

Abridged Unaudited Financial Results

FOR THE HALF YEAR ENDED 30 JUNE 2020



Building Communities



CHAIRMAN'S STATEMENT

Introduction

I take great pleasure to present the interim financial results of the Society for the half year ended 30 June 2020.

The results show a resilient and adaptive Society operating in a very difficult and hostile environment, particularly Zimbabwe experiencing high inflation and rapid depreciation of the local currency.

Operating environment

Covid-19 has led to the worst economic shock in living memory for most of us, lockdowns and curfews have become the order of the day. In March 2020, the World Health Organization declared COVID-19 a pandemic and countries responded with widespread lockdowns. Supply chains were disrupted, and demand significantly declined, in addition, our highly informal market was ground to a halt. Fear and uncertainty drove a precipitous fall in the markets and a liquidity squeeze. This was quickly followed by extraordinary fiscal and monetary interventions. Regulatory actions included wide-spread interest rate cuts and commissions and tariffs freeze.

The regulatory authorities, RBZ, issued credit relief measures to cushion banks from adverse movements in credit risk and directed a reduction of statutory reserves to support liquidity and lending activities during the COVID-19 pandemic.

The Zimbabwe Government in response to this pandemic introduced several initiatives for civil servants in addition to the unplanned pandemic budget to assist civil servants and Zimbabweans at large. Whilst necessary, the additional spend posed a material burden to the already existent fiscal deficit.

Foreign currency inflows statistics remain relatively low albeit positive, primarily driven by international remittances, export proceeds and utilization of lines of credit. For the period from January to 30 June 2020, total inflows amounted to US\$3.16 billion with US\$1.96 billion being export proceeds compared to the corresponding period in 2019 were total foreign currency receipts amounted to US\$2.69 billion, of which US\$1.86 billion was export proceeds.

During the period to 30 June 2020, the exchange rate remained under immense pressure, depreciating further in the first quarter before it was fixed at ZWL25 per USD till 22 June 2020 when the foreign exchange auction system was introduced. The auction foreign exchange system sought to instill confidence in the interbank market, improve exporter viability and transparency in the management of foreign exchange. The exchange rate as determined on the auction closed the period on \$57.36 to the USD.

Annual inflation has continued an upward trend increasing from single digits in September 2018 to more than 521% in 2019, and further to 737.3% in June 2020.

Macro-economic projections

The economy was initially projected to grow by 3% in 2020, driven by anticipated positive performances in the key sectors. The emergence of the COVID-19 pandemic coupled with another forecasted drought year; it is expected that economy will instead contract by 4.5% with the ripple effect being felt across all economic sectors.

Financial Performance

The Society recorded a surplus of ZWL25.3 million after a monetary gain of ZWL16.9 million over the six months to June 2020. This was largely achieved by benefits of the inflation hedge held in investment property and disposals recorded on residential stands. A surge in digital platform volumes especially in last quarter also drove topline expansion over the same period.

Operating expenses recorded a below year on year inflation increase of 372% in historical terms closing the period on ZWL46.0 million from ZWL9.8 million, confirmation of the success in cost containment strategies by the Society. Inevitable inflationary pressure on the cost base was countered by reduced discretionary spending and bulk purchasing of essential supplies.

Our cost to income ratio recorded an improvement in historical terms from 41% to 39% when compared to the same period last year.

Our NPL ratio at 1.87% remained within the prudential limit of 5%. This is a reflection of the exceptional loan book management strategy.

The balance sheet receded by 21% from the December 2019 position of ZWL1.5 billion to close the period on ZWL1.2 billion despite a modest increase in loans and advances on the back of an increased deposit book. This decline in the balance sheet is in tandem with the increase in inflation after an offset from our inflation hedge held in investment property.

Capital preservation remains central in the operations of the Society.

Capitalisation

During the mid-term monetary policy announcement of 21 August 2020, the Reserve Bank of Zimbabwe announced an extension of the capitalisation deadline following an assessment of the adverse impact of the COVID-19 pandemic and the general challenging operating environment. The Bank extended the compliance deadline to 31 December 2021. The Society will comply with all regulatory deadlines as prescribed.

Response to COVID-19

The Society has put in place a budget to adequately finance costs related to COVID-19. Of priority to the Society is ensuring the safety and health of all its staff members by providing all the required protection from contracting the virus including working remotely. Arrangements have been put in place to support staff who would have tested positive. The Society has also put in place a COVID-19 business continuity plan which is being reviewed on an ongoing basis.

A significant impact of COVID-19 was the reduction in branch traffic that naturally saw the migration of service delivery to digital channels. System stability was of prime importance. The ability of our electronic platforms to meet the sudden volumes surge and evolving needs of customers whilst providing a seamless banking experience, must be lauded.

Investing in technology and digital infrastructure remains a crucial strategic pillar of the Society.

Products and Services

Several innovative and structured products were introduced under the newly established business banking arm. These facilities were developed based on in-depth engagements with existing and potential clients as well in general response to market trends and occurrences. This segment also benefited from the foreign exchange auction introduced in June 2020 alluded to earlier; with their participation being facilitated by the Society. Furthermore, the period saw deployment of additional Point of Sale terminals (POS) to business clients as a transacting and depositing solution.

Commensurate with our mission "To make the dream of decent housing a reality", whilst construction costs were deemed to be high and uneconomic for the Society, the Society resorted to still accomplish this mission by partially disposing its stands to increase housing stock. I am pleased to announce that great strides have been taken in selling NBS Park in Harare and Hopeville in Bulawayo. In the same vein, the Society managed to underwrite several diaspora United States Dollar backed mortgages for these disposed units.

The Society maintains its long-standing commitment to deliver quality solutions around housing and believes in value chain collaborations.

Outlook

Whilst the prospects of economic recovery in the second half are weak influenced by several adverse factors including the COVID-19 pandemic among others, we remain hopeful of greater inroads as we continue to look for opportunities to enhance the banking needs of our customers. Several products are already in the innovation pipeline and we expect to release these in the second half. We also anticipate greater support to come in from the Regulator who has been a key cornerstone in providing an enabling environment for the Society.

Appreciation

These have been extraordinary times for all of us. I would like to extend sincere appreciation to the team for the tremendous efforts that governed our response, demonstrated the resilience of our business and moreover, realised success for the Society during this reporting period.

I must also thank our shareholders, clients and various stakeholders for their continued support and confidence. As always, the Society is committed to ensuring its sustainability into the future and to making a positive and significant impact on the nation and its people.

S. Kudenga
Board Chairman
26 August 2020

CORPORATE GOVERNANCE STATEMENT

The Board is committed to high standards of Corporate Governance and believes that a sound governance structure engenders a successful Society. Throughout the year, the Society has, in the Directors' opinion, complied fully with the tenets of good Corporate Governance in Zimbabwe as specifically incorporated in the Banking Act [Chapter 24:20] read together with the Banking Amendment Act Number 12 of 2016, the Building Societies Act [Chapter 24:02] and the Reserve Bank of Zimbabwe Corporate Governance Guidelines. The Society has also embraced the new Public Entities Corporate Governance Act Chapter (10:31). The Board recognises the critical importance of having an effective Board of Directors. The Board also places the highest importance on active engagement with its Shareholder. Meetings are held regularly with the Shareholder and the Board takes account of the Shareholder's views.

The Board

The current Board of Directors is constituted of two executive directors, five independent non-executive directors and three non-executive directors. The Board Chairman is an independent non-executive director. The roles of the Chairman and the Managing Director are separate. Effective control is exercised through the Managing Director and the respective Society executives who are accountable through regular reports to the Board. The non-executive directors have the skills and experience to bring unrestrained judgement to bear on all corporate governance issues. Non-executive directors derive no benefits from the Society for their services as directors, other than retainer and sitting allowances. All board members are required to disclose other directorships and any potential conflicts of interest. Directors are requested to recuse themselves from deliberations on matters in which they have a conflict of interest.

Board And Director Evaluation Process

The institution carries out an annual Board and director evaluation process as required by the Reserve Bank of Zimbabwe Guideline No. 01-2004/BS: Corporate Governance. The performance of the Board and individual directors in the previous year is assessed by the Board.

Areas of concern identified through this process are discussed in the Board meetings with a view to mitigate and rectify identified weaknesses. The Board and director evaluations for the year 2019 were duly and timeously conducted.

Board Changes

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

Board Attendance

The Board and its sub-committees met at regular intervals (including Special Meetings). Attendance was as tabled below:

Board Member	Main Board	Housing Committee	Audit Committee	Loans Review Committee	Credit Review Committee	Human Resources & Nominations Committee	Risk & Compliance Committee	Finance & Strategy Committee
Number of Meetings held	3	2	2	2	4	4	2	2
Kudenga S. (Chairman)	3	2	**	**	**	4	**	2
Tome E. (Vice Chairman)	3	**	2	**	**	4	**	2
Chitanda E. (Mrs) (Finance Director)	1xx	**	**	**	**	**	**	1x
Danga L. (Managing Director)	3	2	**	**	4	**	**	2
Mnangagwa K. D.	2x	2	**	**	4	**	2	2
Mutemachani D.	3	2	2	**	4	**	**	**
Hamadziripi P. M.	3	xx	**	2	**	**	2	**
Nyereyegona B. (Ms)	3	**	**	2	**	4	2	**
Makwara D.	3	2	**	**	2xx	**	**	2
Chitiki M.	3	2	**	2	**	**	1x	**

Key

- ** - Not a member of the Committee
- X - Apology

Statement of Compliance

The Society complied with all statutes regulating financial institutions as well as corporate governance best practice. The Society also complied with the Reserve Bank of Zimbabwe directives on liquidity management, capital adequacy as well as prudential lending guidelines.

Approval of the Financial Results

These financial results were approved by the Board of Directors on 26 August 2020.

By order of the Board

Ms. R. Chipendo
Company Secretary
26 August 2020

Kumba/Ekhaya
DIASPORA MORTGAGE
A product of National Building Society

Home is where the Bank is

Now is the perfect time to find the perfect home where your heart is. Fortunately for you, we've made it perfectly easy to access a mortgage to build back home.

DOWNLOAD THE NBS TRANSACTOR MOBILE APP TODAY!
GET IT ON Google Play | Download on the App Store

Contact our Sales Team on:
Tel: +263 4 756657 or email:kumba@nbs.co.zw

A member of the Deposit Protection Scheme

nbs
National Building Society
Building Communities

Invest in sustainable energy.

With NBS Solar Energy Loan Fund (SELF), you are now able to power your home. Don't worry about power cuts, NBS has the right energy solution for you.

Abridged Unaudited Financial Results FOR THE HALF YEAR ENDED 30 JUNE 2020



Solar Energy Loan Fund



NOTES TO THE FINANCIAL RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2020 (CONT'D)

- Internal Fraud;
- External Fraud;
- Business Disruption and System Failures;
- Client Products and Business Practices;
- Employment Practices and Workplace Safety;
- Execution Delivery and process management; and
- Damage to Physical Assets.

Risk and Control Self Assessments (RCSA) are being used across all departments for identifying, assessing, monitoring and managing key risks within a department and evaluating the effectiveness of the controls that are in place to manage these risks.

The Society's Management Committees and Board Risk and Compliance meets regularly to manage operational risk.

22 COMPLIANCE AND LEGAL RISK

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards.

Legal risk is the risk of loss due to litigation which is primarily caused by:

- defective transactions;
- claim being made or some other event occurring which results in liability or other loss;
- failure to protect assets adequately; or
- change in the law.

The risks may expose the Society to loss of authorization to operate and inability to enforce contracts. The Society's Legal Department is responsible for the management of legal risk by reviewing all agreements entered into by the Society.

All departments are responsible and accountable for compliance management in their environment and the Society's Compliance Function monitors and guides the institution on compliance matters and ensuring there is zero tolerance to compliance breaches.

The board has full oversight over compliance risk through the Board Risk and Compliance Committee.

23 STRATEGIC RISK

Strategic risk refers to the current and/or prospective impact on the Society's earnings, capital or business viability arising from adverse business decisions and implementation of strategies which are inconsistent with internal factors and the external environment.

The Society has in place structures and processes to identify, measure and monitor strategic risk which are monitored regularly and discussed in ALCO and EXCO and assessed against the Society's strategic objectives.

The Board has oversight over strategic risk through the Finance and Strategy Committee. Management through EXCO is responsible for the implementation of the Board approved strategic risk policy under the oversight of the Risk and Compliance Committee and the Board.

In implementing the Society's strategy, the Board and EXCO determine and allocate financial and operating targets to departments. Monitoring of progress against the action plans is done on a monthly basis and strategic risk mitigation is done through the formulation and implementation of operational plans.

24 REPUTATIONAL RISK

The risk of value destruction that occurs in a situation of negative public opinion. It can be a result of factors such as service delivery, performance, strategy execution, brand positioning and competitiveness. It normally results in loss of sales, share value and breakdown of relationships.

The Board has delegated responsibility for effective management of reputational risk to the Risk and Compliance Committee and to EXCO. Board approved reputational risk management policy is in place.

Line management has the primary responsibility for reputational risk identification and mitigation. Communication of information about the Society to the public or press releases is done in line with the provisions of the communications policies. Any exposures to reputational risk are captured in the internal risk events log, with controls to mitigate the risk.

25 RISK AND CREDIT RATINGS

25.1 Reserve Bank of Zimbabwe ratings

The Reserve Bank of Zimbabwe conducted a risk based on-site examination of National Building Society from 15 March to 7 April 2017, utilising data as at 31 December 2016. The report was updated as at 30 June 2017.

The examination was conducted in line with CAMELS and Risk Assessment System (RAS) methodologies and primarily focused on the adequacy of strategic management capabilities, business operating systems and processes and the effectiveness of risk management and internal control systems

The composite CAMELS rating assigned to National Building Society is '3' i.e. 'fair'

The table below shows ratings assigned to each of the CAMELS components.

CAMELS Components	Rating
Capital	3 - Fair
Asset Quality	3 - Fair
Management	3 - Fair
Earnings	4 - Weak
Liquidity	3 - Fair
Sensitivity to Market Risk	2 - Satisfactory
Composite Rating	3 - Fair

25.2 Reserve Bank of Zimbabwe ratings

In terms of the Risk Assessment System (RAS) the level of overall composite risk of NBS was considered moderate and the direction stable. The level of overall aggregate inherent risk was rated moderate and the quality of overall aggregate risk management systems was considered acceptable.

The Society's risk profile is summarised in the matrix below:

Type of Risk	Level of Aggregate	Adequacy of Risk	Overall	Direction of Overall
Credit	Moderate	Acceptable	Moderate	Increasing
Liquidity	Moderate	Acceptable	Moderate	Stable
Interest Rate	Moderate	Acceptable	Moderate	Stable
Foreign Exchange	Low	Acceptable	Low	Stable
Operational	High	Acceptable	Moderate	Stable
Legal &	High	Acceptable	Moderate	Stable
Reputation	Moderate	Acceptable	Moderate	Stable
Strategic	Moderate	Acceptable	Moderate	Increasing
Overall	Moderate	Acceptable	Moderate	Stable

Interpretation of risk matrix

Level of inherent risk

Low - reflects a 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 banking institution's overall financial 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 institution.

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 control 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, these have been recognized and are being addressed. Management information systems are generally adequate.

Strong - management effectively identifies and controls all types of risk 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 put in place. The policies comprehensively define the bank's risk tolerance, responsibilities and accountabilities are effectively communicated.

Overall composite risk

Low - would be assigned to low inherent risk areas. Moderate risk areas may be assigned a low composite risk where internal controls and risk management systems are strong and effectively mitigate much of the 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 organization.

High - risk management systems do not significantly mitigate the high inherent risk. Thus, the activity could potentially result in a financial loss that would have a significant impact on the bank'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 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.

25.3 External credit ratings

The Society subscribes to an internationally recognised rating agency Global Credit Rating Company (GCR), and the rating ascribed for the year is B.



Harare

Project : NBS Park
Location : In the vicinity of Glaudina, near the Harare - Bulawayo Highway
Property Details - 200sqm stands
 - Fully serviced
 - Title ready

PRICE US\$12,190

Bulawayo

Project : Hopeville
Location : Between the airport and the city centre.
Property Details - 600sqm stands
 - Gated community
 - Fully serviced
 - Title ready

PRICE US\$17,250

A Home Just For You & Your Future Generations

Home sweet home they say. Well we say, it's sweeter when you own the home. Buy a stand and build a house at NBS Park and become a homeowner today.

Terms and Conditions

- Interest Rate - 8% per annum
- Mortgage Tenure - 10 years
- Deposit - 0%
- Application Fees - US\$100
- Building Finance available

Contact Information

NBS Mortgages Centre:
 Mezzanine Floor, Karigamombe Centre, Corner Samora Machel Avenue and Julius Nyerere Way, Harare, Zimbabwe
 WhatsApp & Voice Calls:
 Savie: +263 777 963 817, Primerose: +263 772 515 891, Privilege: +263 731 606 322, Amos: +263 772 705 158,
 Email:
 savie.chinyani@nbs.co.zw, privilege.zanamwe@nbs.co.zw, primerose.chinotsa@nbs.co.zw, amos.kumwenda@nbs.co.zw
 Website: <http://www.nbs.co.zw/diaspora/>

DOWNLOAD THE NBS TRANSACTOR MOBILE APP TODAY!



A member of the Deposit Protection Scheme

