

Unaudited Financial Results FOR THE HALF YEAR ENDED 30 JUNE 2017



Building Communities

CHAIRMAN'S STATEMENT

I take great pleasure in presenting the half year unaudited financial statements for the period ended 30 June 2017 for National Building Society (NBS).

Economic overview

The Zimbabwean economy remained beset by various challenges in the period to 30 June 2017. Foreign currency shortages continued to weigh on the economy, despite the country experiencing an increase in export receipts of 19% between January and May 2017 compared to the same period last year as the trade balance remains negative. The situation requires improving productivity across the board so as to increase exports and reduce imports. It is worthy to note that various facilities have been put in place by the Reserve Bank of Zimbabwe "RBZ" to help stimulate the productive sector.

The cash challenges similarly emanating from the foreign currency shortages and expansionary fiscal policies have given rise to technological innovations, moving the economy closer to the workings of a financially advanced economy. In 2016 the economy grew by 0.7% against a target of 2.7%, and is expected to grow by 3.7% in 2017 underpinned by improvements in the agricultural, mining and tourism sectors.

A reported decline in household consumption in 2016 by 11.8%, indicated a reduction in disposable income and a general under-performance of the economy. As of February 2017 the economy began recording positive rates of inflation for the first time in 2 years. Whilst a three-tier pricing system developed in the economy around the various modes of transacting, the RBZ expects a modest inflation rate of between 2% and 3% by year end.

NBS continues to monitor developments in the economy to ensure responsiveness to the changing needs of its customers and to enable business growth.

Banking sector developments

The Reserve Bank of Zimbabwe in the 2017 mid-term Monetary Policy Statement reported that the banking sector has generally remained stable despite the challenging operating environment. The introduction of the Credit and the Collateral Registries is expected to improve the quality of loans in the sector, and improve efficiency.

The RBZ in the mid-term Monetary Policy Statement reported that banking sector profitability improved from \$67.97 million for the period January to June 2016 to \$ 100.59 million for the same period in 2017. Deposits continued to grow from \$5.91 billion in 2016 to \$6.99 billion during the reporting period. Non-performing loans as at the end of June 2017 were around 7.9% owing to the smooth functioning of ZAMCO.

Total bank loans marginally increased from \$3.37 billion to \$3.64 billion, a sign of waning risk appetite in the banking sector. The RBZ has put in place measures to encourage financial inclusion across various sectors. NBS applauds these initiatives as part of its mandate to bring the previously unbanked into the formal banking sector to enable them to access and enjoy banking services and products.

Financial performance

Total assets grew by 51% from \$57.1 million to \$86.4 million. The growth in the asset base was anchored on the growth in customer deposits. Deposits grew by 98% from \$19.4 million to \$36.2 million for the period under review. Loans and advances disbursed grew by 96% from \$25 million to \$48.9 million.

The Society incurred a deficit of \$633 662 which was 43% within budgeted deficit.

Business overview, strategy and outlook

Since inception NBS has approved 3 004 mortgage applications. These contributed to the implementation of several housing projects with some of the completed units having been commissioned in areas like Adelaide Park in Epworth, Woodbrooke Park in Bindura, as well as Amalinda Park in Glen Norah, Harare.

Over and above these, there are several projects which have been launched nationwide and these include: Victoria Range in Masvingo which is estimated to produce over 200 housing units for Civil Servants in the province, we also have Magakooshla in Shurugwi which will also produce a minimum of 450 units for the civil service employees. In Gweru we have a project in Woodlands which will produce in excess of 150 units for the informal sector, private sector as well as the uniformed forces. In Chinhoyi we are working on a project that will yield 700 units for individuals from all sectors of the economy. I would not miss to mention Stoneridge Park in Harare where we should see 571 completed units within the next two months. Similar developments will also be taking shape in the Matebeleland region and in Manicaland where we have projects that will yield about 2 000 housing units when completed. These projects are expected to be carried into the second half of the year and will form part of the work done so far towards the fulfilment of the annual target of 10 000 housing units for the year 2017.

Our delivery numbers have uniquely been enhanced by our focus on delivering affordable housing mortgage finance. Key to this has been our ability to offer the lowest interest rates on the market backed by a favourable tenure of up to 25 years thus enabling the low to middle income class who have traditionally been financially excluded to successfully apply for mortgage finance.

To further enhance our customers' experience and improve our market reach, we have expanded our branch distribution network to 4 branches with the addition of the Chinhoyi and Gweru branches. We are also planning to add two more branches in Masvingo and Mutare by the end of the year.

NBS has also launched agency banking (Insta Point), which can be accessed through NSSA offices countrywide and other registered agencies.

These new distribution channels will position NBS to offer added convenience that will enable our customers to access the broad range of financial products and services offered by the Society.

Appreciation

I wish to express my appreciation to our customers who inspire all our efforts. I would also want to express my sincere gratitude to the Honourable Minister of Public Service, Labour and Social Welfare, Honourable Mrs P. Mupfumira, our Shareholders; the National Social Security Authority's Board, and Management team for their unwavering support and commitment to our vision.

My sincere gratitude also goes to my fellow directors, management and staff who as a team continuously work hard in striving to offer an exceptional service that delights our customers.

N. W. Chiminya
Acting Board Chairman

CORPORATE GOVERNANCE

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 2017 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 Zimbabwe Code on Corporate Governance and King III Report of Corporate Governance.

NBS Board recognises the critical importance of having an effective Board of Directors. The Board also places the highest importance on active engagement with its stakeholders.

The Board

The current Board of Directors is constituted of two executive directors and eight non-executive directors. The Acting 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

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

Retirements by rotation

In terms of Society Rule 17.2 read together with Article 85 of the Articles of Association, Directors are required, after serving a period of three years, to retire from the Board by rotation. During the period ending 30 June 2017, there were no Directors who were due to retire by rotation.

Board attendance

Director	Main board	Audit	Risk and compliance	Loans review	Credit	Finance and strategy	Human resources and nominations	Housing projects
N. W. Chiminya (Acting Chairman)	√ √	n/a	n/a	√ √	n/a	*√√LAV	n/a	LAV√
P. Sibiyi (Mrs) (Deputy Chairman)	√ √	√LA	n/a	√ √	n/a	n/a	n/a	LAV√
K. Chitando (Managing Director)	√ A	n/a	n/a	n/a	√ A	√*√*√*VA	n/a	√*√A
E. Chitanda (Mrs) (Finance Director)	√ √	n/a	n/a	n/a	n/a	√*√*√*√√	n/a	n/a
J. Ncube (Mrs)	√ √	n/a	√ √	n/a	n/a	n/a	√*LAV	√*√√
K. D. Mhangagwa	√ √	n/a	√ √	n/a	√ √	√*√*LAV	n/a	√*√√
T. M. S. Kambasha	√ √	n/a	n/a	n/a	√ √	√*√*√*√√	n/a	n/a
B. W. Madzivire	√ √	√√	n/a	√ √	n/a	n/a	n/a	n/a
S. Kudenga	√ √	√√	n/a	n/a	n/a	√*√*√*√√	√*√√	n/a
K. Chihota	√ √	n/a	n/a	n/a	√ √	n/a	√*√√	√*LAV

Key

- √ Member attended meeting
- n/a Not applicable
- LA Leave of absence granted
- A Absent
- √* Special meeting

Unaudited Financial Results FOR THE HALF YEAR ENDED 30 JUNE 2017



Building Communities

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

Note	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
Assets		
Cash and cash equivalents	4 18 367 001	16 938 190
Investment securities	5 9 233 293	7 648 497
Other assets	6 3 001 571	1 298 855
Loans and advances	7 48 855 523	25 036 103
Intangible assets	8 3 171 921	2 996 682
Property and equipment	9 3 766 562	3 138 858
Total assets	86 395 871	57 057 185
Equity and liabilities		
Liabilities		
Deposits	10 38 205 380	19 355 798
Borrowings	11 24 893 983	15 518 665
Other liabilities	12 2 713 599	966 151
Total liabilities	65 812 962	35 840 614
Equity		
Share capital	13 5 040 000	5 040 000
Share premium	19 960 000	19 960 000
Accumulated deficit	(4 417 091)	(3 783 429)
Total equity	20 582 909	21 216 571
Total equity and liabilities	86 395 871	57 057 185

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2017

Note	Unaudited 30 June 2017 US\$	Unaudited 30 June 2016 US\$
Interest income	16 2 904 974	226 531
Interest expense	16 (680 490)	(2 075)
Net interest income	2 224 484	224 456
Charge for impairment	7 (287 299)	-
	1 937 185	224 456
Non funded income	17 1 276 278	17 784
Total operating income for the period	3 213 463	242 240
Operating expenses	18 (3 847 125)	(1 514 129)
Net deficit for the period	(633 662)	(1 271 889)

STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2017

	Share capital US\$	Share premium US\$	Accumulated deficit US\$	Total equity US\$
2017 - Unaudited				
Balance as at 1 January 2017	5 040 000	19 960 000	(3 783 429)	21 216 571
Net deficit for the period	-	-	(633 662)	(633 662)
Balance as at 30 June 2017	5 040 000	19 960 000	(4 417 091)	20 582 909
2016 - Audited				
Balance as at 1 January 2016	5 003 093	1 543 298	(808 087)	5 738 304
Net deficit for the year	-	-	(2 975 342)	(2 975 342)
Transactions with owners of the Society				
Issue of new shares	36 907	18 416 702	-	18 453 609
Balance as at 31 December 2016	5 040 000	19 960 000	(3 783 429)	21 216 571

STATEMENT OF CASHFLOWS FOR THE HALF YEAR ENDED 30 JUNE 2017

	Unaudited 30 June 2017 US\$	Unaudited 30 June 2016 US\$
Cashflows from operating activities		
Deficit for the period	(633 662)	(1 271 889)
Adjusted for:		
Depreciation on property and equipment	280 210	58 973
Amortisation of intangible assets	92 769	1 818
Loan impairment	287 299	-
(Increase) in other assets	(1 702 716)	(2 898 508)
(Increase) in loans and advances	(24 106 719)	(663 624)
Increase in deposits	18 849 582	1 565 331
Increase/(decrease) in other liabilities	1 747 448	(63 282)
Net cash outflows from operating activities	(5 185 789)	(3 271 181)
Cashflows from investing activities		
Purchase of property and equipment	(907 914)	(2 509 213)
Purchase of investment securities	(1 584 796)	(803 244)
Purchase of intangible assets	(268 008)	(108 919)
Net cash outflows from investing activities	(2 760 718)	(3 421 376)
Cashflows from financing activities		
Issue of new shares	-	17 900 637
Borrowings	9 375 318	-
Net cash inflows from financing activities	9 375 318	17 900 637
Net increase in cash and cash equivalents	1 428 811	11 208 080
Cash & cash equivalents at the beginning of the period	16 938 190	5 051 281
Cash & cash equivalents at the end of the period	18 367 001	16 259 361
Comprises of:		
Cash on hand	66 638	2 259 361
Local banks and Reserve Bank of Zimbabwe	18 300 363	14 000 000
	18 367 001	16 259 361

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

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 financial results are set out below and have been consistently followed in all material respects.

3.1 Basis of preparation

Basis of accounting

The unaudited interim financial results have been prepared in a manner aligned to International Financial Reporting Standards ("IFRS") and in the manner required by the Companies Act (Chapter 24:04), Building Societies Act (Chapter 24:02) and sections in the Banking Act (Chapter 24:20) applicable to Building Societies and the Banking Amendment Act No. 12 of 2015.

These financial statements should be read in conjunction with the Society's last annual financial statements for the year ended 31 December 2016. They do not include all of the information required for a complete set of IFRS financial statements. However selected explanatory notes are included to explain events and transactions that are significant to an understanding of the change in the Society's financial position and performance since the last annual financial statements.

These unaudited interim financial results were authorised for issue by the Society's Board of Directors on 23 August 2017.

3.2 Functional and presentation currency

The financial results are presented in United States dollars, which is the Society's functional and presentation currency.

3.3 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported 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.

The areas involving critical accounting estimates and judgements include;

- That the Society will continue operating as a going-concern into the future, being able to generate or access resources to meet both regulatory and operational capital requirements.
- Determination of the fair value of financial instruments with significant unobservable inputs.
- Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
- Impairment of financial instruments: key assumptions used in estimating recoverable cash flows.
- Useful lives and residual values of property and equipment and intangible assets.
- Deferral of earnings on loan products using the effective interest rate method.

A full set of the Society's policies are available in its annual report as at 31 December 2016, which is ready for inspection at the Society's registered office.

4 Cash and cash equivalents

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
Cash	66 638	536 881
Bank	315 684	198 661
Interbank placements	16 880 000	13 762 315
Reserve Bank of Zimbabwe	1 104 679	2 440 333
	18 367 001	16 938 190

Included in cash and cash equivalents are bond notes which the Reserve Bank Of Zimbabwe began issuing gradually into the economy in November 2016 to help ease the shortage of physical cash in the country. The bond notes have been included under cash and cash equivalents and are pegged at an exchange rate of 1:1 with the US\$.

5 Investment securities

Treasury bills - held to maturity at amortised cost

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
	9 233 293	7 648 497

The Society purchased treasury bills from the secondary market. These treasury bills have coupon rates ranging from 2% to 5% with maturity periods ranging from 0.5 years to 2.5 years.

Maturity analysis

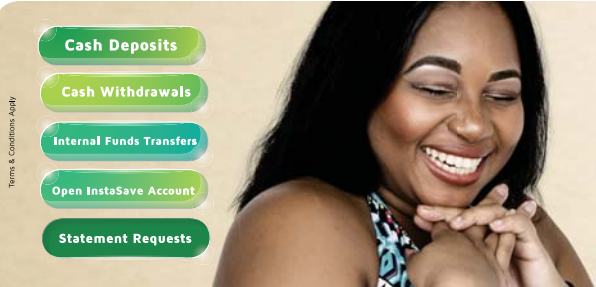
	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
1 month to 3 months	-	442 748
3 months to 6 months	411 068	955 407
6 months to 1 year	4 693 080	358 047
1 year to 5 years	4 129 145	5 892 295
	9 233 293	7 648 497

6 Other assets

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
Prepayments	449 808	382 885
Receivables due from related parties	106 443	322 948
Collateral deposits	335 861	288 464
Interest accrued	339 161	188 699
Capital work in progress	1 697 185	56 589
Other assets	73 113	59 270
	3 001 571	1 298 855

7 Loans and advances

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
Retail loans	16 968 657	6 222 496
Mortgage loans	32 439 720	19 079 162
Gross loans and advances	49 408 377	25 301 658
Impairment provision	(552 854)	(265 555)
	48 855 523	25 036 103



Unaudited Financial Results

FOR THE HALF YEAR ENDED 30 JUNE 2017



- Cash Deposits
- Cash Withdrawals
- Internal Funds Transfers
- Open InstaSave Account
- Statement Requests

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
7.1 Maturity analysis		
Less than 1 month	117 854	191 004
1 month to 3 months	8 388	813
3 months to 6 months	53 381	4 976
6 months to 1 year	411 894	142 243
1 year to 5 years	17 859 180	5 621 471
More than 5 years	30 957 680	19 341 151
	<u>49 408 377</u>	<u>25 301 658</u>

Maturity analysis is based on the remaining period from 30 June 2017 to contractual maturity.

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
7.2 Impairment allowance		
Opening balance	265 555	-
Charge to profit and loss	287 299	265 555
Closing balance	<u>552 854</u>	<u>265 555</u>
Comprising:		
Specific Impairment	33 214	-
Portfolio impairment	519 640	265 555
	<u>552 854</u>	<u>265 555</u>

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
7.3 Sectoral analysis		
Private	49 408 377	25 301 658

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
8 Intangible assets		
Movement in intangible assets:		
Opening cost	2 996 682	-
Additions	268 008	3 062 402
Amortisation charge	(92 769)	(65 720)
Closing balance	<u>3 171 921</u>	<u>2 996 682</u>

Intangible assets are carried at cost less accumulated amortisation charge. The intangible assets, which comprise computer software include the core banking software which is amortised over an estimated useful life of 15 years.

	Leasehold improvements	Office equipment	Furniture and fittings	Motor vehicles	Computer equipment	Total
9 Property and equipment						
2017 - Unaudited						
Cost						
Opening balance	1 216 127	109 243	171 897	160 656	1 762 853	3 420 776
Additions	330 763	63 373	44 670	313 420	155 688	907 914
Closing balance	<u>1 546 890</u>	<u>172 616</u>	<u>216 567</u>	<u>474 076</u>	<u>1 918 541</u>	<u>4 328 690</u>
Accumulated depreciation						
Opening balance	68 436	7 789	11 204	22 729	171 760	281 918
Charge for the period	69 521	6 595	14 331	28 828	160 935	280 210
Closing balance	<u>137 957</u>	<u>14 384</u>	<u>25 535</u>	<u>51 557</u>	<u>332 695</u>	<u>562 128</u>
Net book value 30 June 2017	<u>1 408 933</u>	<u>158 232</u>	<u>191 032</u>	<u>422 519</u>	<u>1 585 846</u>	<u>3 766 562</u>
2016 - Audited						
Cost						
Opening balance	-	2 311	32 532	-	51 350	86 193
Additions	1 216 126	106 932	143 902	160 656	1 711 503	3 339 119
Closing balance	<u>1 216 126</u>	<u>109 243</u>	<u>176 434</u>	<u>160 656</u>	<u>1 762 853</u>	<u>3 425 312</u>
Accumulated depreciation						
Opening balance	-	47	924	-	3 258	4 229
Charge for the year	68 436	7 742	14 816	22 729	168 502	282 225
Closing balance	<u>68 436</u>	<u>7 789</u>	<u>15 740</u>	<u>22 729</u>	<u>171 760</u>	<u>286 454</u>
Net book value 2016	<u>1 147 690</u>	<u>101 454</u>	<u>160 694</u>	<u>137 927</u>	<u>1 591 093</u>	<u>3 138 858</u>

No items of property and equipment were pledged as collateral as at 30 June 2017.

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
10 Deposits		
Transactional and savings deposits	6 332 699	4 005 578
Term deposits	27 684 206	11 000 220
Interbank deposits	4 188 475	4 350 000
	<u>38 205 380</u>	<u>19 355 798</u>

Refer to note 4, which explains cash and cash equivalents.

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
10.1 Maturity analysis		
Less than 1 month	14 279 270	11 653 696
1 month to 3 months	15 184 452	2 750 424
3 months to 6 months	1 120 000	-
6 months to 1 year	300 000	720 000
1 year to 5 years	679 837	-
More than 5 years	6 641 821	4 231 678
	<u>38 205 380</u>	<u>19 355 798</u>

Maturity analysis is based on the remaining period from 30 June 2017 to contractual maturity.

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
10.2 Sectoral analysis		
Private	5 601 104	2 289 475
Manufacturing	3 192 894	330
Transport and distribution	1 429	1 533
Energy and minerals	300 034	81
Financial services	27 794 463	16 569 604
Construction and property	573 007	356 808
Trade and services	742 449	137 967
	<u>38 205 380</u>	<u>19 355 798</u>

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
11 Borrowings		
Shareholder loan	24 893 983	15 518 665
Current liability	2 191 372	620 920
Non current liability	22 702 611	14 897 745
	<u>24 893 983</u>	<u>15 518 665</u>

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
12 Other liabilities		
Deferred income	648 941	221 899
Interest accrued	515 150	88 293
Other liabilities	1 549 508	655 959
	<u>2 713 599</u>	<u>966 151</u>

Deferred income are loan origination fees that are received in advance and recognised using the effective interest rate method over the average life of the underlying asset.

	Unaudited 30 June 2017 Number of shares	Audited 31 Dec 2016 Number of shares
13 Equity and reserves		
13.1 Share capital		
Authorised ordinary shares	1 000 000 000	1 000 000 000
Issued and fully paid ordinary shares	504 000 034	504 000 034
Unissued ordinary shares	495 999 966	495 999 966

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
13.2 Accumulated deficit		
Opening balance	(3 783 429)	(808 087)
Deficit for the period	(633 662)	(2 975 342)
Closing balance	<u>(4 417 091)</u>	<u>(3 783 429)</u>

14 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 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.

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

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
Risk weighted assets	25 691 044	29 222 733
Qualifying capital	20 476 466	20 893 623
Tier 1		
Share capital	5 040 000	5 040 000
Share premium	19 960 000	19 960 000
Accumulated deficit	(4 417 091)	(3 783 429)
Exposure to insiders	(106 443)	(322 948)
Core capital	<u>20 476 466</u>	<u>20 893 623</u>
Capital adequacy	<u>79.7%</u>	<u>71.5%</u>

Regulatory capital, consists of Tier 1 capital which comprises share capital, share premium and accumulated deficit after deduction of exposure to insiders. The exposure of \$106 443 was subsequently paid off in July 2017.

As at 30 June 2017, the Society was compliant with the minimum regulatory capital prescription of \$20 million as set by the Reserve Bank of Zimbabwe.

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
14.2 Capital commitments		
Authorised and contracted for	-	-
Authorised but not yet contracted for	1 259 506	4 261 943
	<u>1 259 506</u>	<u>4 261 943</u>

All capital commitments will be funded from the Society's own resources.

	Fair value through profit and loss	Loans and receivables at amortised cost	Held to maturity at amortised cost	Total carrying amount
15 Categories of financial instruments				
30 June 2017 - Unaudited				
Financial assets				
Cash and cash equivalents	-	18 367 001	-	18 367 001
Investment securities	-	-	9 233 293	9 233 293
Other assets	-	1 304 386	-	1 304 386
Loans and advances	-	48 855 523	-	48 855 523
Total	-	68 796 910	9 233 293	77 760 203
Financial liabilities				
Deposits	6 332 699	31 872 681	-	38 205 380
Other liabilities	-	2 713 599	-	2 713 599
Borrowings	-	24 893 983	-	24 893 983
Total	6 332 699	59 480 263	-	65 812 962
31 December 2016 - Audited				
Financial assets				
Cash and cash equivalents	-	16 938 190	-	16 938 190
Investment securities	-	-	7 648 497	7 648 497
Other assets	-	1 242 266	-	1 242 266
Loans and advances	-	25 036 103	-	25 036 103
Total	-	43 216 559	7 648 497	50 865 056
Financial liabilities				
Deposits	4 005 578	-	15 350 220	19 355 798
Other liabilities	-	966 151	-	966 151
Borrowings	-	15 518 665	-	15 518 665
Total	4 005 578	16 484 816	15 350 220	35 840 614



Unaudited Financial Results FOR THE HALF YEAR ENDED 30 JUNE 2017



Building Communities

	Unaudited 30 June 2017 US\$	Unaudited 30 June 2016 US\$
16 Interest income		
Investment securities and other short term placements	1 041 432	213 998
Loans and advances	1 863 542	12 533
Total interest income	2 904 974	226 531
Interest expense		
Money market and term deposits	678 593	2 053
Savings deposits	1 897	22
Total interest expense	680 490	2 075
Net interest income	2 224 484	224 456
17 Non funded income		
Net fees and commissions income	1 246 691	15 843
Other income	29 587	1 941
	1 276 278	17 784
18 Operating expenses		
Staff costs	1 806 619	61 407
Depreciation	280 210	58 973
Amortisation of intangible assets	92 769	1 799
Administration expenses	1 667 527	1 391 950
	3 847 125	1 514 129
Remuneration of directors and key management personnel		
Fees for services as directors	61 929	70 685
Staff costs	741 314	631 314
	803 243	701 999
Operating leases		
Society as lessee		
The following is an analysis of expenses related to operating leases: Non cancellable lease rentals are payable as follows:		
Less than 1 year	244 102	197 467
Between 1 and 5 years	976 407	789 867
	1 220 509	987 334

The Society leases a number of buildings under operating leases. The buildings are mainly used by the Society for its various branches operations. The leases run for a period of 5 years with an option to renew the lease after the expiry date. During the period ended 30 June 2017, an amount of \$117 756, (June 2016: \$94 966) was recognised as rental expense in the statement of comprehensive income.

19 Related party disclosures
The Society is a wholly owned subsidiary of National Social Security Authority through its two funds NSSA Pension & Other Benefits Scheme and the NSSA Accident Prevention & Workers Compensation Scheme. 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.

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

National Social Security Authority
First Mutual Life Group
Social Security Centre (Private) Limited

19.2 Transactions with other related parties

	Unaudited 30 June 2017 US\$	Unaudited 30 June 2016 US\$
Interest paid	78 371	-
Rent expense	54 843	54 843
	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
Deposits received	10 659 959	4 015 488
Borrowings	24 893 983	15 518 665

19.3 Balances with related parties

Balances owed to NSSA	25 124 888	15 563 917
Balances owed from NSSA	106 443	322 948

19.4 Loans to directors, key management and employees

	Unaudited 30 June 2017 US\$	Audited 31 Dec 2016 US\$
Loans to directors and key management		
Included in loans and advances are loans to executive directors and key management:		
Opening balance	664 977	137 384
Advances made during the year	245 152	629 095
Repayments during the year	(155 135)	(101 502)
Closing balance	754 994	664 977
Loans to employees		
Included in loans and advances are loans to employees:		
Opening balance	721 824	1 800
Advances made during the year	217 791	799 623
Repayments during the year	(31 213)	(79 599)
Closing balance	908 402	721 824

All loans to directors, key management, executives and employees were issued in line with provisions of the Society's approved staff loan policy and conditions of service.

19.5 Compensation to key management personnel of the Society

As required by IAS24: Related party Disclosures, the Board's view is that Non Executive, Executive Directors and Executive Management constitute the key management of the Society. Accordingly, key management remuneration is disclosed under note 18 of the financial results.

20 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 the NBS is to ensure that various risks are understood, measured and monitored and that the policies and procedures established to address these risks are strictly adhered to.

20.1 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. The Society is exposed to credit risk in its lending operations.

20.2 Credit risk management framework

Credit Risk is managed through a comprehensive processes of credit origination, credit approval, credit monitoring and credit 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.

Undesirable characteristics within the credit portfolio that include concentration 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, 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 growth.

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

20.3 Credit risk mitigation

To prevent possible default risk, the Society devised mitigatory measures that incorporate taking collateral in the form of mortgage bonds over residential properties. Credit insurance is also employed.

20.4 Non-performing loans and advances

The Society classifies its advances into performing and non-performing loans in accordance with the RBZ guidelines. As at 30 June 2017, non-performing loans amounted to \$143 411 for a gross loan book of \$49 408 377. The non-performing loans to total loans ratio was 0.29% against a benchmark of 5% of the total loan book.

20.5 Credit risk exposure

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

	Unaudited 30 June 2017	Audited 31 Dec 2016
Cash and cash equivalents	18 367 001	16 938 190
Investment securities	9 233 293	7 648 497
Loans and advances	48 855 523	25 036 103
Totals	76 455 817	49 622 790

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

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

	Unaudited 30 June 2017	Audited 31 Dec 2016
1 to 3 months	637 943	362 907

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

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

	Unaudited 30 June 2017	Audited 31 Dec 2016
Private		
Gross maximum exposure		
Retail loans	16 968 657	6 222 496
Mortgage loans	32 439 720	19 079 162
	49 408 377	25 301 658
Collateral held (Mortgage bonds)	6 794 453	3 385 571
Net maximum exposure	42 613 924	21 916 087

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.

20.8 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 2017	Audited 31 Dec 2016
Pass	48 627 022	24 938 751
Special mention	637 943	362 907
Substandard	81 377	-
Doubtful	58 945	-
Loss	3 090	-
Totals	49 408 377	25 301 658

21 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.

21.1 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 Assets and Liabilities Committee (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 performance of 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 assessed 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.

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Building Communities

21.2 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.

21.2.1 Interest rate repricing gap analysis

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 years and above	Non interest bearing	Total
2017 - Unaudited Assets								
Cash and cash equivalents	5 350 000	11 530 000	-	-	-	-	1 487 001	18 367 001
Investment securities	-	-	411 068	4 693 080	4 129 145	-	-	9 233 293
Loans and advances	117 854	8 388	53 381	411 894	18 083 392	30 180 614	-	48 855 523
Other assets	-	-	-	-	-	-	3 001 571	3 001 571
Intangible assets	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	3 766 562	3 766 562
Total assets	5 467 854	11 538 388	464 449	5 104 974	22 212 537	30 180 614	11 427 055	86 395 871
Liabilities								
Deposits	14 279 634	15 184 088	1 120 000	300 000	679 837	6 641 821	-	38 205 380
Borrowings	-	-	-	-	-	24 893 983	-	24 893 983
Other liabilities	-	-	-	-	-	-	2 713 599	2 713 599
Equity & Reserves	-	-	-	-	-	-	20 582 909	20 582 909
Total liabilities	14 279 634	15 184 088	1 120 000	300 000	679 837	31 535 804	23 296 508	86 395 871
Periodic gap	(8 811 780)	(3 645 700)	(655 551)	4 804 974	21 532 700	(1 355 190)	(11 869 453)	-
Cumulative gap	(8 811 780)	(12 457 480)	(11 113 031)	(8 308 057)	13 224 643	11 869 453	-	-
2016 - Audited Assets								
Cash and cash equivalents	10 462 315	3 300 000	-	-	-	-	3 175 875	16 938 190
Investment securities	-	442 748	955 407	358 047	5 892 295	-	-	7 648 497
Loans and advances	191 004	813	4 976	142 243	5 621 471	19 075 596	-	25 036 103
Other assets	-	-	-	-	-	-	1 298 855	1 298 855
Intangible assets	-	-	-	-	-	-	2 996 682	2 996 682
Property and equipment	-	-	-	-	-	-	3 138 858	3 138 858
Total assets	10 653 319	3 743 561	960 383	500 290	11 513 766	19 075 596	10 610 270	57 057 185
Liabilities								
Deposits	11 653 695	2 750 424	-	720 000	-	4 231 679	-	19 355 798
Borrowings	-	-	-	-	-	15 518 665	-	15 518 665
Other liabilities	-	-	-	-	-	-	966 151	966 151
Equity & Reserves	-	-	-	-	-	-	21 216 571	21 216 571
Total liabilities	11 653 695	2 750 424	-	720 000	-	19 750 344	22 182 722	57 057 185
Periodic gap	(1 000 376)	993 137	960 383	(219 710)	11 513 766	(674 748)	(11 572 452)	-
Cumulative gap	(1 000 376)	(7 239)	953 144	733 433	12 247 200	11 572 452	-	-

21.3 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 or volatility. 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. Foreign exchange risk capital requirements are calculated on an open currency positions at the reporting date.

21.4 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 to 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. Resultantly, as at 30 June 2017, the liquidity ratio closed at 67.20% against a prudential minimum of 30%. 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.

21.4.1 Liquidity gap analysis

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 years and above	Total
2017 - Unaudited Assets							
Cash and cash equivalents	6 837 001	11 530 000	-	-	-	-	18 367 001
Investment securities	-	-	411 068	4 693 080	4 129 145	-	9 233 293
Loans and advances	117 854	8 388	53 381	411 894	18 083 392	30 180 614	48 855 523
Other assets	-	-	-	-	-	-	3 001 571
Total assets	6 954 855	11 538 388	464 449	5 104 974	22 212 537	37 119 097	86 395 871
Liabilities							
Deposits	14 279 634	15 184 088	1 120 000	300 000	679 837	6 641 821	38 205 380
Borrowings	-	-	-	-	-	24 893 983	24 893 983
Other liabilities	-	-	-	-	-	-	2 713 599
Total liabilities	14 279 634	15 184 088	1 120 000	300 000	679 837	31 535 804	65 812 962
Periodic gap	(7 324 779)	(3 645 700)	(655 551)	5 092 946	21 532 700	5 583 293	20 582 909
Cumulative gap	(7 324 779)	(10 970 479)	(11 626 030)	(6 533 084)	14 999 616	20 582 909	-
2016 - Audited Assets							
Cash and cash equivalents	13 638 190	3 300 000	-	-	-	-	16 938 190
Investment securities	-	442 748	955 407	358 047	5 892 295	-	7 648 497
Loans and advances	191 004	813	4 976	142 243	5 621 471	19 075 596	25 036 103
Other assets	-	-	-	-	-	-	1 298 855
Total assets	13 829 194	3 743 561	960 383	1 510 681	11 513 766	19 364 060	50 921 645
Liabilities							
Deposits	11 653 695	2 750 424	-	720 000	-	4 231 679	19 355 798
Borrowings	-	-	-	-	-	15 518 665	15 518 665
Other liabilities	-	-	-	-	-	-	966 151
Total liabilities	11 653 695	2 750 424	-	1 686 151	-	19 750 344	35 840 614
Periodic gap	2 175 499	993 137	960 383	(175 470)	11 513 766	(386 284)	15 081 031
Cumulative gap	2 175 499	3 168 636	4 129 019	3 953 549	15 467 315	15 081 031	-

22 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 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.

23 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 that 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.

24 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.

25 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.

26 Risk and credit ratings

26.1 Reserve Bank of Zimbabwe ratings

The Reserve Bank of Zimbabwe has conducted an onsite examination of the Society. We are currently awaiting finalisation of the onsite examination report.

26.2 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.

The current rating expires in November 2017.

Tenga nekubhadhara zvisina pressure

Chayayi *202# kuti mubhadhara:

- Magetsi
- Kanzuru yeHarare
- Kanzuru yeBulawayo
- TelOne (ADSL and Post-paid)
- ZOL
- Nekuchecker Account Balance

Zvekumira muraini rakareba muchida kubhadhara kana kutenga zvakasara. Chenyu kungo chaya*202# muri kwamuri zvotofamba. Munokwanisa zvakare kushandisa NBS Transactor Mobile Banking App, NBS Transactor Internet Banking kana NBS Transactor POS.

Spakwa nehupenyu uchibhadhara neNBS Transactor. Chaya *202#

14th Floor Social Security Centre, Cnr Sam Nujoma Street/J Nyerere Way, Harare, Zimbabwe

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