# Abridged Unaudited Financial Results

## FOR THE HALF YEAR ENDED 30 JUNE 2019

nbs
National Building Society
a Registered Building Society
**Building Communities**

> As an institution we continue to work hard in the areas of interest to our stakeholders and are more transparent in terms of what we are doing, what we are innovating, and what we stand for.

### CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of National Building Society, I hereby present the 2019 half year results to our stakeholders.

We have had the opportunity over the last few months to demonstrate strong resilience as well as show signs of stabilisation and positive growth. As an institution we continue to work hard in the areas of interest to our stakeholders and are more transparent in terms of what we are doing, what we are innovating, and what we stand for. By learning from our customers, we have the opportunity to drive our business in the right direction, and that is what we have done this year.

It has been a positive first half of the year for the Society and across a number of our revenue lines despite the adverse economic reflections. For our valued clients, we have to be very agile and adaptive in our model to ensure it is efficient, effective and relevant, as well as being sustainable into the future. Our drive for delivering mortgage finance to the generality of Zimbabweans is unwavering and we continue to drive this passionately.

**Products and services**

Whilst the economic environment posed serious challenges to our business, we have managed to maintain a profitable streak over the last few months. The business has remained agile and highly responsive to the market changes. New products such as micro-mortgages and equity release were introduced as the product bouquet expanded. Over the same period, we have also increased our footprint by adding two more services centres. We launched the Mutare branch in February 2019 which was immediately followed by a satellite branch in Masvingo which opened its doors in March 2019. These will certainly go a long way in bringing us closer to our customers and at the same time provide the support network for the work on the ground in terms of housing projects in the same areas. We are delighted that a lot of our clients have embraced our digital platforms, and this has assisted in making service delivery a lot more efficient and in the process, it has enhanced the customer experience.

**Economic developments**

The first half of 2019 was wrought with many policy changes on the economic front. In February 2019 The Monetary Policy Statement (MPS) brought in a raft of changes and most importantly led to the removal of the 1:1 parity between the USD and the local currency which was then termed the RTGS Dollar and now the Zimbabwean Dollar. The interbank USD/ ZWL exchange rates as at 30 June 2019, stood at 6.6. In June 2019 Government went on to promulgate the Statutory Instrument 142 of 2019 which essentially removed the multi- currencies as legal tender and reintroduced the Zimbabwe Dollar as the sole legal tender in the country. The RBZ press statement that followed advised of an increase in the minimum lending rate from 15% to 50% per annum. In addition, the Central Bank advised that it would be mopping up $1.2bn from the market being legacy debt that they were assuming at a rate of 1:1. Year on year inflation rates continued to spiral from 56% per annum in January 2019 to 175.7% in June 2019. Both the World Bank and IMF have forecasted that the economy will contract in 2019 by 2.1% and 3.1% respectively. However, the IMF, in the Staff Monitored Report released in May 2019, notes that the economy is expected to gain momentum in 2020 onwards as uncertainty declines, distortions from multiple exchange rates are removed, and relations with external creditors normalize.

The highly inflationary environment impacted negatively on disposable income levels of our clients weighing heavily on their ability to afford credit as well as save. In addition, cost escalations across major projects were felt resulting in the Society having to suspend some projects. The negative real rate of return on money market instruments resulted in clients pulling out of monetary assets, instead investing in alternative assets such as stocks and property where they believed returns would be higher and value would be preserved. This resulted in tight liquidity in the financial markets.

**Performance outturn**

As alluded to earlier. the half year under review has been dominated by the promulgation of substantial monetary and fiscal policy reforms. These reforms have led to shrinkage in liquidity and led to spiralling inflation rates in the macro economic environment. For the Society, growth in the balance sheet has slowed down to 4% in 2019 when compared to 10% in the same period in 2018. Revenue earned in the current half is ahead by 62% of same period prior year whilst costs have recorded an adverse 92% variance to the previous year's operating expenses. The Society has had to re-configure and implement stringent cost containment measures to contain the effects of inflation. Consequently, there has been a drop in the cost to income ratio from 89% in the 2018 half year to 48% in the current half year.

Despite the prevailing conditions in the macro economic environment, the Society's loan book has grown by 16%. Investment property has grown by 208% propelled by revaluation of land purchased in December 2016.

**Outlook**

With the recent monetary and fiscal developments which saw among various changes the reintroduction of the local currency, coupled with the various policies being pursued by the Government in order to stabilise the economy, the Society is hopeful of better fortunes in the near future. Innovative products as alluded to earlier, have been designed and rolled out to our customers as our key mandate to deliver housing to the people of Zimbabwe remains on course.

In the medium to short term, strategic alliances with various institutions including local authorities will see our current pipeline of 6,350 housing units being delivered.

**Appreciation**

Customer centricity has remained the core of our value proposition and the Society continues to steadily grow its market share, a reflection of the confidence and trust the market has on the Society as we work towards achieving our mission of making the dream of decent housing a reality. We extend our unparalleled gratitude to our customers for banking with the Society and we remain humbled by your support over the past few years and years to come.

I would like to also extend my gratitude to the Board, Management and Staff of the Society for their collective effort towards achieving the mandate of the Society.

**S. Kudenga**
**Board Chairman**

**28 August 2019**

### CORPORATE GOVERNANCE STATEMENT

The Board is committed to high standards of corporate governance and believes that a sound governance structure engenders a successful company. For the period ending 30 June 2019 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 2015, the Building Societies Act [Chapter 24:02] and the Reserve Bank of Zimbabwe Corporate Governance Guidelines. The Society has also fully embraced the principles and standards as enunciated by the Public Entities Corporate Governance Act [Chapter 10:30].

The Society recognises the critical importance of having an effective Board of Directors. The Board also places the highest importance on active engagement with its shareholders. Meetings are held regularly with shareholders and the Board takes account of shareholders' views.

**The Board**

The current Board of Directors is constituted of two executive directors, seven independent and three non-independent 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 changes**

The following Board members were re-called from the Board with effect from 11 June 2019;

- Olga Maulana
- Erasmus Chester Gapara
- Tendai Ruvarashe Hofisi
- Simbarashe Befura
- Norman Chimuka
- Rugare Dhobbie

The Society would like to express its appreciation for the pivotal role that was played by all the Directors who left the Board and wishes them success in all their future endeavours.

Subsequently, the following new Board members were nominated for Board appointment;

- David Makwara
- Betty Isabel Nyereyegona
- Phillip Mauto Hamadziripi
- Edward Nhamoinesu Tome
- Morris Chitiki
- David Mutemachani

We wish all these Directors the best in their new roles.

**Board attendance**

| Board Member | Main Board | Housing Committee | Audit Committee | Loans Review Committee | Credit Review Committee | Human Resources & Nominations Committee | Risk & Compliance Committee | Finance & Strategy Committee |
|---|---|---|---|---|---|---|---|---|
| **Total Meetings** | **1** | **1** | **1** | **1** | **1** | **2** | **2** | **1** |
| Stanley Kudenga (Chairman) | 1 | 1 | X | X | X | 2 | X | 1 |
| Rugare Dhobbie (Mrs) (Vice Chairman) | 1 | 1 | X | 1 | X | 2 | X | X |
| David Mnangagwa | 1 | X | X | X | 1 | X | 2 | 1 |
| Tinotenda M. S. Kambasha | 1 | X | 1 | X | 1 | X | X | 1 |
| Munashe Shava | 1 | 1 | X | 1 | X | 1L | X | X |
| Norman Chimuka | 1 | L | X | 1 | X | X | 2 | X |
| Simbarashe Defura | 1 | X | 1 | X | 1 | X | X | 1 |
| Erasmus C. Gapara | 1 | X | X | X | 1 | 2 | 2 | X |
| Olga Maulana (Mrs) | 1 | 1 | X | X | X | X | 1 | 1 |
| Tendai R. Hofisi (Mrs) | 0 | X | 0 | 0 | X | 0 | X | X |
| Lameck Danga* (Managing Director) | 1 | 1 | 1 | X | 1 | X | X | 1 |
| Ethel Chitanda (Mrs) *(Finance Director) | 1 | X | X | X | X | X | X | 1 |

**Key**

X- Not a member of the committee
L- Leave of absence granted

**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.

**Going concern**

These financial results were prepared on a going concern basis. In the opinion of the Directors, the Society's business is sound and adequate resources exist to support this basis.

**Approval of the financial results**

These financial results were approved by the Board of Directors on 28 August 2019.

**By order of the Board**

**Ms. R. Chipendo**
**Company Secretary**
**28 August 2019**

VPCG 2099

A Member of the Deposit Protection Scheme

If You Hate Paying Your Rent... You'll Love Paying For Your Home

# Abridged Unaudited Financial Results

## FOR THE HALF YEAR ENDED 30 JUNE 2019


## UNAUDITED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

| | Note | Unaudited 30 June 2019 ZWL$ | Restated 31 Dec 2018 ZWL$ |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | 2,633,932 | 11,202,550 |
| Investment securities | 6 | 26,656,742 | 36,028,416 |
| Other assets and prepayments | 7 | 3,526,613 | 68,046,586 |
| Inventory | 7.1 | 48,339,425 | 26,514,955 |
| Loans and advances | 8 | 94,991,387 | 81,596,257 |
| Computer software | 9 | 3,368,846 | 3,499,154 |
| Investment property | 10 | 64,923,797 | 7,307,500 |
| Property and equipment | 11 | 3,368,737 | 3,428,924 |
| **Total assets** | | 247,809,479 | 237,624,342 |
| **Equity and liabilities** | | | |
| **Liabilities** | | | |
| Deposits | 12 | 75,768,748 | 81,475,961 |
| Borrowings | 13 | 44,336,073 | 44,324,151 |
| Other liabilities | 14 | 9,433,771 | 6,382,231 |
| **Total liabilities** | | 129,538,592 | 132,182,343 |
| **Shareholder's equity** | | | |
| Share capital | 15.1 | 5,089,296 | 5,089,296 |
| Share premium | | 44,558,325 | 44,558,325 |
| Accumulated surplus/(deficit) | 15.4 | 9,922,475 | (4,064,464) |
| Foreign currency translation reserve | | 58,700,791 | 59,858,842 |
| **Total shareholder's equity** | | 118,270,887 | 105,441,999 |
| **Total equity and liabilities** | | 247,809,479 | 237,624,342 |

## UNAUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2019

| | Note | Unaudited 30 June 2019 ZWL$ | Unaudited 30 June 2018 ZWL$ |
|---|---|---|---|
| Interest income | 17 | 6,856,811 | 4,859,780 |
| Interest expense | 17 | (2,651,618) | (1,110,926) |
| **Net interest income** | | 4,205,193 | 3,748,854 |
| Charge for impairment | 8.2 | (552,005) | (844,245) |
| | | 3,653,188 | 2,904,609 |
| Non funded income | 18 | 20,085,793 | 2,221,495 |
| **Total operating income for the year** | | 23,738,981 | 5,126,104 |
| Operating expenses | 19 | (9,751,916) | (4,558,991) |
| **Surplus before tax** | | 13,987,065 | 567,113 |
| **Income tax** | | (126) | - |
| **Surplus for the year** | | 13,986,939 | 567,113 |
| **Other comprehensive income** | | - | - |
| **Comprehensive income for the year** | | 13,986,939 | 567,113 |

## UNAUDITED STATEMENT OF CASHFLOWS FOR THE HALF YEAR ENDED 30 JUNE 2019

| | Note | Unaudited 30 June 2019 ZWL$ | Unaudited 30 June 2018 ZWL$ |
|---|---|---|---|
| **Cashflows from operating activities** | | | |
| Profit before tax | | 13,987,065 | 567,113 |
| **Adjusted for:** | | | |
| Depreciation | 19 | 385,126 | 352,079 |
| Amortisation of software | 19 | 130,308 | 128,798 |
| Fair value adjustment on investment property | | (14,227,009) | - |
| Loss/(profit)on asset disposal | | 3,363 | (1,114) |
| Change in impairment allowance | 8.3 | 552,005 | 844,245 |
| Net interest income | | (4,205,193) | (3,748,854) |
| Net increase in other assets and prepayments | 7 | (1,426,837) | (7,974,653) |
| Increase in inventory | | (103,687) | - |
| Increase in loans and advances | | (13,994,521) | (5,557,219) |
| Decrease in deposits | | (5,707,213) | 12,247,796 |
| Increase in other liabilities | | 2,908,148 | 1,089,241 |
| Interest received | | 6,856,811 | 4,859,780 |
| Interest paid | | (2,651,618) | (1,110,926) |
| Income tax paid | | (126) | - |
| **Net cashflows from operating cashflows** | | (17,493,378) | 1,696,286 |
| **Cashflows from investing activities** | | | |
| Purchase of property and equipment | 11 | (328,303) | (66,636) |
| Decrease/(increase) in investment securities | | 9,377,094 | (6,893,471) |
| Proceeds from disposal of assets | | - | 1,294 |
| Purchase of computer software | | - | (63,014) |
| Purchase of investment property | 10 | (162,588) | - |
| Net cashflows from investing activities | | 8,886,203 | (7,021,827) |
| **Cashflows from financing activities** | | | |
| Borrowings | | 11,922 | (243,683) |
| Net cashflows from financing activities | | 11,922 | (243,683) |
| **Net Increase in cash and cash equivalents** | | (8,595,253) | (5,569,224) |
| **Cash & cash equivalents at the beginning of the year** | 5 | 11,229,185 | 17,697,652 |
| **Cash & cash equivalents at the end of the year** | | 2,633,932 | 12,128,428 |
| **Comprises of:** | | | |
| Cash on hand | | 65,170 | 150,212 |
| Local banks and money market | | 2,568,762 | 11,978,216 |
| **Total cash and cash equivalents** | 5 | 2,633,932 | 12,128,428 |

## UNAUDITED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2019

| | Share capital ZWL$ | Share premium ZWL$ | Foreign currency translation reserve ZWL$ | Shares awaiting allotment ZWL$ | General reserve ZWL$ | Accumulated deficit ZWL$ | Total equity ZWL$ |
|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | |
| **Balance as at 1 January 2019** | 5,089,296 | 44,558,325 | 59,858,842 | - | - | (4,064,464) | 105,441,999 |
| **Profit for the year** | - | - | - | - | - | 13,986,939 | 13,986,939 |
| Impairment | - | - | (1,158,051) | - | - | - | (1,158,051) |
| **Balance as at 30 June 2019** | 5,089,296 | 44,558,325 | 58,700,791 | - | - | 9,922,475 | 118,270,887 |
| **2018** | | | | | | | |
| **Balance as at 1 January 2018** | 5,040,000 | 19,960,000 | - | 24,647,621 | 344,529 | (5,302,365) | 44,689,785 |
| **Net Impact of IFRS 9** | - | - | - | - | (140,942) | - | (140,942) |
| Effects on adoption of IFRS 9 | - | - | - | - | - | (140,942) | (140,942) |
| Transfer from general reserves | - | - | - | - | (140,942) | 140,942 | - |
| **Balance as at 1 January 2018 after adjusting for IFRS 9** | 5,040,000 | 19,960,000 | - | 24,647,621 | 203,587 | (5,302,365) | 44,548,843 |
| **Profit for the year** | - | - | | - | | 1,034,314 | 1,034,314 |
| Transfer to/(from) retained earnings | - | - | | - | (203,587) | 203,587 | - |
| Foreign currency translation reserve | - | - | 59,858,842 | - | - | - | 59,858,842 |
| **Transactions with owners of the Society** | | | | | | | |
| Shares awaiting allotment | 49,296 | 24,598,325 | - | (24,647,621) | - | - | - |
| **Balance as at 31 December 2018** | 5,089,296 | 44,558,325 | 59,858,842 | - | - | (4,064,464) | 105,441,999 |

VPCG 2099

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2019

### 1 Reporting entity

National Building Society is a registered Building Society in terms of the Zimbabwe Building Societies Act (Chapter 24:02). The registered office of the Society is 14th Floor, Social Security Centre, Corner Julius Nyerere Way and Sam Nujoma Street, Harare, Zimbabwe.

### 2 Nature of business

The principal business of the Society is that of providing mortgage finance including deposit acceptance and investing activities.

### 3 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.

### 3.1 Basis of preparation

**Statement of compliance**

The Society's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards and Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC). The financial statements are prepared from statutory records that are maintained under the historical cost convention. These financial statements have been prepared in accordance with the requirements of the Building Societies Act (Chapter 24:02) and adaptations of the Banking Act (Chapter).

### 3.2 Functional and presentation currency

The financial statements are presented in Zimbabwe dollars, which is the Society's functional and presentation currency.

Assets and liabilities denominated in foreign currencies are converted to ZWL$ at the rates of exchange ruling at the end of the reporting date. Transactions in other currencies are translated to ZWL$ at rates of exchange ruling at the time of the transactions.

### 3.3 Functional currency change

In February 2019, the Government of Zimbabwe issued Statutory Instrument 33 of 2019, which directed that all assets and liabilities that were in United States Dollars (US$) immediately before 20 February 2019 be deemed to have been in ZWL$ at a rate of 1:1 to the US$. The guidance issued by the Public Accountants and Auditors Board (PAAB) notes that this is contrary to IAS21 on foreign currency translation. The government went on to issue Statutory Instrument 142 of 2019 which removed the multi-currency regime and re-introduced the Zimbabwe dollar. The Society has reported the Statement of Profit or Loss and Other Comprehensive Income on the basis of the 1:1 in compliance with SI33 and in recognition of the multiple exchange rates that were imputed in commercial transactions.

In order to comply with IAS 21 into the future, the Society translated and restated the Statement of Financial Position as at 31 December 2018 at the commencement ZWL$ rate of 2.5 to the US$. All foreign denominated transactions post this date are translated in accordance with IAS21 at the official interbank rate. The Society has recognised a net increase in assets of ZWL$59.86 million arising from the rebasing to ZWL$ as at 31 December 2018 which has been recorded as a non-distributable foreign currency translation reserve.

### 3.4 Impact of change in functional currency

| | Total Assets | Total Liabilities | Total Equity |
|---|---|---|---|
| **As previously stated at 31 December 2018** | 177,810,940 | 132,227,783 | - |
| Change in functional currency adjustment | 59,813,402 | (45,440) | 59,858,842 |
| **Restated balance as at 31 December 2018** | 237,624,342 | 132,182,343 | 59,858,842 |

Restatement of the Statement of Financial Position was necessitated by changes brought about by SI 33 of 22 February and SI 142 of 24 June 2019. In view of the provisions of IAS 21, the indicators for a change in functional currency were there prior to 31 December 2018 and accordingly management has restated the Statement of Financial Position as at that date.

### 4 Use of estimates and judgments

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 amount 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 period affected.

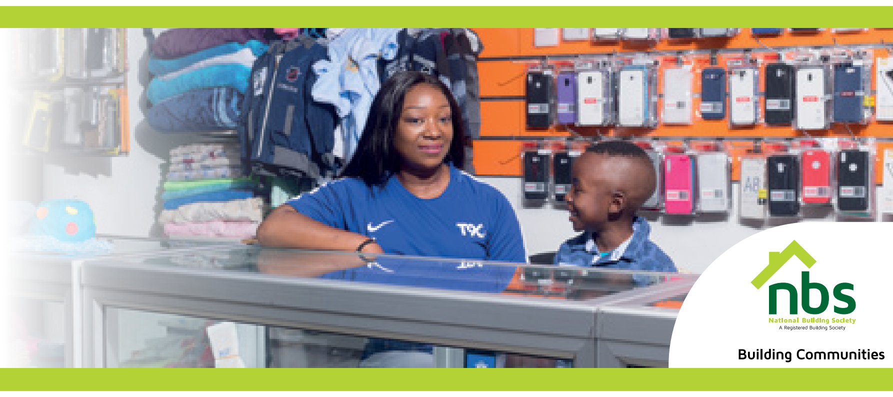
A full set of The Society's policies are available in its annual report, which is ready for inspection at The Society's registered office.

A Member of the Deposit Protection Scheme

My house helped pay for my new business venture.

# Abridged Unaudited Financial Results

## FOR THE HALF YEAR ENDED 30 JUNE 2019



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Building Communities

### 4.1 IFRS 9

Financial assets are designated as amortised cost. Classification is done by assessing the objective of the business model in which the asset is held and is applied the entire class of assets. Financial liabilities are measured are amortised cost.

**Basis of calculating expected credit loss (ECL)**

The calculation of ECL is based on a probability weighted estimate of credit losses. This based on;

I. Probability of default (PD)
PD is an estimate that a borrower will be unable to make a scheduled repayment in a specified period.

II. Loss given default (LGD)
This is the magnitude of the likely loss in the instance of a borrower defaulting.

III. Exposure at default (EAD)
This is the actual expected exposure in the event of default.

**Basis of migration**

Each exposure to a credit risk is 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 indicate the risk of default. At the initial recognition each exposure is assigned a risk grade based on the data available about the borrower. Exposures are then continually monitored resulting in movements to different risk grades depending on the performance of the exposures. A significant increase in credit risk will result in migration to stage 2 or stage 3, while an improvement will result in restoration to stage 1 from stage 2. Loans with a default profile of 90 days are moved to stage 3.

| | | Unaudited 30 June 2019 ZWL$ | Restated 31 Dec 2018 ZWL$ |
|---|---|---|---|
| **5** | **Cash and cash equivalents** | | |
| | Cash | 65,170 | 19,376 |
| | Bank | (795,969) | 219,893 |
| | Interbank placements | - | 6,000,000 |
| | Reserve Bank Of Zimbabwe | 3,364,731 | 4,989,916 |
| | | 2,633,932 | 11,229,185 |
| | Reserve Bank of Zimbabwe | 3,364,731 | 4,989,916 |
| | Interbank placements | - | 6,000,000 |
| | Local banks | (795,969) | 219,893 |
| | | 2,568,762 | 11,209,809 |
| | Stage 1 - ECL allowance | - | (26,635) |
| | | 2,568,762 | 11,183,174 |
| | Cash on hand | 65,170 | 19,376 |
| | Net carrying amount | 2,633,932 | 11,202,550 |
| **6** | **Investment securities held at armotised cost** | | |
| | Savings bond | 8,900,000 | 12,700,000 |
| | Treasury bills | 17,814,664 | 23,391,758 |
| | | 26,714,664 | 36,091,758 |
| | Stage 1 - ECL allowance | (57,922) | (63,342) |
| | **Net carrying amount** | 26,656,742 | 36,028,416 |
| | **Maturity analysis** | | |
| | Less than 1 month | 2,635,963 | - |
| | 1 month to 3 months | 5,148,159 | 6,825,562 |
| | 3 months to 6 months | 5,793,757 | 2,114,060 |
| | 6 months to 1 year | 9,853,792 | 17,988,710 |
| | 1 year to 5 years | 3,282,993 | 9,163,426 |
| | | 26,714,664 | 36,091,758 |
| **7** | **Other assets and prepayments** | | |
| | Housing development and prepayments | - | 66,105,533 |
| | Capital work in progress | 161,973 | - |
| | Interest accrued | 1,716,277 | 1,040,921 |
| | Collateral deposits | 901,648 | 631,098 |
| | Sundry assets | 746,715 | 427,757 |
| | | 3,526,613 | 68,205,309 |
| | Non-current | 901,648 | 1,040,921 |
| | Current | 2,624,965 | 67,164,388 |
| | | 3,526,613 | 68,205,309 |
| | **Opening balance** | 68,205,309 | 26,442,213 |
| | Functional currency change | - | 39,663,320 |
| | Other assets and prepayments | 1,426,837 | 2,099,776 |
| | Transfer to investment property | (44,384,750) | - |
| | Transfer to inventory work in progress | (21,720,783) | - |
| | **Closing balance** | 3,526,613 | 68,205,309 |
| **7.1** | **Inventory work in progress** | | |
| | Chinhoyi housing project work in progress | 13,470,284 | 13,409,050 |
| | Glaudina housing project work in progress | 13,148,358 | 13,105,905 |
| | Dzivarasekwa housing project | 21,720,783 | - |
| | | 48,339,425 | 26,514,955 |
| | **Opening balance** | 26,514,955 | 10,605,982 |
| | Functional currency change | - | 15,908,973 |
| | Additions for the year | 103,687 | - |
| | Transfer from other assets and prepayments | 21,720,783 | - |
| | **Closing balance** | 48,339,425 | 26,514,955 |

During the year ZWL$21,720,783 was transferred from housing development and prepayments to inventory work in progress. An additional ZWL$44,384,750 was transferred to investment property (note 10).

| | | Unaudited 30 June 2019 ZWL$ | Restated 31 Dec 2018 ZWL$ |
|---|---|---|---|
| **8** | **Loans and advances** | | |
| | Personal loans, advances and other accounts | 48,996,005 | 33,693,389 |
| | Mortgage loans | 49,048,530 | 50,356,625 |
| | Gross loans and advances | 98,044,535 | 84,050,014 |
| | Impairment provision | (3,053,148) | (2,453,757) |
| | **Net loans and advances** | 94,991,387 | 81,596,257 |
| **8.1** | **Maturity analysis** | | |
| | Less than 1 month | 768,545 | 3,209,106 |
| | 1 month to 3 months | 206,538 | 460,100 |
| | 3 months to 6 months | 765,985 | 671,024 |
| | 6 months to 1 year | 2,769,555 | 1,208,567 |
| | 1 year to 5 years | 38,776,361 | 28,786,357 |
| | More than 5 years | 54,757,551 | 49,714,860 |
| | | 98,044,535 | 84,050,014 |
| **8.2** | **Loan impairment allowance** | | |
| | **Exposure to credit - gross loans and advances** | | |
| | Loans and advances subject to Stage 1 | 91,760,516 | 77,677,650 |
| | Loans and advances subject to Stage 2 | 4,673,184 | 5,543,487 |
| | Loans and advances subject to Stage 3 | 1,610,835 | 828,877 |
| | **Gross loans and advances** | 98,044,535 | 84,050,014 |
| | Loan Impairment Charge | | |
| | Stage 1 | 1,741,684 | 1,760,989 |
| | Stage 2 | 121,841 | 162,630 |
| | Stage 3 | 1,189,623 | 530,138 |
| | **Gross impairment loss** | 3,053,148 | 2,453,757 |
| | Net loans and advances | 94,991,387 | 81,596,257 |

**8.3 ECL allowance movement**

| 2019 | Cash and cash equivalents | Loans and advances | Investment securities | Total |
|---|---|---|---|---|
| **Balance at beginning of year 2019** | 26,635 | 2,453,758 | 78,672 | 2,559,065 |
| Charge to profit and loss for the year | (26,635) | 599,390 | (20,750) | 552,005 |
| **Balance at end June 2019** | - | 3,053,148 | 57,922 | 3,111,070 |
| **2018** | | | | |
| **Balance at beginning of the year** | - | 838,689 | - | 838,689 |
| Effects on first time adoption of IFRS 9 | 62,808 | 39,990 | 38,144 | 140,942 |
| Charge to profit and loss for the year | (36,173) | 1,575,079 | 40,528 | 1,579,434 |
| **Balance at end of the year** | 26,635 | 2,453,758 | 78,672 | 2,559,065 |

| | | Unaudited 30 June 2019 ZWL$ | Restated 31 Dec 2018 ZWL$ |
|---|---|---|---|
| **8.3** | **Sectorial analysis** | | |
| | Individuals | 98,044,535 | 84,050,014 |
| **9** | **Computer software** | | |
| | **Cost** | | |
| | **Opening balance** | 4,038,714 | 3,968,312 |
| | Additions | - | 70,402 |
| | **Closing balance** | 4,038,714 | 4,038,714 |
| | **Accumulated amortisation** | | |
| | **Opening balance** | 539,560 | 279,424 |
| | Charge to income statement | 130,308 | 260,136 |
| | **Closing balance** | 669,868 | 539,560 |
| | Net book value | 3,368,846 | 3,499,154 |
| **10.** | **Investment property** | | |
| | **Opening balance** | 7,307,500 | 2,570,670 |
| | Additions to Stonridge | 138,701 | 260,119 |
| | Additions to Dzivarasekwa | 23,888 | - |
| | Transfer from other assets and prepayments | 44,384,750 | - |
| | Functional currency change | - | 4,476,711 |
| | Fair value adjustment to profit and loss | 14,227,009 | - |
| | Impairment charge to FCTR | (1,158,051) | - |
| | **Closing balance** | 64,923,797 | 7,307,500 |

**11 Property and equipment**

| 2019 - Unaudited | Leasehold improvements | Office equipment | Furniture and fittings | Motor vehicles | Computer equipment | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Opening balance** | 1,936,850 | 267,047 | 289,962 | 474,076 | 2,081,901 | 5,049,836 |
| Additions | 81,235 | 41,938 | 16,406 | - | 188,724 | 328,303 |
| Disposal | - | - | - | - | (10,806) | (10,806) |
| **Closing balance** | 2,018,085 | 308,985 | 306,368 | 474,076 | 2,259,819 | 5,367,334 |
| **Accumulated depreciation** | | | | | | |
| **Opening balance** | 423,448 | 44,283 | 60,297 | 193,761 | 899,124 | 1,620,913 |
| Charge for the year | 99,864 | 14,403 | 14,952 | 47,402 | 208,505 | 385,126 |
| Disposal | | | | | (7,443) | (7,443) |
| Closing balance | 523,312 | 58,686 | 75,249 | 241,163 | 1,100,186 | 1,998,597 |
| **Net book value 2019** | 1,494,773 | 250,299 | 231,119 | 232,913 | 1,159,633 | 3,368,737 |

| 2018 - Audited | Leasehold improvements | Office equipment | Furniture and fittings | Motor vehicles | Computer equipment | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Opening balance** | 1,909,968 | 184,260 | 223,980 | 474,076 | 1,948,705 | 4,740,989 |
| Additions | 26,882 | 82,787 | 65,983 | - | 133,778 | 309,430 |
| Disposals | - | - | - | - | (582) | (582) |
| **Closing balance** | 1,936,850 | 267,047 | 289,963 | 474,076 | 2,081,901 | 5,049,837 |
| **Accumulated depreciation** | | | | | | |
| **Opening balance** | 230,952 | 23,390 | 36,457 | 98,958 | 514,680 | 904,437 |
| Charge for the year | 192,496 | 20,893 | 23,840 | 94,803 | 384,848 | 716,880 |
| Disposal | - | - | - | | (404) | (404) |
| **Closing balance** | 423,448 | 44,283 | 60,297 | 193,761 | 899,124 | 1,620,913 |
| **Net book value 2018** | 1,513,402 | 222,764 | 229,666 | 280,315 | 1,182,777 | 3,428,924 |

| | | Unaudited 30 June 2019 ZWL$ | Restated 31 Dec 2018 ZWL$ |
|---|---|---|---|
| **12** | **Deposits** | | |
| | Transactional and savings deposits | 23,328,499 | 15,944,197 |
| | Term deposits | 45,940,249 | 57,031,764 |
| | Money market deposits | 6,500,000 | 8,500,000 |
| | | 75,768,748 | 81,475,961 |
| **12.1** | **Maturity analysis** | | |
| | Less than 1 month | 48,075,043 | 40,435,977 |
| | 1 month to 3 months | 8,549,654 | 22,020,611 |
| | 3 months to 6 months | 1,220,000 | 7,632,872 |
| | 6 months to 1 year | 6,981,550 | 1,370,000 |
| | 1 year to 5 years | 431,837 | 557,837 |
| | More than 5 years | 10,510,664 | 9,458,664 |
| | | 75,768,748 | 81,475,961 |

Maturity analysis is based on the remaining period from 30 June 2018 to contractual maturity.

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| | | Unaudited 30 June 2019 ZWL$ | Restated 31 Dec 2018 ZWL$ |
|---|---|---|---|
| **12.2** | **Sectoral analysis** | | |
| | Individuals | 6,431,274 | 13,065,861 |
| | Manufacturing | 32,110 | 21,000,103 |
| | Transport and Distribution | 119,240 | 427 |
| | Energy and Minerals | 100 | 4,677 |
| | Financial Services | 52,440,249 | 44,019,460 |
| | Construction and Property | 197,312 | 1,100,489 |
| | Trade and Services | 16,548,463 | 2,284,944 |
| | | 75,768,748 | 81,475,961 |
| **13** | **Borrowings** | | |
| | Shareholder loan | 44,336,073 | 44,324,151 |
| | Non- current liability | 44,336,073 | 44,324,151 |
| **14** | **Other liabilities** | | |
| | Deferred income | 2,166,581 | 1,446,094 |
| | Accrued interest | 3,473,921 | 2,241,598 |
| | Other liabilities | 3,793,269 | 2,853,262 |
| | | 9,433,771 | 6,540,954 |

**15 Equity and reserves**

| | | Share capital | Share premium | Total |
|---|---|---|---|---|
| **15.1** | **Equity** | | | |
| | Equity | 5,089,296 | 44,558,325 | 49,647,621 |

| | | Unaudited 30 June 2019 | Audited 31 Dec 2018 |
|---|---|---|---|
| | **Share Movement** | | |
| | **Authorised ordinary shares** | 1,000,000,000 | 1,000,000,000 |
| | Issued and fully paid ordinary shares | 508,929,558 | 508,929,558 |
| | **Unissued ordinary shares** | 491,070,442 | 491,070,442 |
| **15.2** | **Accumulated loss** | | |
| | **Opening balance** | (4,064,464) | (5,302,365) |
| | Profit/(Loss) for the period | 13,986,939 | 1,034,314 |
| | Transfer from general reserve | - | 203,587 |
| | **Closing balance** | 9,922,475 | (4,064,464) |
| **15.3** | **General reserve** | | |
| | **Opening balance** | - | 344,529 |
| | Net impact of IFRS 9 | - | (140,942) |
| | Transfer to retained earnings | - | (203,587) |
| | **Closing balance** | - | - |
| **15.4** | **foreign currency translation reserve** | | |
| | **Opening balance** | 59,858,842 | - |
| | Impairment | (1,158,051) | - |
| | Change in functional currency | - | 59,858,842 |
| | **Closing balance** | 58,700,791 | 59,858,842 |

**16 Capital management**

National Building Society adopted the Internal Capital Adequacy Assessment Policy (ICAAP) which details the Society's approach, assessment and management of risk and capital from an internal perspective that is over and above the minimum regulatory rules and capital requirements of Basel II. The primary objective of the Society's capital management is to ensure that the Society complies with externally imposed capital requirements and that the Society maintains strong credit ratings and healthy capital ratios in order to support its business and maximise shareholder value. ICAAP incorporates a capital management framework designed to satisfy the needs of key stakeholders i.e depositors, regulators, rating agencies who have specific interest in its capital adequacy and optimal risk taking to ensure its going concern status (solvency). The focus is also targeted at the meeting the expectations of those stakeholders i.e. shareholders, analysts, investors, clients and the general public who are interested in looking at the profitability of the Society vis-a-vis assumed levels of risk.

**16.1 Capital adequacy**

Capital adequacy is computed in line with guidelines provided by the Reserve Bank of Zimbabwe.

| | Unaudited 30 June 2019 ZWL$ | Restated 31 Dec 2018 ZWL$ |
|---|---|---|
| **Risk weighted assets** | 107,730,964 | 94,914,741 |
| **Tier 1** | | |
| Share capital | 5,089,296 | 5,089,296 |
| Share Premium | 44,558,325 | 44,558,325 |
| Accumulated profit/(loss) | 9,922,475 | (4,064,464) |
| **Core capital** | 59,570,096 | 45,583,157 |
| **Tier 2** | | |
| Functional currency translation reserve | 58,700,791 | 59,858,842 |
| Borrowings | 44,336,073 | 44,324,151 |
| Tier 1 ratio | 46% | 70% |
| Tier 2 ratio | 39% | 47% |
| **Capital adequacy** | 100% | 95% |

Regulatory capital, consists of Tier 1 capital which comprises share capital, share premium and accumulated loss including current year deficit. The Society was compliant with minimum regulatory provisions as set by the Reserve Bank of Zimbabwe as at 30 June 2019.

| | | Unaudited 30 June 2019 ZWL$ | Unaudited 30 June 2018 ZWL$ |
|---|---|---|---|
| **17** | **Interest** | | |
| | **Interest income** | | |
| | Loans and advances | 5,662,572 | 3,490,613 |
| | Money market placements | 1,194,239 | 1,369,167 |
| | | 6,856,811 | 4,859,780 |
| | **Interest expense** | | |
| | Money market deposits | 1,534,625 | 985,047 |
| | Borrowings | 1,107,937 | 119,820 |
| | Savings deposits | 9,056 | 6,059 |
| | | 2,651,618 | 1,110,926 |
| | **Net interest income** | 4,205,193 | 3,748,854 |
| **18** | **Non funded income** | | |
| | Net commission and fee income | 4,923,812 | 2,105,064 |
| | Realised exchanged gains | 738,456 | - |
| | Unrealised exchanged gains | 177,340 | - |
| | Fair value adjustment on investment property | 14,227,009 | - |
| | Other operating income | 19,176 | 116,431 |
| | | 20,085,793 | 2,221,495 |

| | | Unaudited 30 June 2019 ZWL$ | Restated 31 Dec 2018 ZWL$ |
|---|---|---|---|
| **19** | **Operating expenses** | | |
| | Staff Costs | 4,531,778 | 2,141,449 |
| | Depreciation | 385,126 | 352,079 |
| | Amortisation of computer software | 130,308 | 128,798 |
| | Other expenses | 4,704,704 | 1,936,666 |
| | | 9,751,916 | 4,558,992 |
| | **Operating Leases** | | |
| | **Society as a leasee** | | |
| | The following is an analysis of expenses related to operating leases: | | |
| | **Non cancellable lease rentals are payable as follows:** | | |
| | Less than 1 year | 249,232 | 244,102 |
| | Between 1 and 5 years | 996,927 | 878,766 |
| | | 1,246,159 | 1,122,868 |

**20 Related party disclosures**

The Society is a wholly owned subsidiary of National Social Security Authority through its two funds National Pension Scheme Fund and Workers Compensation Insurance Fund. The organisation has diverse business interests across various economic sectors.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and money market investments.

**20.1 The following is a list of related parties to the Society:**

National Pension Scheme Fund
Workers Compensation Insurance Fund
National Social Security Authority
First Mutual Life Group
Social Security Center

| | | Unaudited 30 June 2019 ZWL$ | Audited 31 Dec 2018 ZWL$ |
|---|---|---|---|
| **20.2** | **Transactions with related parties** | | |
| | Interest paid | 263,647 | 290,599 |
| | Deposits received | 39,209,115 | 6,629,251 |
| | Borrowings | 44,336,073 | 44,324,151 |
| | Rent expense | 87,173 | 111,862 |
| | Other expenses | 45,764 | 50,662 |
| **20.3** | **Balances with related parties** | | |
| | Balances owed to NSSA | 44,336,073 | 44,324,151 |

**21 Risk management disclosure**

As a financial intermediary, the Society is exposed to various types of risks including credit, market, liquidity, operational, legal, compliance and reputation risks. The objective of the risk management framework at NBS is to ensure that these risks are understood, measured and monitored and that the policies and procedures established to address these risks are strictly adhered to.

**21.1 Credit risk**

This is risk of potential loss that arises when a borrower, or client, or counterparty, may fail to meet obligations in accordance with agreed credit terms and conditions. This includes failing to meet interest and capital repayments, settlements and collateral risk. The Society is exposed to credit risk due to its involvement in lending operations.

**21.2 Credit risk management framework**

Credit Risk is managed through a comprehensive process of credit origination, credit approval, credit monitoring and review. There is full segregation of duties between credit origination and credit approval processes.

The Society has been prudently maintaining an impairment allowance on its credit exposures to cushion itself from problematic loans. IFRS 9 modeling methodologies have been adopted, documented and expected credit loss impairments (ECLs) have been appropriately recognized to reflect the inherent credit risk profile at each reporting period.

Undesirable characteristics within the credit portfolio that include concentration and default risk are managed through a framework of approved limits which are monitored and reviewed by the Loans Review Committee set by the Board.

The Society also performs various types of credit stress testing which are meant to assess the impact of changing economic conditions on asset quality, earnings performance and ultimately capital adequacy.

The Society, thus, manages its credit risk by adhering to credit policies and procedure manuals and monitor risk against the set thresholds. These Credit policies are reviewed annually to align with developing trends in credit processes and business goals.

The Board maintains oversight over credit risk through its Board Credit Committee and the Board Loans Review Committee. Management structures supported by the Management Credit Committee and Loans Review Committee actively manage credit risk.

**21.3 Credit risk mitigation**

Where possible, NBS takes collateral as a secondary recourse to the borrower. The Society put in place policies to determine the eligibility of collateral for credit risk mitigation. In times of difficulty, the Society reviews customers' specific facts and circumstances to assist them in restructuring their repayment liabilities. However, should the need arise, disposal and recovery processes are in place for disposal of collateral held by NBS.

**21.4 Non-performing loans and advances**

The Society classifies its advances into performing and non-performing loans in accordance with the RBZ guidelines.

**21.5 Credit risk exposure**

The table below summarizes the Society's exposure to credit risk.

| | Unaudited 30 June 2019 ZWL$ | Audited 31 Dec 2018 ZWL$ |
|---|---|---|
| Cash and cash equivalents | 2,633,932 | 11,229,185 |
| Investment securities | 26,656,742 | 37,991,758 |
| Loans and advances | 94,991,387 | 84,050,014 |
| Other assets and prepayments | 3,526,613 | 39,148,614 |
| | 127,808,674 | 172,419,571 |

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not maximum risk exposure that could arise in the future as a result of changes in value.

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# Abridged Unaudited
# Financial Results
## FOR THE HALF YEAR ENDED 30 JUNE 2019




**21.6 Aging analysis of past due but not impaired loans and advances (Special mention loans):**

| | Unaudited 30 June 2019 ZWL$ | Audited 31 Dec 2018 ZWL$ |
|---|---|---|
| 1 to 3 months | 4,704,662 | 5,647,994 |

Past due but not impaired loans relate to loans in the special mention category.

**21.7 Sectoral analysis of the Society's advances before and after considering collateral held is:**

| Sector | Gross maximum exposure at 30 June 2019 | Gross maximum exposure at 31 Dec 2018 |
|---|---|---|
| Individuals | 98,044,535 | 84,050,014 |
| **Collateral analysis** | | |
| Mortgage bonds | 50,969,476 | 23,248,913 |

The Society holds collateral against loans and advances to customers in the form of mortgage bonds over property. Estimates of property fair values are based on the values of collateral assessed at the time of borrowing, and are regularly aligned with trends in the market in compliance with the Society's Credit Policy. Issued mortgage loans constitute about 64% of the gross maximum exposure.

The collateral held on mortgage loans is placed under level 2 of the fair value hierarchy.

**21.8 Credit quality per class of financial assets (gross)**

The credit quality of financial assets is managed by the Society using internal credit ratings. The table below shows the credit quality by class of asset for the Society's loan book:

| | Unaudited 30 June 2019 ZWL$ | Audited 31 Dec 2018 ZWL$ |
|---|---|---|
| Pass | 91,218,400 | 77,400,525 |
| Special mention | 4,704,662 | 5,647,994 |
| Substandard | 828,903 | 404,708 |
| Doubtful | 505,272 | 358,402 |
| Loss | 787,298 | 238,385 |
| **Total** | 98,044,535 | 84,050,014 |

**22. Market risk**

Market risk is defined as the risk of a loss of value resulting from the fluctuation of the market prices of financial instruments. The Societies transactions are mainly exposed to the following risk types:

- Interest Rate Risk
- Foreign Exchange Risk.

**22.1 Market risk management framework**

The Board through the Board Risk and Compliance Committee has oversight over Market Risk and sets the Society's risk appetite for market risk.

The Society manages market risk through risk awareness of the front office, monitoring of treasury limits and an escalation procedure to ALCO.

Management structures supported by ALCO are in place to identify, measure and monitor market risk regularly against set benchmarks through the use of daily, weekly and monthly dashboards and reports highlighting inherent market risk and assessed against key market risk metrics.

Sensitivity analysis is employed to quantify the impact of a specified change in individual market parameters on the value of the Society's positions. Stress testing is also used to show the market risk under extreme conditions where documented stress scenarios are calculated on a monthly basis for key risk drivers across all portfolios. These are guided by the relevant NBS policies that have been approved by the Board.

**22.2 Interest rate risk**

This arises from the possibility that changes in interest rates will affect the future cash flows of the Society's financial instruments. The Society employs several methods that enable it to identify, measure and monitor interest rate risk. Margin analysis, interest rate repricing gaps and sensitivity analysis are employed on a regular basis to assess the Society's exposure to interest rate risk.

**22.2.1 Interest rate repricing gap analysis**

| 2019 - Unaudited | Less than 1 month US$ | 1 to 3 months US$ | 3 to 6 months US$ | 6 to 12 months US$ | 1 to 5 years US$ | 5 years and above US$ | Non interest bearing US$ | Total US$ |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and cash equivalents | - | - | - | - | - | - | 2,633,932 | 2,633,932 |
| Investment securities | 2,635,963 | 5,148,159 | 5,799,171 | 9,853,792 | 3,219,657 | - | - | 26,656,742 |
| Other assets and prepayments | - | - | - | - | - | - | 3,364,639 | 3,364,639 |
| Loans and advances | 4,708,448 | 206,538 | 765,985 | 2,769,555 | 38,872,651 | 47,668,211 | - | 94,991,388 |
| Investments property | - | - | - | - | - | - | 64,923,797 | 64,923,797 |
| Property and equipment | - | - | - | - | - | - | 55,238,982 | 55,238,982 |
| **Total assets** | 7,344,411 | 5,354,697 | 6,565,156 | 12,623,347 | 42,092,308 | 47,668,211 | 126,161,350 | 274,809,479 |
| **Liabilities** | | | | | | | | |
| Deposits | 48,075,043 | 8,549,654 | 1,220,000 | 6,981,550 | 431,837 | 10,510,664 | - | 75,768,748 |
| Borrowings | - | - | - | - | - | 44,336,073 | - | 44,336,073 |
| Other liabilities | - | - | - | - | - | - | 9,433,771 | 9,433,771 |
| Equity & Reserves | - | - | - | - | - | - | 118,270,887 | 118,270,887 |
| **Total liabilities** | 48,075,043 | 8,549,654 | 1,220,000 | 6,981,550 | 431,837 | 54,846,737 | 127,704,658 | 247,809,479 |
| **Periodic gap** | (40,730,632) | (3,194,957) | 5,345,156 | 5,641,797 | 41,660,470 | (7,178,527) | (1,543,308) | - |
| **Cumulative gap** | (40,730,632) | (43,925,588) | (38,580,433) | (32,938,636) | 8,721,834 | 1,543,308 | - | |
| **2018 - Restated** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 5,973,365 | - | - | - | - | - | 5,229,185 | 11,202,550 |
| Investment securities | - | 6,852,197 | 2,114,060 | 17,988,710 | 9,073,449 | - | - | 36,028,416 |
| Other assets and prepayments | - | - | - | | - | | 94,561,541 | 94,561,541 |
| Loans and advances | 3,209,106 | 460,100 | 671,023 | 1,208,567 | 26,332,600 | 49,714,860 | - | 81,596,257 |
| Investments property | | | | | | | 7,307,500 | 7,307,500 |
| Property and equipment | - | - | - | - | - | - | 6,928,078 | 6,928,078 |
| **Total assets** | 9,182,471 | 7,312,298 | 2,785,083 | 19,197,278 | 35,406,049 | 49,714,860 | 114,026,304 | 237,624,342 |
| **Liabilities** | | | | | | | | |
| Deposits | 40,435,977 | 22,020,611 | 7,632,872 | 1,370,000 | 557,837 | 9,458,664 | - | 81,475,961 |
| Borrowings | - | - | - | - | - | 44,324,151 | - | 44,324,151 |
| Other liabilities | - | - | - | - | - | - | 6,382,231 | 6,382,231 |
| Equity & Reserves | - | - | - | - | - | - | 105,441,999 | 105,441,999 |
| **Total liabilities** | 40,435,977 | 22,020,611 | 7,632,872 | 1,370,000 | 557,837 | 53,782,815 | 111,824,230 | 237,624,342 |
| **Periodic gap** | (31,253,506) | (14,708,313) | (4,847,789) | 17,827,278 | 34,848,212 | (4,067,955) | 2,202,074 | - |
| **Cumulative gap** | (31,253,506) | (45,961,819) | (50,809,608) | (32,982,331) | 1,865,881 | (2,202,074) | - | |

**22.3 Foreign exchange risk**

Foreign exchange risk is the potential adverse impact on earnings and economic value of assets and liabilities of the Society as a result of exchange rate movements. The Society monitors its foreign currency denominated assets and liabilities on an ongoing basis as guided by limits to maximum exposures per currency and stop loss limits which were approved by the Board.

**22.4 Liquidity risk**

This is the risk that the Society may fail to fund increases in assets and meet obligations as they fall due, without incurring unacceptable losses. The Society is exposed to both funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that the Society may not be able to meet its obligations as they fall due. Market liquidity risk is the risk that the Society will be unable the sell its assets and settle positions, without incurring an unacceptable loss. Liquidity management reports are prepared and reported to senior management and Treasury Front Office.

The Society focuses on ensuring that at any given time, there is sufficient liquidity to meet its obligations and sets aside sufficient buffer to cater for unforeseen stress events that can arise in the normal course of business. The Society's liquidity risk framework ensures that there are limits in place to monitor the liquidity risk profile. As an integral part of its risk management, the Society stress tests its liquidity position on a regular basis to unearth underlying liquidity vulnerabilities.

**22.4.1 Liquidity gap analysis**

| 2019 - Unaudited | Less than 1 month US$ | 1 to 3 months US$ | 3 to 6 months US$ | 6 to 12 months US$ | 1 to 5 years US$ | 5 years and above US$ | Total US$ |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 2,633,932 | | - | - | - | - | 2,633,932 |
| Investment securities | 2,635,963 | 5,148,159 | 5,799,171 | 9,853,792 | 3,219,657 | | 26,656,742 |
| Loans and advances | 4,708,448 | 206,538 | 765,985 | 2,769,555 | 38,872,651 | 47,668,211 | 94,991,387 |
| Other assets | - | - | - | 3,364,639 | - | 120,162,780 | 123,527,418 |
| **Total assets** | 9,978,343 | 5,354,695 | 6,565,156 | 15,987,986 | 42,092,308 | 167,830,991 | 247,809,479 |
| **Liabilities** | | | | | | | |
| Deposits | 48,075,043 | 8,549,654 | 1,220,000 | 6,981,550 | 431,837 | 10,510,664 | 75,768,748 |
| Borrowings | - | - | - | - | - | 44,336,073 | 44,336,073 |
| Other liabilities | - | - | - | 9,433,771 | - | - | 9,433,771 |
| **Total liabilities** | 48,075,043 | 8,549,654 | 1,220,000 | 16,415,321 | 431,837 | 54,846,737 | 129,538,592 |
| **Periodic Gap** | (38,096,671) | (3,194,957) | 5,345,156 | 427,364 | 41,660,470 | 112,984,253 | 118,270,877 |
| **Cumulative Gap** | (38,096,671) | (41,291,628) | (35,946,473) | 36,373,836 | 5,286,634 | 118,270,877 | |
| **2018 - Restated** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 11,202,550 | | - | - | - | - | 11,202,550 |
| Investment securities | | 6,852,197 | 2,114,060 | 17,988,710 | 9,073,449 | | 36,028,416 |
| Loans and advances | 3,209,106 | 460,100 | 671,023 | 1,208,567 | 26,332,600 | 49,714,860 | 81,596,257 |
| Other assets | - | - | - | 94,561,541 | - | 14,235,578 | 108,797,119 |
| **Total assets** | 14,411,656 | 7,312,297 | 2,785,083 | 113,758,818 | 35,406,049 | 63,950,438 | 237,624,342 |
| **Liabilities** | | | | | | | |
| Deposits | 40,435,977 | 22,020,611 | 7,632,872 | 1,370,000 | 557,837 | 9,458,664 | 81,475,961 |
| Borrowings | - | - | - | - | - | 44,324,151 | 44,324,151 |
| Other liabilities | - | - | - | 6,382,231 | - | | 6,382,231 |
| **Total liabilities** | 40,435,977 | 22,020,611 | 7,632,872 | 7,752,231 | 557,837 | 53,782,815 | 132,182,343 |
| **Periodic Gap** | (26,024,321) | (14,708,313) | (4,847,789) | 106,006,588 | 34,848,212 | 10,167,623 | 105,441,999 |
| **Cumulative Gap** | (26,024,321) | (40,732,635) | (45,580,424) | 60,426,164 | 95,274,376 | 105,441,999 | |

VPCG 2099

**22.4.2 Liquidity ratio**

| | Unaudited 30 June 2019 ZWL$ | Audited 31 Dec 2018 ZWL$ |
|---|---|---|
| Total liquid assets | 29,290,702 | 35,141,524 |
| Total customer deposits | 75,768,748 | 55,226,692 |
| Liquidity ratio | 38.66% | 64% |
| Minimum statutory level | 30% | 30% |

**22.4.3 Contingent liabilities**

| | | |
|---|---|---|
| Mortgage commitments | 4,544,136 | 3,644,656 |

**23 Operational risk**

This is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

The NBS Operational Risk Management Framework defines minimum standards and processes, and the governance structure for operational risk management across the Society. The Society has adopted the following categories of risk events in its management of operational risk.

- 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.

**24 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.

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**25 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.

**26 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.

**27 Risk and credit ratings**

**27.1 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 |

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 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 |
| Interest Rate | Moderate | Acceptable | Moderate | Stable |
| Foreign Exchange | Low | Acceptable | Low | Stable |
| Operational | High | Acceptable | Moderate | Stable |
| Legal & Compliance | 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 polices 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.

**27.2 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.