Abridged Audited Financial Results

FOR THE YEAR ENDED 31 DECEMBER 2017

nbs
National Building Society
a Registered Building Society
Building Communities

CHAIRMAN'S STATEMENT

It gives me great pleasure to present the full year financial results for the year ended 31 December 2017 for National Building Society Limited.

Economic overview

During the year 2017, Zimbabwe's economy remained challenging. There were also notable changes on the political front. Incessant cash shortages continued to haunt the banking sector and this was further exacerbated by shortages of foreign currency which resulted in industries failing to import raw materials needed in their production processes thereby impacting negatively on productivity. The trade deficit narrowed by 33 percent during the first 11 months of 2017 to US$1.5 billion compared to the same period the previous year, as imports were subdued on the back of foreign currency shortages.

Zimbabwe's economy was expected to have grown by 3.7% in 2017 from 0.6% in 2016 buoyed by growth in the agriculture and mining sectors. In 2018, the economy is forecasted to grow by 4.5% due to improved performance across all sectors of the economy. Official inflation rates closed the year at 3.46%. Following the introduction of the bond notes, a three-tier pricing system evolved in the economy resulting in prices increasing by almost 100% in certain instances and thereby impacting on savings. From the perspective of the Building Society, price increases impacted negatively on the cost of construction materials and consequently the cost of houses especially given that disposable income levels remained unchanged.

Following the change of Government towards the end of 2017, positive developments are beginning to show in the economy because of positive sentiments from the international community. It is expected that the new dispensation will result in improved access to foreign currency and opening up of new lines of credit needed to boost productivity in the economy.

Banking sector developments

The Banking sector remained relatively stable amidst these challenges. The prevailing cash shortages and nostro funding challenges, adversely affected the sentiments towards the industry. On a positive note, cash shortages have seen greater innovation in the financial services sector with alternative payment methods being strengthened to bring convenience to the transacting public. Public mistrust and uncertainty in the economic environment still calls on banking institutions like NBS to continuously innovate and put in place the necessary measures to mitigate against adverse economic conditions to ensure a sustainable business model going forward.

Financial performance

Total assets grew by 140% from $57.1 million to $137.0 million. The growth in assets was driven by growth in the customer deposits and borrowings. Customer deposits grew by 185% from $19.4 million to $55.2 million over the year under review whilst borrowings recorded a 117% growth from $15.5 million to $33.7 million as the Society underwrote more housing projects in line with its core mandate. Resultantly, loans and advances disbursed grew by 155% from $25.0 million to $62.8 million.

The Society incurred a deficit of $1.2 million, an improvement of 61% from the 2016 deficit of $3.0 million. This improvement, which is commendable given the age of the Society, was largely due to a growth in business coupled with the harnessing of technology to positively drive the value chain.

Business overview, strategy and outlook

The Building Society's mandate is to deliver affordable housing for every Zimbabwean who is economically active in a sustainable manner while providing a desirable return on investment to the Shareholder. The Board, in recognition of this mandate, is cognisant of the fact that this can only be achieved through growing quality sustainable earnings from affordable mortgages supported by an attractive yet comprehensive financial services product portfolio that meets the demands of an everyday hard-working Zimbabwean. Together with management, the Board will continue to motivate for the continuous value chain assessment to come up with a profitable model.

In pursuance with the broad strategy the Society delivered 307 completed housing units in various locations. In addition, the Society had 840 units at various stages of completion which we expect delivery by the second quarter of 2018. At year end, we had signed offtake agreements which should culminate in the delivery of an additional 1 000 units in the first half of 2018.

The Shareholder, Board, Management and staff will continue to transform the institution into a profitable Building Society that will positively impact the lives of ordinary Zimbabweans. The current performance in respect to housing projects like Dzivarasekwa, Stoneridge, Adelaide Park, Glaudina (Harare), NewMara (Mutare), Woodbrooke (Bindura), Magakooshla (Shurugwi) and Victoria Ranch (Masvingo) clearly indicates that the Society is in the right direction. This, coupled with new services like the Hospital Cash Plan, an innovative mobile banking application the NBS Transactor, Point of Sale Machine roll out nationwide and the Micro-Mortgage product for the SME segment, will ensure that the bank reports its maiden positive results in 2018.

We are, therefore, confident that our strategy for 2018 positions us uniquely to fulfill the housing demands of low to middle income Zimbabweans while delivering value to the Shareholder.

Appreciation

On behalf of the Board, I would like to thank our shareholder the National Social Security Authority (NSSA), the Government of Zimbabwe, the Ministry of Labour and Social Welfare, and the Reserve Bank of Zimbabwe for their valuable contributions as Principals and Regulator to the Society. I would also like to appreciate the great work by my fellow Board Members, Management and staff.

Last but not least, I extend my great appreciation to all our customers and look forward to their continued support.

Dr. D. Zimbango
Board Chairman
29 March 2018

AUDITOR'S STATEMENT

The abridged financial results should be read in conjunction with the complete set of financial statements for National Building Society Limited for the financial year ended 31 December 2017, which have been audited by KPMG Chartered Accountants (Zimbabwe), and an unmodified audit opinion issued thereon. The Independent Auditors' report includes key audit matters.

The Independent Auditors' report is available for inspection at the Society's registered address.

CORPORATE GOVERNANCE

The Board is committed to high standards of corporate governance and believes that a sound governance structure engenders a successful company. Throughout the year, the Society has, in the Directors' opinion, complied fully with the tenets of good corporate governance in Zimbabwe as specifically incorporated in the Banking Act [Chapter 24:20] read together with the Banking Amendment Act Number 12 of 2016, the Building Societies Act [Chapter 24:02] and the Reserve Bank of Zimbabwe Corporate Governance Guidelines. The Society has also fully embraced the principles and standards as enunciated by Zimbabwe Code on Corporate Governance and King III Report of Corporate Governance.

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

The Board

The current Board of Directors is constituted of two executive directors and ten 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

There were a number of changes to the Board during the year under review. Messrs Kenneth Chitando and Kurauwone Ndakashaya Francis Chihota resigned from the Board with effect from 1 September 2017 and 5 September 2017 respectively to pursue other interests. Three additional non- executive directors were appointed to the Board, namely: Dr. Douglas Zimbango appointed 5 September 2017, Munashe Shava and Theresa Murumbi appointed both on 22 September 2017.

Dr. Douglas Zimbango is a seasoned banker and marketer, Mr. Munashe Shava is a mining engineer with experience in both strategy and project management and Mrs. Theresa Murumbi is a business executive with vast experience in entrepreneurship and strategy development.

Mr. Lameck Danga was appointed Acting Managing Director on 15 June 2017. He attended main Board and committee meetings in the capacity of Acting Managing Director for the remainder of the year. He was subsequently appointed as the Managing Director designate of the Society on 19 March 2018 as we await the Reserve Bank of Zimbabwe approval of his appointment as substantive Managing Director.

Board attendance

Director	Main Board	Housing Projects	Finance and Strategy	Human Resources and Nominations	Risk and Compliance	Audit	Credit	Loans Review
D. Zimbango (Chairman)	- √* √	- √*√*	- √	- √*√	n/a	n/a	n/a	n/a
P. Sibiya (Mrs) (Deputy Chairman)	√ √ √ √ *√	L√ √ √L √*√	n/a √	n/a	n/a	√ L √ n/a	n/a	√ √ √ √
N.W. Chiminya	√ √ √ √ *√	L√ √ √ √*√*√	√*√* √ L √ √ √	n/a √*√	n/a	n/a	n/a	√ √ √ n/a
K. Chihota	√ √ √ R	√*L√ √ R	n/a	√*√√ R n/a	n/a	n/a	√ √ √ R	n/a
K. Chitando	√ A A R	√*√A A R	√*√ √ √*AA	n/a	n/a	n/a	√ A A R	n/a
E. Chitanda (Mrs) (Finance Director)	√ √ √ √ *√	n/a	√*√ √ √*√ √ √	n/a	n/a	n/a	n/a	n/a
L. Danga (Acting Managing Director)	√ √ √ √ *√	√*√ √ √ √*√√	√*√ √ √*√ √ √	n/a	n/a	n/a	√ √ √ √	n/a
T.M.S. Kambasha	√ √ √ √ *√	n/a	√*√ √ √*√ √ √	n/a	n/a	n/a√	√ √ √ √	n/a
S. Kudenga	√ √ √L √	n/a	√*√* √ √*√ √ √	√*√ √ √ L √	n/a	√ √ √ √	n/a	n/a
B.W. Madzivire	√ √ √ √ *√	n/a	n/a	- √*√	n/a	√ √ √ √	n/a	√ √ √ √
K.D. Mnangagwa	√ √ √ √ *√	√* √ √ √ √*L √	√*√ √ L √ √ √	n/a	√ √ √ √	n/a	√ √ √ n/a	n/a
T. Murumbi (Mrs)	- √* √	n/a	n/a	- √*√	- √	n/a	- √	n/a
J. Ncube (Mrs)	√ √ L √ *√	√* √ √ √L L L	n/a	√* L √ L n/a	√ √ √ √	n/a	n/a	- √
M. Shava	- √* √	- √*√*√	n/a	n/a	n/a	n/a	- √	n/a

Key

√	Member attended meeting
-	Not yet appointed
√*	Special meeting
n/a	Not applicable
A	Absent
L	Leave of absence granted
R	Resigned

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 audited financial results

These audited financial results were approved by the Board of Directors on 29 March 2018.

By order of the Board

Company Secretary
29 March 2018

Abridged Audited Financial Results
FOR THE YEAR ENDED 31 DECEMBER 2017

nbs
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Building Communities

A member of the Deposit Protection Scheme

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STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
Assets			
Cash and cash equivalents	5	17 697 652	16 938 190
Investment securities	6	17 443 872	7 648 497
Other assets and prepayments	7	28 931 015	1 298 855
Loans and advances	8	62 788 266	25 036 103
Computer software	9	3 688 888	2 996 682
Investment property	10	2 570 670	-
Property and equipment	11	3 836 552	3 138 858
Total assets		136 956 915	57 057 185
Equity and liabilities			
Liabilities			
Deposits	12	55 226 692	19 355 798
Borrowings	13	33 674 531	15 518 665
Other liabilities	14	3 365 907	966 151
Total liabilities		92 267 130	35 840 614
Equity			
Share capital		5 040 000	5 040 000
Share premium		19 960 000	19 960 000
Shares awaiting allotment		24 647 621	-
General reserve	15.3	344 529	-
Accumulated deficit	15.2	(5 302 365)	(3 783 429)
Total equity		44 689 785	21 216 571
Total equity and liabilities		136 956 915	57 057 185

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
Interest income	18	7 303 743	1 336 185
Interest expense	18	(1 904 067)	(194 462)
Net interest income		5 399 676	1 141 723
Change in impairment allowance	8.2	(573 134)	(265 555)
Net income from lending activities		4 826 542	876 168
Non funded income	19	2 293 431	539 865
Total operating income for the period		7 119 973	1 416 033
Operating expenses	20	(8 284 470)	(4 391 375)
Deficit before tax		(1 164 497)	(2 975 342)
Income tax		(9 910)	-
Deficit for the year		(1 174 407)	(2 975 342)
Other comprehensive income		-	-
Comprehensive deficit for the year		(1 174 407)	(2 975 342)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital US$	Share premium US$	Shares awaiting allotment US$	General reserve US$	Accumulated deficit US$	Total equity US$
2017						
Balance as at 1 January 2017	5 040 000	19 960 000	-	-	(3 783 429)	21 216 571
Deficit for the year	-	-	-	-	(1 174 407)	(1 174 407)
Transfer to/(from) retained earnings	-	-	-	344 529	(344 529)	-
Transactions with owners of the Society						
Shares awaiting allotment	-	-	24 647 621	-	-	24 647 621
Balance as at 31 December 2017	5 040 000	19 960 000	24 647 621	344 529	(5 302 365)	44 689 785
2016						
Balance as at 1 January 2016	5 003 093	1 543 298	-	-	(808 087)	5 738 304
Deficit for the year	-	-	-	-	(2 975 342)	(2 975 342)
Transfer to/ (from) retained earnings	-	-	-	-	-	-
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 YEAR ENDED 31 DECEMBER 2017

	Note	Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
Cashflows from operating activities			
Deficit before tax		(1 164 497)	(2 975 342)
Adjusted for:			
Depreciation	20	619 647	282 225
Amortisation of computer software	20	213 704	65 720
Loss on asset disposal		1 496	-
Change in impairment allowance	8.2	573 134	265 555
Net interest income		(5 399 676)	-
Increase in other assets and prepayments		(27 632 160)	(612 128)
Increase in loans and advances		(13 677 676)	(25 162 474)
Increase in deposits		35 870 894	19 355 798
Increase in other liabilities		2 399 756	745 299
Interest received		7 303 743	-
Interest paid		(1 904 067)	-
Income tax paid		(9 910)	-
Net cash outflows from operating activities		(2 805 612)	(8 035 347)
Cashflows from investing activities			
Purchase of property and equipment	11	(1 319 137)	(3 339 119)
Increase in investment securities		9 795 375	(7 648 497)
Purchase of computer software		905 910	(1 072 902)
Purchase of investment property	10	(2 570 670)	-
Net cash outflows from investing activities		4 005 866	(12 060 518)
Cashflows from financing activities			
Issue of new shares		-	16 464 109
Borrowings		18 155 866	15 518 665
Net cash inflows from financing activities		18 155 866	31 982 774
Net increase in cash and cash equivalents		19 356 120	11 886 909
Cash & cash equivalents at the beginning of the year		16 938 190	5 051 281
Cash & cash equivalents at the end of the year	5	17 697 652	16 938 190
Comprises of:			
Cash on hand		328 672	536 881
Local banks and money market		17 368 980	16 401 309
Total cash & cash equivalents	5	17 697 652	16 938 190

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1 Reporting entity

National Building Society, (Society), is a company incorporated in Zimbabwe and 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

The audited 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 results should be read in conjunction with the Society's latest annual financial statements for the year ended 31 December 2017. 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.

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.
- Impairment allowance 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.
- Determination of functional currency.

A full set of the Society's policies are available in its financial statements as at 31 December 2017, which is available for inspection at the Society's registered office.

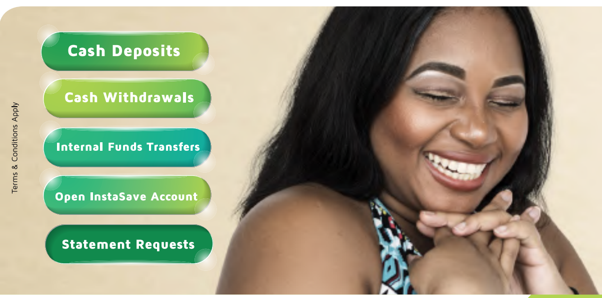
		Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
5	**Cash and cash equivalents**		
	Cash on hand	328 872	536 881
	Local banks	118 097	198 661
	Interbank placements	14 663 014	13 762 315
	Reserve Bank of Zimbabwe	2 587 669	2 440 333
		17 697 652	16 938 190

Included in cash and cash equivalents are balances with Banks. These balances are used for transacting on a daily basis. In 2016 the Central Bank, through Exchange Control Operational Guideline 8 (ECOGAD8), introduced a prioritisation criterion which has to be followed when making foreign payments. Any foreign payments which we make from our bank balances above are ranked based on the Central Bank prioritisation criteria and paid subject to our banking institution having adequate funds with its Foreign Correspondent Banks. In terms of the directive, most of our foreign payments are categorised in Priority Two (Medium). This has resulted in an increase in foreign creditor balances compared to prior year. Included in cash and cash equivalents are bond notes and coins which are bearer instruments that are pegged at 1:1 with the United States dollar. USD and bond notes and coins transactions are maintained in the same bank account.

		Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
6	**Investment securities**		
	Treasury bills - held to maturity at amortised cost	17 443 872	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 4 years.

		Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
	Maturity analysis		
	Less than 1 month	1 062 329	-
	1 month to 3 months	641 465	442 748
	3 months to 6 months	4 752 937	955 407
	6 months to 1 year	182 387	358 047
	1 year to 5 years	10 804 754	5 892 295
		17 443 872	7 648 497
7	**Other assets and prepayments**		
	Housing development prepayments	24 688 085	-
	Sundry prepayments	515 919	382 885
	Capital work in progress	2 463 567	-
	Receivables due from related parties	-	322 948
	Collateral deposits	546 998	288 464
	Interest accrued	660 856	188 699
	Sundry assets	55 590	115 859
		28 931 015	1 298 855
	Non-current	546 998	288 464
	Current	28 384 017	1 010 391
		28 931 015	1 298 855
8	**Loans and advances**		
	Personal loans, advances and other accounts	23 486 283	6 222 496
	Mortgage loans	40 140 672	19 079 162
	Gross loans and advances	63 626 955	25 301 658
	Impairment provision	(838 689)	(265 555)
	Net loans and advances	62 788 266	25 036 103



Abridged Audited
Financial Results
FOR THE YEAR ENDED 31 DECEMBER 2017

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		Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
8.1	**Maturity analysis**		
	Less than 1 month	16 624	191 004
	1 month to 3 months	58 291	813
	3 months to 6 months	115 694	4 976
	6 months to 1 year	2 246 393	142 243
	1 year to 5 years	19 027 317	5 621 471
	More than 5 years	42 162 635	19 341 151
		63 626 954	25 301 658

Maturity analysis is based on the remaining period from 31 December 2017 to contractual maturity.

8.2	**Impairment allowance**		
	Opening balance	265 555	-
	Change in impairment allowance	573 134	265 555
	Balance at end of year	838 689	265 555
	Comprising:		
	Portfolio impairment	780 183	265 555
	Specific impairment	58 506	-
		838 689	265 555
8.3	**Sectoral analysis**		
	Individuals	63 626 954	25 301 658
9	**Computer software**		
	Cost		
	Opening balance	3 062 402	-
	Additions	905 910	3 062 402
	Closing balance	3 968 312	3 062 402
	Accumulated amortisation		
	Opening balance	65 720	-
	Charge for the year	213 704	65 720
	Closing balance	279 424	65 720
	Net book value	3 688 888	2 996 682

Computer software is carried at cost less accumulated amortisation charge. The computer software includes the core banking software which is amortised over an estimated useful life of 15 years.

		Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
10.	**Investment Property**		
	Opening balance	-	-
	Additions	2 570 670	-
	Closing balance	2 570 670	-

The investment property is land held for property development projects in the near future. The land is held under the cost model. It is made up of two pieces of land namely remainder of Merwede under Deed of Transfer Number 4286/2016 in the District of Harare and Stands 966 to 1036 of Sondelani Township of Lot 33A Umguza Agricultural Lots situated in the District of Bulawayo.

11 Property and equipment

2017 - Audited	Leasehold improvements	Office equipment	Furniture and fittings	Motor vehicles	Computer equipment	Total
Cost						
Opening balance	1 216 126	109 243	176 434	160 656	1 762 853	3 425 312
Additions	693 842	75 523	47 546	313 420	188 806	1 319 137
Disposals	-	(506)	-	-	(2 954)	(3 460)
Closing balance	1 909 968	184 260	223 980	474 076	1 948 705	4 740 989
Accumulated depreciation						
Opening balance	68 436	7 789	15 740	22 729	171 760	286 454
Charge for the year	162 516	15 656	20 717	76 229	344 829	619 947
Disposals	-	(55)	-	-	(1 909)	(1 964)
Closing balance	230 952	23 390	36 457	98 958	514 680	904 437
Net book value 31 December 2017	1 679 016	160 870	187 523	375 118	1 434 025	3 836 552

No items of property and equipment were pledged as collateral as at 31 December 2017.

2016 - Audited	Leasehold improvements	Office equipment	Furniture and fittings	Motor vehicles	Computer equipment	Total
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	1 216 126	109 243	176 434	160 656	1 762 853	3 425 312
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	68 436	7 789	15 740	22 729	171 760	286 454
Net book value 31 December 2016	1 147 690	101 454	160 694	137 927	1 591 093	3 138 858

No items of property and equipment were pledged as collateral as at 31 December 2016.

		Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
12	**Deposits**		
	Transactional and savings deposits	11 049 896	4 005 578
	Term deposits	44 176 796	11 000 220
	Money market deposits	-	4 350 000
		55 226 692	19 355 798

Refer to note 5, which explains cash and cash equivalents.

12.1	**Maturity analysis**		
	Less than 1 month	19 817 206	11 653 696
	1 month to 3 months	19 534 398	2 750 424
	3 months to 6 months	3 594 750	-
	6 months to 1 year	3 370 000	720 000
	1 year to 5 years	857 837	-
	More than 5 years	8 052 501	4 231 678
		55 226 692	19 355 798

Maturity analysis is based on the remaining period from 31 December 2017 to contractual maturity.

12.2	**Sectoral analysis**		
	Individuals	5 848 576	2 289 475
	Manufacturing	14 228 500	330
	Transport and distribution	25 906	1 533
	Energy and minerals	300 000	81
	Financial services	29 292 944	16 569 604
	Construction and property	3 946 927	356 808
	Trade and services	1 583 839	137 967
		55 226 692	19 355 798

		Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
13	**Borrowings**		
	Shareholder loan	33 674 531	15 518 655
	Current liability	242 000	620 920
	Non - current liability	33 432 531	14 897 745
		33 674 531	15 518 665

The Society obtained various loans from its Shareholder for the construction of low-cost houses in line with its mandate. The loans have various interest rates ranging from 0% to 6.5%. The tenure of the various facilities ranges from 1 year to 5 years.

14	**Other liabilities**		
	Deferred income	1 063 544	221 899
	Accrued interest	762 806	88 293
	Other liabilities	1 539 557	655 959
		3 365 907	966 151

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.

15 Equity and reserves

15.1 Share capital	Share Capital US$	Share Premium US$	Shares awaiting allotment US$	Total US$
Opening balance	5 040 000	19 960 000	-	25 000 000
Shares awaiting allotment	-	-	24 647 621	24 647 621
Closing balance	5 040 000	19 960 000	24 647 621	49 647 621

	Audited 31 Dec 2017 Number of shares	Audited 31 Dec 2016 Number of shares
Share movement		
Authorised ordinary shares	1 000 000 000	1 000 000 000
Issued and fully paid ordinary shares	504 000 034	504 000 034
Shares awaiting allotment	4 929 524	-
Unissued ordinary shares	491 070 558	495 999 966

		Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
15.2	**Accumulated deficit**		
	Opening balance	(3 783 429)	(808 087)
	Loss for the period	(1 174 407)	(2 975 342)
	Transfer to general reserve	(344 529)	-
	Closing balance	(5 302 365)	(3 783 429)
15.3	**General reserve**		
	Opening balance	-	-
	Transfer from accumulated deficit	344 529	-
	Closing balance	344 529	-

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 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.

	Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
Risk weighted assets	77 962 804	29 222 733
Tier 1		
Share capital	5 040 000	5 040 000
Share premium	19 960 000	19 960 000
Shares awaiting allotment	24 647 621	-
General reserve	344 529	-
Accumulated deficit	(5 302 365)	(3 783 429)
Exposure to insiders	-	(322 948)
Core Capital	44 689 785	20 893 623
Tier 2		
Borrowings	33 674 531	15 518 665
Tier 1 ratio	57.3%	71 5%
Tier 2 ratio	43.2%	-
Capital adequacy	100.5%	71.5%

Regulatory capital, consists of Tier 1 capital which comprises share capital, share premium and accumulated deficit after deduction of exposure to insiders. As at 31 December 2017, the Society was compliant with the minimum regulatory capital prescription of $20 million as set by the Reserve Bank of Zimbabwe. During the period under review, the Shareholder approved a debt to equity transaction for the Society to improve and align the capital position of the Society. Effectively, $24,647,621 was converted to equity translating to 4,929,524 ordinary shares.

17 Categories of financial instruments

31 December 2017 - Unaudited	Fair value through profit and loss	Loans and receivables at armotised cost	Held to maturity at armotised cost	Total carrying amount
Financial assets				
Cash and cash equivalents	3 034 638	-	14 663 014	17 697 652
Investment securities	-	-	17 443 872	17 443 872
Other financial assets	-	1 779 363	-	1 779 363
Loans and advances	-	62 788 266	-	62 788 266
Total	3 034 638	64 567 629	32 106 886	99 709 153
Financial liabilities				
Deposits	11 049 896	-	44 176 796	55 226 692
Borrowings	-	33 674 531	-	33 674 531
Total	11 049 896	33 674 531	44 176 796	88 901 223
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 financial assets	-	1 298 855	-	1 298 855
Loans and advances	-	25 036 103	-	25 036 103
Total	16 938 190	26 334 958	7 648 497	50 921 645
Financial liabilities				
Deposits	4 005 578	-	15 350 220	19 355 798
Borrowings	-	15 518 665	-	15 518 665
Total	4 005 578	15 518 665	15 350 220	34 874 463

The carrying amounts approximate the fair values.

Abridged Audited
Financial Results
FOR THE YEAR ENDED 31 DECEMBER 2017

nbs
National Building Society
Building Communities

		Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
18	**Interest**		
	Interest income		
	Loans and advances	4 830 864	313 572
	Money market placements	2 472 879	1 022 613
	Total interest income	7 303 743	1 336 185
	Interest expense		
	Money market deposits	1 365 222	148 238
	Borrowings	531 071	45 252
	Savings deposits	7 774	972
	Total interest expense	1 904 067	194 462
	Net interest income	5 399 676	1 141 723
19	**Non funded income**		
	Net commission and fee income	2 114 058	535 334
	Other operating income	179 373	4 531
		2 293 431	539 865
20	**Operating expenses**		
	Staff costs	3 920 532	2 042 851
	Depreciation	619 947	282 225
	Amortisation of computer software	213 704	65 720
	Other expenses	3 530 287	2 000 579
		8 284 470	4 391 375
	Renumeration of directors and key management personnel		
	Fees for services as directors	152 036	130 288
	Staff costs	1 408 219	1 182 251
		1 560 255	1 312 539
	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	256 372	189 168
	Between 1 and 5 years	566 740	756 672
		823 112	945 840

The Society leases a number of buildings under operating leases. The buildings are used by the Society for its various branch 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 31 December 2017, an amount of $117 756, (2016: $94 966) was recognised as rental expense in the statement of comprehensive income.

21 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.

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

- National Social Security Authority,
- First Mutual Life Group,
- Social Security Centre (Private) Limited,
- ZB Financial Holdings Limited,
- FBC Financial Holdings Limited,
- Nicoz Diamond Limited, and
- Eagle Insurance Limited.

		Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
21.2	**Transactions with related parties**		
	Interest paid	92 042	20 794
	Deposits received	8 965 000	4 015 488
	Borrowings	33 674 531	15 518 665
	Rent expense	148 053	134 828
	Other expenses	93 288	14 352
21.3	**Balances with related parties**		
	Balance owed to NSSA	33 674 531	15 563 917
	Balance owing from NSSA	-	322 948
21.4	**Loans to directors, key management and employees**		
	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	375 058	629 095
	Repayments during the year	(308 541)	(101 502)
	Closing balance	731 494	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	384 643	799 623
	Repayments during the year	(202 393)	(79 599)
	Closing balance	904 074	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.

21.5 Compensation to key management personnel of the Society

As required by IAS24: Related Party Disclosures, the Board's view is that Non-Executive Directors, Executive Directors and Executive Management constitute the key management of the Society. Accordingly, key management renumeration is disclosed under note 20 of the financial results.

22 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.

22.1 Credit risk

This is risk of potential loss that arises when a borrower, or client, or counterparty fails to meet their 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.

22.2 Credit risk management framework

Credit Risk is managed through a comprehensive process 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 also performs various types of credit stress tests which are generally meant to assess the impact of changing economic conditions on asset quality, earnings performance and capital adequacy.

The Society, thus, manages its credit risk by adhering to credit policies and procedure manuals and monitors 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.

22.3 Credit risk mitigation

Where possible, NBS takes collateral as a secondary recourse to the borrower. The Society has 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 liabilities due. However, should the need arise, disposal and recovery processes are in place for disposal of collateral held by NBS.

22.4 Non-performing loans and advances

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

22.5 Credit risk exposure

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

	Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
Cash and cash equivalents	17 368 780	16 401 309
Investment securities	17 443 872	7 648 497
Loans and advances	63 626 955	25 301 658
Other assets and prepayments	28 931 015	1 298 855
Totals	127 370 621	50 650 319

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

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

	Audited 31 Dec 2017	Audited 31 Dec 2016
1 to 3 months	4 954 033	362 907

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

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

	Audited 31 Dec 2017	Audited 31 Dec 2016
Individuals	63 626 954	25 301 658
Collateral analysis		
Mortgage bonds	16 947 500	3 385 571

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 63% of the gross maximum exposure.

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

22.8 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:

	Audited 31 Dec 2017	Audited 31 Dec 2016
Pass	57 445 032	24 938 751
Special mention	4 750 180	362 907
Substandard	1 050 812	-
Doubtful	154 875	-
Loss	226 055	-
Totals	63 626 954	25 301 658

23 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 Society's transactions are mainly exposed to interest rate risk.

23.1 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 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 policies that have been approved by the Board.

Abridged Audited Financial Results

FOR THE YEAR ENDED
31 DECEMBER 2017

nbs
National Building Society
a Registered Building Society
Building Communities

23.2 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.

23.2.1 Interest rate repricing gap analysis

2017 - Audited	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
Assets								
Cash and cash equivalents	4 899 941	9 763 014	-	-	-	-	3 034 697	17 697 652
Investment securities	1 062 329	641 465	4 752 937	182 387	10 804 754	-	-	17 443 872
Other assets and prepayments	-	-	-	-	-	-	28 931 015	28 931 015
Loans and advances	12 918	55 793	112 246	2 207 379	19 493 938	40 905 992	-	62 788 266
Computer software	-	-	-	-	-	-	3 688 888	3 688 888
Investment property	-	-	-	-	-	-	2 570 670	2 570 670
Property and equipment	-	-	-	-	-	-	3 836 552	3 836 552
Total assets	5 975 188	10 460 272	4 865 183	2 389 766	30 298 692	40 905 992	42 061 822	136 956 915
Liabilities								
Deposits	19 742 766	19 608 837	3 594 750	3 370 000	857 837	8 052 502	-	55 226 692
Borrowings	-	-	-	-	-	33 674 531	-	33 674 531
Other liabilities	-	-	-	-	-	762 806	2 603 101	3 365 907
Equity & Reserves	-	-	-	-	-	-	44 689 785	44 689 785
Total liabilities	19 742 766	19 608 837	3 594 750	3 370 000	857 837	42 489 839	47 292 886	136 956 915
Periodic gap	(13 767 578)	(9 148 565)	1 270 433	(980 234)	29 440 855	(1 583 847)	(5 231 064)	-
Cumulative gap	(13 767 578)	(22 916 143)	(21 645 710)	(22 625 944)	6 814 911	5 231 064	-	-

2016 - Audited	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
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
Computer software	-	-	-	-	-	-	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 and 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)	953 143	733 433	12 247 200	11 572 452	-	

23.3 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.

23.4 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. Resultantly, as at 31 December 2017, the prudential liquidity ratio closed at 59.46% 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.

23.4.1 Liquidity gap analysis

2017 - Audited	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
Assets							
Cash and cash equivalents	7 934 638	9 763 014	-	-	-	-	17 697 652
Investment securities	1 062 329	641 465	4 752 937	182 387	10 804 754	-	17 443 872
Loans and advances	12 918	55 793	112 246	2 207 379	19 493 938	40 905 992	62 788 266
Other assets	-	-	-	28 931 015	-	10 096 110	39 027 125
Total assets	9 009 885	10 460 272	4 865 183	31 320 781	30 298 692	51 002 102	136 956 915
Liabilities							
Deposits	19 742 765	19 608 837	3 594 750	3 370 000	857 837	8 052 502	55 226 691
Borrowings	-	-	-	-	-	33 674 531	33 674 531
Other liabilities	-	-	-	2 603 101	-	762 806	3 365 907
Total liabilities	19 742 765	19 608 837	3 594 750	5 973 101	857 837	42 489 839	92 267 129
Periodic gap	(10 732 880)	(9 148 565)	1 270 433	25 347 680	29 440 855	8 512 263	44 689 786
Cumulative gap	(10 732 880)	(19 881 445)	(18 611 012)	6 736 668	36 177 523	44 689 786	-
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	-	-	-	1 010 391	-	288 464	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	-	-	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	4 129 018	3 953 548	15 467 315	15 081 031	-

23.4.2 Liquidity ratio

	Audited 31 Dec 2017 US$	Audited 31 Dec 2016 US$
Total liquid assets	35 141 524	24 586 687
Total customer deposits	55 226 692	19 355 798
Liquidity ratio	64%	127%
Minimum statutory level	30%	30%

The Society was compliant with minimum liquidity ratio thresholds as at 31 December 2017.

	Audited 31 Dec 2017 USD	Audited 31 Dec 2016 USD
24 Contingent liabilities		
Mortgage commitments	3 644 656	2 106 730

25 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.

26 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.

27 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.

28 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.

29 Risk and credit ratings

29.1 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

Abridged Audited Financial Results

FOR THE YEAR ENDED 31 DECEMBER 2017

nbs National Building Society
Building Communities

29.1 Reserve Bank of Zimbabwe ratings (continued)

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 allow 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.

29.2 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 2018.