63**	**-**	**6.67**	**9.30**
Loss allowance					
Balance as at 1 January	6.5	1.73	-	3.81	5.54
Utilisation				(0.79)	(0.79)
Movement through profit and loss		0.05	-	3.65	3.70
- Originations and repayments		0.05	-	3.65	3.70
Balance as at 31 December		**1.78**	**-**	**6.67**	**8.45**

	31 December 2018 $m	31 December 2017 $m
9.2 Equity investments		
Opening balance	0.94	0.85
Fair value gain	0.92	0.09
Closing balance	**1.86**	**0.94**

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

	31 December 2018 $m	31 December 2017 $m
9.3 Inventory work in progress		
- ZRP housing project	5.88	7.38
- Budiriro housing project	24.77	43.72
- Pumula housing project	4.07	3.18
	34.72	**54.28**
9.3.1 Housing projects - inventory work in progress		
Opening balance	54.28	57.09
Additions	3.63	4.32
Cost of sales	(20.83)	(5.98)
Write down	(2.36)	(1.15)
	34.72	**54.28**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

		Notes	31 December 2018 $m	31 December 2017 $m
10	**Loans and advances**			
10.1	**Loans and advances analysis**			
	Gross amount owing		816.48	684.40
	Loss allowance	10.6	(36.83)	(15.58)
	Loans and advances		**779.65**	**668.82**
	Maturity analysis			
	On demand to 3 months		127.03	100.04
	3 months to 1 year		252.89	205.16
	1 year to five years		386.34	316.76
	Over 5 years		50.22	62.44
			816.48	**684.40**
10.2	**Concentration**			
	Housing		260.27	199.47
	Individuals		189.42	166.72
	Commercial and industrial		366.79	318.21
			816.48	**684.40**

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 balance sheet date is shown below:

	Notes	31 December 2018 $m	31 December 2017 $m
Sector			
Agriculture		157.16	86.25
Construction and property		261.02	240.95
Energy and minerals		20.79	11.27
Light and heavy industry		59.86	30.83
Individuals		194.28	158.95
State and state enterprises		29.14	15.56
Trade and services		27.69	43.25
Transport and distribution		66.17	97.34
Total		**816.48**	**684.40**
Impairment	10.6	(36.83)	(15.58)
		779.65	**668.82**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

10.4 Aged 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:

	Notes	31 December 2018 $m	31 December 2017 $m
Neither past due nor impaired		670.28	566.15
Past due but not impaired		99.25	74.97
Past due but less than 1 month		58.37	32.52
Past due, greater than 1 month but less than 3 months		40.88	42.45
Impaired loans and advances (non-performing loans)		46.95	43.28
Gross loans and advances		**816.48**	**684.40**
Provisions for impairment	10.6	(36.83)	(15.58)
Total net loans and advances		**779.65**	**668.82**

10.5 Commitment for loans and advances

		31 December 2018 $m	31 December 2017 $m
Commitment for loans and advances		**61.82**	**29.50**

10.6 Impairment Analysis

	Notes	2018 12 month ECL $m	Life time ECL not credit impaired $m	Life time ECL credit impaired $m	Total $m
Gross loans					
Balance as at 1 January		587.45	45.78	51.17	**684.40**
Write offs		-	-	(2.64)	**(2.64)**
Transfers		(81.94)	63.61	18.33	**-**
- Stage 1		19.69	(15.96)	(3.73)	**-**
- Stage 2		(88.19)	88.69	(0.50)	**-**
- Stage 3		(13.44)	(9.12)	22.56	**-**
Net movement in loans		172.15	(22.04)	(15.39)	**134.72**
- Impact of increase in loans		394.15	-	-	**394.15**
- Loan repayments		(222.00)	(22.04)	(15.39)	**(259.43)**
Balance as at 31 December 2018		**677.66**	**87.35**	**51.47**	**816.48**
Loss allowance					
Balance as at 1 January	6.5	10.94	2.92	20.64	**34.50**
Write offs		-	-	(2.64)	**(2.64)**
Utilisation		-	-	(2.60)	**(2.60)**
Transfers		(9.61)	2.29	7.32	**-**
- Stage 1		1.10	(0.31)	(0.79)	**-**
- Stage 2		(3.11)	3.21	(0.10)	**-**
- Stage 3		(7.60)	(0.61)	8.21	**-**
Net remeasurement		8.16	1.82	(2.41)	**7.57**
- Impact of increase in loans		15.91	-	-	**15.91**
- Loan repayments		(6.67)	(0.25)	(2.74)	**(9.66)**
- Changes in parameters		(1.08)	2.07	0.33	**1.32**
Balance as at 31 December 2018		**9.49**	**7.03**	**20.31**	**36.83**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

11	**Non current assets held for sale**	**31 December 2018 $m**	**31 December 2017 $m**
	Non-current assets held for sale		
	Opening valuation	**1.10**	**1.41**
	Additions	-	0.21
	Disposals	(0.17)	(0.25)
	Fair value gain/(loss)	0.11	(0.27)
	Closing valuation	**1.04**	**1.10**

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

12	**Property and equipment**	**Land $m**	**Buildings $m**	**Office Equipment $m**	**Vehicles $m**	**Total $m**
	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 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**
	31 December 2017					
	Opening net book value	4.43	35.34	9.23	1.34	50.34
	Additions	-	0.41	5.98	0.77	7.16
	Revaluation (loss)/gain	(0.05)	0.37	-	-	0.32
	Other movements	0.23	1.86	-	-	2.09
	Depreciation charge	-	(0.70)	(3.55)	(0.53)	(4.78)
	Closing net book value	**4.61**	**37.28**	**11.66**	**1.58**	**55.13**
	Cost or valuation	4.61	37.28	25.24	3.45	70.58
	Accumulated depreciation	-	-	(13.58)	(1.87)	(15.45)
	Net book value	**4.61**	**37.28**	**11.66**	**1.58**	**55.13**

If the revalued land and buildings had been measured under the cost model the carrying amount in the current year would have been; land $2.21 million (2017 $2.21 million) and buildings $14.30 million (2017 $14.66 million).

The properties were valued by Old Mutual Property Zimbabwe (Private) Limited's qualified valuers and the effective date of the valuation is 31 December 2018. A selected number of properties constituting at least 60% of the portfolio were independently valued by Bard Real Estate (Private) Limited, Homelux Real Estate and EPG Global and compared with values obtained by Old Mutual Property Zimbabwe (Private) Limited.

Assets pledged as security are disclosed in note 16.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

		31 December 2018 $m	31 December 2017 $m
13	**Investment property and operating leases**		
13.1	**Investment property**		
	Opening fair value	23.42	22.25
	Fair value adjustment	0.07	-
	Other movements	-	1.17
	Closing fair value	**23.49**	**23.42**

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.

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

13.2 Operating leases

13.2.1 Society as a lessee

	31 December 2018 $m	31 December 2017 $m
Non-cancellable operating lease rentals are payable as follows:		
• Less than 1 year	0.63	0.73
• Between 1 and 5 years	2.93	3.39
	3.56	**4.12**

Some of the Society's banking halls are under operating leases. The leases typically run for an initial period of between one and three years, with an option to renew the lease after that date. Leases are reviewed regularly. None of these rentals include contingent liabilities. Operating lease expenses are disclosed as rental expenses.

13.2.2 Society as a lessor

The Society leases out its investment property under operating leases.

	31 December 2018 $m	31 December 2017 $m
Operating lease rentals are receivable as follows:		
Less than 1 year	3.73	1.95
Between 1 and 5 years	17.28	9.03
	21.01	**10.98**

Rental income and repairs and maintenance are recognised as income and expense respectively in the statement of profit or loss. Operating lease income is disclosed as rental income.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

		31 December 2018 $m	31 December 2017 $m
14	**Intangible assets**		
	Opening carrying amount		
	Cost or valuation	22.98	20.30
	Accumulated amortisation	(13.57)	(9.96)
		9.41	**10.34**
	Movement in intangible assets		
	Additions	1.63	2.68
	Amortisation charge	(3.18)	(3.61)
		(1.55)	**(0.93)**
	Closing carrying amount		
	Cost /valuation	24.61	22.98
	Accumulated amortisation	(16.75)	(13.57)
		7.86	**9.41**
15	**Deposits**		
	Money market deposits	594.62	525.70
	Term deposits	0.71	0.48
	Savings deposits	571.90	493.04
		1 167.23	**1 019.22**
	Maturity analysis		
	On demand to 3 months	986.91	693.80
	3 months to 1 year	55.45	190.29
	1 year to five years	55.29	66.86
	Over 5 years	69.58	68.27
	Gross nominal outflow	**1 167.23**	**1 019.22**

Concentration	31 December 2018 $m	Weight %	31 December 2017 $m	Weight %
Financial institutions	495.33	42.4%	436.09	42.8%
Companies	559.57	47.9%	470.79	46.2%
Individuals	112.33	9.7%	112.34	11.0%
	1 167.23	**100.0%**	**1 019.22**	**100.0%**

		31 December 2018 $m	31 December 2017 $m
16	**Credit lines**		
	Trade and Development Bank (TDB)	19.62	10.18
	Shelter Afrique	8.00	9.74
	African Development bank (AFDB)	25.68	-
	Proparco	-	3.40
		53.30	**23.32**
	Maturity analysis		
	On demand to 3 months	4.58	0.68
	3 months to 1 year	10.94	8.63
	1 year to five years	37.78	14.01
		53.30	**23.32**

	Tier of debt	Nominal value	First Call Date	Maturity Date	Type of loan
TDB Bank loan USD25 Million 3 months LIBOR + 6.75%	Senior	19.62	Oct-17	Mar-21	Term loans
Shelter Afrique USD9.6 million base rate 8.19% + margin rate of 4%	Senior	5.82	Jul-14	Dec-23	Term loans
Shelter Afrique USD4.8 million base rate 8.19% + margin rate of 5%	Senior	2.18	Jul-14	Sep-22	Term loans
AFDB USD25 Million Loan 6 months libor + 6.5%	Senior	25.68	Sep-18	Sep-21	Term loans
Total		**53.30**			

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

As security for the TDB loan, the Society registered bonds of $7 million and issued powers of attorney to register bonds (in the event of default) over properties with a total value of $45.07 million as at 31 December 2018 (both investment properties and owner occupied properties). The Shelter Afrique loan is secured by a guarantee from OMZIL as well as a cession of the performing loan book covering two times the exposure at any given time.

		31 December 2018 $m	31 December 2017 $m
17	**Trade and other liabilities**		
	Trade creditors	33.20	18.67
	Cash-settled share based liability	0.04	-
	Other liabilities	2.41	2.50
	Deferred Revenue	10.20	8.20
		45.85	**29.37**
18	**Provisions**		
	Opening balance	2.77	5.47
	Net movements	2.21	(2.70)
	Closing balance	**4.98**	**2.77**

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

19	**Deferred taxation**	**3.29**	**3.26**

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

20	**Share capital and reserves**	**Notes**	**31 December 2018 $m**	**31 December 2017 $m**
20.1	**Ordinary class "A" share capital**		**35.00**	**35.00**

Comprising 35 000 000 authorised, issued and fully paid shares of $1 each.

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

		Notes	31 December 2018 $m	31 December 2017 $m
20.2	**Retained earnings**			
	Opening balance		109.99	99.32
	Impact of adopting IFRS 9 at 1 January 2018	6.6	(1.72)	-
	Restated balance 1 January 2018		108.27	99.32
	Net surplus for the year		49.24	42.11
	Dividend payable		(25.00)	(30.00)
	Regulatory loan loss provision		(5.18)	(1.44)
	Closing balance		**127.33**	**109.99**
20.3	**Regulatory provision reserve**			
	Opening balance		17.95	16.51
	Impact of adopting IFRS 9 at 1 January 2018	6.6	(17.95)	-
	Restated balance 1 January 2018		-	16.51
	Regulatory impairment allowance		5.18	1.44
	Closing balance		**5.18**	**17.95**
20.4	**Non-distributable reserve**		**1.45**	**1.45**

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

20.5	**Revaluation reserve**			
	Opening balance		18.77	18.45
	Revaluation of properties		0.86	0.32
	Closing balance		**19.63**	**18.77**

The revaluation reserve relates to the revaluation of properties.

20.6	**Share based payment reserve**			
	Opening balance		5.63	5.35
	Share based payment reserve		0.16	0.28
	Closing balance		**5.79**	**5.63**

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

21 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 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 inputs are unobservable.	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. All businesses have significant processes in place to perform reviews of the appropriateness of the valuation of Level 3 instruments.

The majority of 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 the majority 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 the majority of the significant inputs used to determine fair value of the instrument become unobservable.

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

	Notes	Level 1 US $m	Level 2 US $m	Level 3 US $m	Total US $m
As at 31 December 2018					
Assets at fair value through profit or loss					
Investment in equity	9	-	-	1.86	1.86
Investment property	13.1	-	-	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**
As at 31 December 2017					
Assets at fair value through profit or loss					
Investment securities	8.1	-	233.53	-	233.53
Investment property	13.1	-	-	23.42	23.42
Non-current assets held for sale	11	-	-	1.10	1.10
Assets at fair value through other comprehensive income					
Owner occupied property (land and buildings)		-	-	41.89	41.89
		-	**233.53**	**66.41**	**299.94**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

21.2 Reconciliation of level 3 items

	31 December 2018 $m	31 December 2017 $m
Balance as at 1 January	**66.41**	**63.43**
Additions	0.15	0.62
Disposal of non-current asset held for sale	(0.17)	(0.25)
Transfer in (investment in equity)	1.86	-
Depreciation recognised on owner ocupied property	(0.75)	(0.70)
Other movements - deferred tax on properties	-	3.26
Gains or losses for the period:		
Fair value gain on investment property	0.18	(0.27)
Revaluation gain on owner occupied property	0.90	0.32
Balance as at 31 December	**68.58**	**66.41**

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).

Effect of changes in significant unobservable assumptions to reasonable possible alternatives

Favourable and unfavourable changes are determined on the basis of 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.

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.

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 2018

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 metre; 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 securities	Discounted cash flows (DCF) EBITDA multiples, price earnings ratios, adjusted net asset values, and discounted dividend growth model	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.

	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
31 December 2018					
Financial assets					
Treasury Bills	225.40	-	-	220.10	220.10
31 December 2017					
Financial assets					
Treasury Bills	186.89	-	-	186.89	186.89

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 in most markets 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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

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 either available market prices (Level 1) or discounted cash flow analysis where an instrument is not quoted or the market is considered to be inactive (Level 2).

22 Related party disclosures

Group companies
The Society is a wholly owned subsidiary of Old Mutual Zimbabwe Limited (OMZIL), 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.

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

Subsidiaries of the parent company, **OMZIL**
- 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, the Marketing Executive and the Head of Information and Communication Technology.

		31 December 2018 $m	31 December 2017 $m
22.1	**Loans to Directors**		
	Opening balance	16.77	16.38
	Granted during the year	-	0.22
	Interest and insurance charges	2.10	0.58
	Repayments during the year	(2.97)	(0.41)
	Closing balance	**15.90**	**16.77**

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

		31 December 2018 $m	31 December 2017 $m
22.2	**Balances with Old Mutual Group companies**		
	During the year the Society had transactions with Old Mutual Group companies and the outstanding balances at year end were:		
	Amounts due to fellow subsidiaries	(250.12)	(238.33)
	Amounts due from fellow subsidiaries	0.02	0.42
	Amounts due to the holding company	-	(0.19)
22.3	**Transactions with Old Mutual Group companies**		
	The Society entered into normal business transactions with Old Mutual Group companies. Income earned and interest paid in respect to these transactions is as listed below:		
	Insurance paid to Old Mutual Insurance Company (Private) Limited	0.82	0.91
	Interest payable to fellow subsidiaries	8.99	9.78
	Fees payable to Old Mutual Property (Private) Limited	0.97	0.51
	Outsource services to Old Mutual Shared Services (Private) Limited	5.52	5.96
22.4	**Loans to executives and senior management**	**2.29**	**1.18**
	These loans were granted at arm's length.		
22.5	**Compensation of key management personnel**		
	The remuneration of Directors and other members of key management during the year was as follows:		
	Short term benefits	5.99	4.78
	Post employment benefits	0.18	0.25
	Share based payments	0.22	0.28
		6.39	**5.31**
22.6	**Directors fees**	**0.28**	**0.29**

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

23 Post employment benefits

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.

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 share-based payment liabilities	**31 December 2018 $m**	**31 December 2017 $m**
Total liability	**5.79**	**5.63**

Movement relating to share entitlements and awards during the year are as follows:	**31 December 2018 Number of shares (m)**	**31 December 2017 Number of shares (m)**
Outstanding, at beginning of year	0.77	1.07
Forfeited during year	-	(0.02)
Exercised during year	(0.30)	(0.28)
Outstanding, at end of year	**0.47**	**0.77**

Shares exercised during the year were exercised at an average price of $1.09(2017: $1.40). The shares are listed on the Finsec Automated Trading platform(ATP). The ATP price as at 31 December 2018 was $4.95 (2017: $2.05).

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 (OMZIL). The equity-settled share based payment reserve is maintained in the company from the date of issue of the share allocations. On vesting settlement will be made through the special purpose vehicles controlled by OMZIL.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

24.2.1 Cash settled share program

Broad Based Employee Share Plan (BBESP)

During the year 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, provided that they were still permanently employed by OMZIL on the grant date of 18 September 2018.

All participants received a fixed Rand value offer of R10 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 JSE.

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 Group during the restricted period.

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 JSE at each reporting date. The cash-settled share based payment liability is maintained in the Society and remeasured at each balance sheet date during the period up to exercise of the share options, with changes in fair value recorded in profit or loss.

	31 December 2018 $m	31 December 2017 $m
24.2.2 Composition of share-based payments liability	**0.04**	**-**

Movement relating to share entitlements and awards during the year are as follows:	31 December 2018 Number of shares (m)	31 December 2017 Number of shares (m)
Outstanding, at beginning of year	-	-
Granted during year	0.16	-
Outstanding, at end of year	**0.16**	**-**

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

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 seven principles of CABS' enterprise risk management policy are: risk management strategy; risk governance; risk culture; risk appetite and limits; identification, management, monitoring and reporting; risk acceptance; and risk control self assessments.

CABS's 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.

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 judgment of management, indicate that repayments will most likely continue. These policies are kept under continuous review.

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

- Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements;
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Senior Managers, 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;

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

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

Collateral
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. 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, aircraft, 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 $528.50 million (2017:$418.32 million).

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 2018 %**	**31 December 2017 %**	**Principal type of collateral held**
Type of credit exposure			
Treasury Bills	0%	0%	None
Fixed deposits	100%	100%	Treasury Bills
Mortgage loans	100%	100%	Property
Corporate loans	100%	100%	Property and Guarantees
Consumer loans	85%	85%	Insurance

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

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.

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.

	31 December 2018 US$m	**31 December 2017 US$m**
LTV ratio		
Non credit impaired loans		
Less than 50%	19.45	15.07
51% to 75%	34.45	29.67
76% to 100%	113.56	128.14
More than 100%	65.51	52.11
Total	**232.97**	**224.99**
Credit impaired loans		
Less than 50%	0.59	0.97
51% to 75%	1.09	0.90
76% to 100%	3.38	5.18
More than 100%	23.62	25.66
Total	**28.68**	**32.71**

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.

	31 December 2018 US$m	**31 December 2017 US$m**
Property	-	0.21

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 2018

Regulatory Loan Loss Provisioning

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

2018

Class	Type	Provisioning criteria	Gross loans $m	Allowance for impairment $m	Net loans $m
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**

2017

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

The Society also takes into account provisions requirement 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.

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 and the Liquidity 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.

Liquidity gap

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

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

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:

	31 December 2018 $m	**31 December 2017 $m**
Total liquid assets	500.54	398.34
Total liabilities to the public	1 220.53	1 042.53
Liquidity ratio	41%	38%
Maximum for the period	43%	38%
Minimum for the period	31%	33%
Average for the period	38%	36%

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

25.2.1 Liquidity gap analysis as at 31 December 2018

	On demand to 3 months $m	3 months to 1 year $m	1 year to 5 years $m	Over 5 years $m	Non-determinant maturity $m	Total $m
Assets						
Cash and cash equivalents	167.48	-	-	-	-	167.48
Investment securities	175.77	77.59	54.90	24.81	-	333.07
Loans and advances	121.29	241.49	274.83	142.04	-	779.65
Other assets	-	-	-	-	93.02	93.02
Intangible assets	-	-	-	-	7.86	7.86
Property and equipment	-	-	-	-	63.42	63.42
Investment property	-	-	-	-	23.49	23.49
Non-current assets held for sale	-	-	-	-	1.04	1.04
Total assets	**464.54**	**319.08**	**329.73**	**166.85**	**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	-	-	-	-	43.44	43.44
Provisions	-	-	-	-	7.39	7.39
Deferred taxation	-	-	-	-	3.29	3.29
Shareholder's equity	-	-	-	-	194.38	194.38
Total liabilities	**991.49**	**66.39**	**93.07**	**69.58**	**248.50**	**1 469.03**
Net liquidity gap	**(526.95)**	**252.69**	**236.66**	**97.27**	**(59.67)**	**-**
Cumulative liquidity gap	**(526.95)**	**(274.26)**	**(37.60)**	**59.67**	**-**	**-**

Liquidity gap analysis as at 31 December 2017

	On demand to 3 months $m	3 months to 1 year $m	1 year to 5 years $m	Over 5 years $m	Non-determinant maturity $m	Total $m
Assets						
Cash and cash equivalents	164.81	-	-	-	-	164.81
Investment securities	95.82	42.53	90.15	5.03	-	233.53
Loans and advances	100.04	205.16	316.76	46.86	-	668.82
Other assets	-	-	-	-	110.51	110.51
Intangible assets	-	-	-	-	9.41	9.41
Property and equipment	-	-	-	-	55.13	55.13
Investment property	-	-	-	-	23.42	23.42
Non-current assets held for sale	-	-	-	-	1.10	1.10
Total assets	**360.67**	**247.69**	**406.91**	**51.89**	**199.57**	**1 266.73**
Liabilities						
Deposits	693.80	190.29	66.86	68.27	-	1 019.22
Credit lines	0.68	8.63	14.01	-	-	23.32
Other liabilities	-	-	-	-	29.37	29.37
Provisions	-	-	-	-	2.77	2.77
Deferred taxation	-	-	-	-	3.26	3.26
Shareholder's equity	-	-	-	-	188.79	188.79
Total liabilities	**694.48**	**198.92**	**80.87**	**68.27**	**224.19**	**1 266.73**
Net liquidity gap	**(333.81)**	**48.77**	**326.04**	**(16.38)**	**(24.62)**	**-**
Cumulative liquidity gap	**(333.81)**	**(285.04)**	**41.00**	**24.62**	**-**	**-**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

25.3 Market risk

Market risk is the risk that the Society's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market prices such as interest rates, credit spreads, equity prices and foreign exchange rates. Most market risks arise from trading activities. The Society is primarily exposed to interest rate 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 reduction in interest rates measured over 12 months is a decrease in net interest income of approximately $0.93 million (2017: $1.25 million), which is within the board's approved risk limit.

Increase/(Decrease) in interest rates	31 December 2018 $m Impact on Net interest income	31 December 2017 $m Impact on Net interest income
(2)%	0.93	1.25
(1)%	0.47	0.63
(0.50)%	0.23	0.31
0.50%	(0.23)	(0.31)
1%	(0.47)	(0.63)
2%	(0.93)	(1.25)

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 2018

25.3.1.1 Interest rate repricing and gap analysis 2018

	On demand to 3 months $m	3 months to 1 year $m	1 year to 5 years $m	Over 5 years $m	Non-Interest bearing $m	Total $m
Assets						
Investment securities	175.77	77.59	54.90	24.81	-	333.07
Loans and advances	121.29	241.49	274.83	142.04	-	779.65
Total assets	**297.06**	**319.08**	**329.73**	**166.85**	**-**	**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**
Net liquidity gap	**(157.90)**	**252.69**	**236.66**	**97.27**	**-**	**428.72**
Cumulative interest rate repricing liquidity gap	**(157.90)**	**94.79**	**331.45**	**428.72**	**428.72**	**428.72**

Interest rate repricing and gap analysis 2017

	On demand to 3 months $m	3 months to 1 year $m	1 year to 5 years $m	Over 5 years $m	Non-Interest bearing $m	Total $m
Assets						
Financial assets at fair value through profit or loss	95.82	42.53	90.15	5.03	-	233.53
Loans and advances	100.04	205.16	316.76	46.86	-	668.82
Total assets	**195.86**	**247.69**	**406.91**	**51.89**	**-**	**902.35**
Liabilities						
Deposits	338.04	69.17	66.86	68.27	-	542.34
Credit lines	0.68	8.63	14.01	-	-	23.32
Total liabilities	**338.72**	**77.80**	**80.87**	**68.27**	**-**	**565.66**
Net liquidity gap	**(142.86)**	**169.89**	**326.04**	**(16.38)**	**-**	**336.69**
Cumulative interest rate repricing liquidity gap	**(142.86)**	**27.03**	**353.07**	**336.69**	**336.69**	**336.69**

25.3.2 Exposure to foreign currency risk

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

Currency name	Exchange rate as at 31 December 2018	Exchange rate as at 31 December 2017
South African Rands (ZAR)	14.43	12.40
Great British pound (GBP)	1.27	1.35
EURO	1.14	1.20
Botswana Pula (BWP)	0.09	0.10
Swiss Franc (CHF)	1.01	0.98

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

25.3.2 Market risk (continued)

	Assets Cash and cash equivalents 2018	Assets Cash and cash equivalents 2017	Net $ equivalent as at 31 December 2018	Net $ equivalent as at 31 December 2017	Effect of 10% depreciation 2018	Effect of 10% depreciation 2017	Effect of 10% appreciation 2018	Effect of 10% appreciation 2017
South African Rands	**ZAR**	**ZAR**	**$**	**$**	**$**	**$**	**$**	**$**
	16.65	21.98	1.15	1.77	(0.12)	(0.18)	0.12	0.18
Great British Pounds	**GBP**	**GBP**	**$**	**$**	**$**	**$**	**$**	**$**
	0.07	0.04	0.09	0.06	(0.01)	(0.01)	0.01	0.01
EURO	**EURO**	**EURO**	**$**	**$**	**$**	**$**	**$**	**$**
	0.41	0.29	0.47	0.34	(0.05)	(0.03)	0.05	0.03
Botswana Pula (BWP)	**PULA**	**PULA**	**$**	**$**	**$**	**$**	**$**	**$**
	0.05	0.39	0.01	0.04	-	-	-	-
CHF	**CHF**	**CHF**	**$**	**$**	**$**	**$**	**$**	**$**
	-	0.01	-	0.01	-	-	-	-

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 our 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 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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

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.

26 **Capital Management**
CABS capital management framework is designed to ensure that the Society has adequate capital levels which are inline with the level of risk being undertaken, the Society's strategy, RBZ requirements and the expected return of the Shareholder.

The key pillars of the Society's capital management process are:
- Management of available financial resources through the various committees;
- Management of capital levels to ensure that it is in line with the Society's three year forecasts and risk appetite through the various committees; and
- Risk optimisation through the various committees and ensuring that a capital buffer is in place.

CABS has comprehensive stress and scenario testing processes which are used to assess capital adequacy. The stress and scenario testing processes works in conjunction with the Society's ICAAP process. The Society's stress and scenario testing process are continuously evolving to meet new international standards and methodologies.

The key features of the Society's stress and scenario testing processes include:
- Stress and scenario testing is performed at least quarterly;
- Scenarios applied include reverse stress testing, macro economic scenarios, specific event type, and specific risk type; and
- Senior management have active knowledge of the tests.

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 $20 million and capital adequacy ratio of 12% as measured by the ratio of total capital to risk weighted assets. As at 31 December 2018 the Society was compliant.

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

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

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 2018 was as follows:

CAPITAL ADEQUACY	**31 December 2018 $m**	**31 December 2017 $m**
Tier 1 Capital		
Ordinary class "A" share capital	35.00	35.00
Retained earnings	127.33	109.99
Exposures to insiders and connected parties	(15.90)	(17.25)
Less Tier 1 allocated to market risk	-	(0.10)
Les Tier 1 allocated for operational risk	(15.87)	(14.14)
Total Tier 1 Capital	**130.56**	**113.50**
Total Tier 2 capital	**39.90**	**37.69**
Tier 3 Capital		
Allocation of capital for market risk	-	0.10
Allocation of capital for operational risk	15.87	14.14
Total Tier 3 capital	**15.87**	**14.24**
Total Regulatory capital	**186.33**	**165.43**
Total risk weighted assets	**1 040.08**	**947.48**
Capital adequacy ratio	**18%**	**17%**

27 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-2019
Long-term	National	A+	Stable	Aug-2018
Long-term	National	A+	Stable	Aug-2017

28 Branch and agents network

The Society has 58 branches and 1020 agents. A full list of these including their locations can be viewed at the Society's head office at Northridge Park, Harare or the Society's website www.cabs.co.zw.

29 Going concern

In view of the subsequent events that occurred on 20 February 2019, 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.

30 Subsequent events

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 $". 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.
- Establishment of an inter-bank foreign exchange market where the exchange rate will be determined by market forces. The interbank market opened trading at a rate of US$1 to RTGS$ 2.5.

The monetary policy announcement was followed by the publication of Statutory Instrument 33 of 2019 (SI33) 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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

to be RTGS dollars at a rate of 1:1 to the USD and would become opening RTGS Dollar values from the effective date. The Directors, based on their interpretation of IFRS had considered the MPS of 20 February 2019, and the subsequent emergence of an interbank exchange rate to be an adjusting event in terms of International Accounting Standard 10 (IAS 10) "Events after the reporting period" as it is was considered as reflective of underlying conditions as at the reporting date of 31 December 2018. In particular the promulgation of RTGS Dollar as currency, in the opinion of the Directors, was legal confirmation of market practice which had come to regard RTGS balances and transactions as representing an underlying de-facto currency. However given the accounting restrictions imposed by SI33, these post balance sheet events have not been adjusted for.

The impact on the 2018 balance sheet (which is based on the assumption of parity and interchangeability between the USD and RTGS balances) of applying different exchange rates is shown below:

31 December 2018	Notes	Total RTGS $ denominated monetary and non-monetary balances	Total US$ denominated monetary assets and liabilities	Total US$ denominated non-monetary assets and liabilities	Total translated at a rate of US$1: RTGS$1	Total RTGS $ translated at a rate of US$1: RTGS$2.5	Total RTGS $ translated at a rate of US$1: RTGS$4	Total RTGS $ translated at a rate of US$1 : RTGS$5
ASSETS								
Cash and cash equivalents	7	153.39	14.09	-	167.48	188.61	209.73	223.82
Investment securities	8	333.07	-	-	333.07	333.07	333.07	333.07
Other assets	9	91.89	1.13	-	93.02	94.71	96.41	97.54
Loans and advances	10	748.59	31.06	-	779.65	826.24	872.83	903.89
Non-current assets held for sale	11	1.04	-	-	1.04	1.04	1.04	1.04
Property and equipment	12	21.53	-	41.89	63.42	126.25	189.09	230.98
Investment property	13	-	-	23.49	23.49	58.73	93.97	117.46
Intangible assets	14	7.86	-	-	7.86	7.86	7.86	7.86
Total assets		**1 357.37**	**46.28**	**65.38**	**1 469.03**	**1 636.51**	**1 804.00**	**1 915.66**
LIABILITIES								
Deposits	15	1 157.61	9.62	-	1 167.23	1 181.67	1 196.11	1 205.73
Credit lines	16	-	53.3	-	53.30	133.24	213.19	266.49
Trade and other liabilities	17	44.08	1.77	-	45.85	48.47	51.11	52.86
Provisions	18	4.98	-	-	4.98	4.98	4.98	4.98
Deferred taxation	19	-	-	3.29	3.29	8.22	13.15	16.44
Total liabilities		**1 206.67**	**64.69**	**3.29**	**1 274.65**	**1 376.58**	**1 478.54**	**1 546.50**
SHAREHOLDER'S EQUITY								
Ordinary class "A" share capital	20.1	35.00	-	-	35.00	35.00	35.00	35.00
Retained earnings	20.2	127.33	-	-	127.33	127.33	127.33	127.33
Regulatory provision reserve	20.3	5.18	-	-	5.18	5.18	5.18	5.18
Non distributable reserve	20.4	1.45	-	-	1.45	1.45	1.45	1.45
Revaluation reserve	20.5	19.63	-	-	19.63	19.63	19.63	19.63
Share based payment reserve	20.6	5.79	-	-	5.79	5.79	5.79	5.79
Translation reserve		-	-	-	-	65.54	131.07	174.77
Total shareholders equity		**194.38**	**-**	**-**	**194.38**	**259.92**	**325.45**	**369.15**
Total shareholders equity and liabilities		**1 401.05**	**64.69**	**3.29**	**1 469.03**	**1 636.50**	**1 803.99**	**1 915.65**
		-	**(18.41)**	**62.09**	**-**	**-**	**-**	**-**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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

The Society administers the Distressed Marginalised Fund (DIMAF) on behalf of the Zimbabwean Government at a commission of 3%. The Fund was set up by the Government of Zimbabwe to help revive businesses that would have been vetted as distressed and showing evidence of decline in performance because of inadequate funding for capitalisation.

The Fund is revolving in nature, whereby the interest gains are added to the principal amount for further loaning.

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

To the extent that the Society is neither legally liable for the losses nor entitled to the gains of the Fund, the Society excludes the DIMAF transactions from its statement of comprehensive income, statement of financial position and statement of cash flows for the year then ended 31 December 2018.

Below is the analysis of the balances;

	31 December 2018 $m	31 December 2017 $m
Principal amount opening balance	24.51	27.27
Non-performing loans payoff	(10.02)	(4.34)
Interest rolled over	1.03	1.40
Accrued interest	0.16	0.18
Total	**15.68**	**24.51**
DIMAF loans issued	0.95	10.24
Balance to be issued as loans	14.73	14.27
Total	**15.68**	**24.51**
Interest on loans disbursed	4.59	3.39