



OLD MUTUAL ZIMBABWE LIMITED
ANNUAL REPORT 2017



Do great things

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Chairman's Report

Environment

Government estimates that the economy grew by 3.7% in 2017, up from 0.7% in the previous year, buoyed by a favorable 2016/17 agricultural season on the back of above normal rainfall and inputs support extended to farmers as part of the Command Agriculture programme.

However, the operating environment remained challenging as the year was characterized by increasing macro-economic vulnerability reflected by sustained fiscal and trade deficits. This led to cash and foreign currency shortages, and associated speculative consumer and asset pricing tendencies.

Inflation closed the year ended 31 December 2017 at 3.46%, up from -0.93% in 2016. The Zimbabwe Stock Exchange (ZSE) industrial index closed the year 2017 with noteworthy gains of 130%, despite a late decline in the last quarter when the market shed 20%. This resulted from a flight to real assets resulting from elevated monetary risks. Property market returns remained subdued in light of compromised corporate earnings while money market interest rates were weighed down by deliberate policy measures to cap interest rates as well as depressed market appetite for deposits.

The resignation of former President Robert Mugabe on 21 November 2017 marked a possible inflexion point in

Zimbabwe's macro-economic trajectory, ushering in a new dispensation. The international community including the United Kingdom, the African Union and China have noted that the transition presents an opportunity for renewed cooperation.

The relatively smooth political transition appears to have tamed the mood of economic pessimism seen through most of 2017. Resultantly, speculative pricing tendencies have ebbed since November 2017, reducing premiums on investment assets, particularly equities and property.

The market remains cautiously optimistic of economic prospects, particularly in light of a renewed focus on economic growth by the government. The optimism is premised on commitments towards free market tenets and democracy - principles that can greatly improve the economy's access to foreign capital.

Financial performance

Adjusted operating profit (AOP), was up by 25% from US\$76.1 million in 2016 to US\$95.5 million. Profit after tax based on International Financial Reporting Standards (IFRS) increased by 139% from US\$91.8 million to US\$219.3 million largely driven by a strong operating profit growth across the business as well as non-banking investment returns which grew by 452% from US\$116.3 million to US\$641.3 million. The growth in investment

Chairman's Report (CONTINUED)

returns was mainly due to the Group's exposure to listed equities as the Zimbabwe Stock Exchange recorded significant gains.

Operations

Over the year 2017, the Group primarily focused on preserving value for customers in a very difficult environment, exploiting opportunities for growth, financial inclusion and keeping the business competitive.

In order to enhance service delivery, there was considerable investment in IT systems, new processes and delivery channels particularly through the expansion of our 'Green Zone' – the one-stop financial services shop concept. Three new Green Zones were opened during the year under review.

In recognition of the Group's efforts, the following awards were received by Old Mutual Zimbabwe:

- Best organization in Service Excellence in the Insurance Sector (Zimbabwe Service Excellence Awards);
- SuperBrand in the Life Assurance Sector (SuperBrand Awards);
- Top Employer for the fifth year running (Top Employers Institute).
- Best banking corporate governance disclosures – awarded to CABS (ICSAZ Excellence in Corporate Governance Awards);

Governance issues

Far reaching amendments to the Banking Act (Chapter 24:20) were gazetted on 13 May 2016. This legislation affects Central Africa Building Society as well as Old Mutual Zimbabwe Limited, which is defined as a Controlling Company in terms of Section 2 of the Act. The Insurance and Pensions Commission (IPEC) issued a Directive on Governance and Risk Management on 1 May 2017. The directive became effective on 1 January 2018 and requires all insurance companies to have an acceptable risk framework and follow the stated principles of corporate governance and risk management. The Group is in the process of instituting measures to achieve full compliance with the Banking Act and IPEC's Directive.

Responsible business

As Old Mutual, we recognise that we have a responsibility to the communities in which we operate and the various stakeholders that we interact with in the course of our business activities. As such, the Group maintained its emphasis on being a Responsible Business. We are guided by our 5 pillars namely:

- Responsible Investment;
- Responsibility to Customers;
- Responsible Environmental Management;
- Responsibility to Employees and;
- Responsibility to Communities.

During the year 2017, we invested in our country's social fabric through sporting events, and programs aimed at improving and supporting health, education, arts and culture. Highlights of some of the key initiatives we undertook in 2017 under our Responsible Business pillars include commissioning of the 1.6MW Kupinga hydro power plant that we financed, financial literacy training through our 'On The Money' training program, substance abuse awareness programs, partnering with Friends Of The Environment and successful running of our staff development and wellness programs.

Outlook

Going forward, the overall pace and magnitude of macro-economic revival is likely to depend significantly on the government's ability to sustainably build public and investor confidence, as well as to re-engage successfully with the international community. This needs to be accompanied by effective implementation of programmes and policies that support these initiatives.

The Group has always had confidence in Zimbabwe's long term economic prospects and stands ready to partner with all stakeholders in rebuilding the economy.

Appreciation

On behalf of the Board, I would like to thank our customers for their continued support and trust throughout 2017. I must also commend the group's employees and management for their efforts without which we would not have been able to achieve these commendable results in a challenging operating environment.



Chief Executive Officer's Report

Introduction

It is with great pleasure that I present to you the business report for the financial year ended 31 December 2017. At the beginning of the 2017 financial year we sought to deliver value for our stakeholders by focusing on:

- o Identifying opportunities for growth;
- o Customer centric service offering;
- o Financial inclusion;
- o Keeping our business future fit and competitive; and
- o Delivering good financial performance.

While we faced a challenging operating environment in 2017 characterised by acute cash and foreign currency shortages, and a decline in disposable income for our customers, we made commendable progress in attaining our objectives for the key focus areas highlighted above. A review of each of these key focus areas is detailed below.

Identifying opportunities for growth

The search for opportunities is an ongoing journey which is vital in maintaining the relevance of our business operations.

We are excited to report that we opened the doors to our micro-finance business in May 2017. Active loans issued in 2017 cover Zvishavane, Mhondoro, Darwendale, Hwedza, Domboshava, Goromonzi, Beatrice, Chitungwiza, Highfields, Glen Norah, Mbare and Harare's central business district.

On the investments front, we completed and commissioned the 1.6MW Kupinga Hydro power station in which we own a 40% equity stake, and we are now supplying electricity to the national grid. We also strengthened our alternative investments capability by acquiring key skills; we believe that this speaks to the future of this economy and allows us to profitably contribute to the country's economic growth through investments in infrastructure and the financing of unlisted businesses.

During the year we partnered Zympay to make payments for mortgages easier for our diaspora customers. Zympay is a United Kingdom (UK) based Fintech entity which allows diaspora customers to pay bills directly into Zimbabwe. We believe that this deal makes us more attractive to the diaspora market and should enable better market penetration. We also advanced the process of establishing a distribution network comprised of agents and brokers that are dedicated to serving our diaspora customers.

We commenced development of low cost housing stands in Pumula South and Nkulumane, Bulawayo. When completed, these initiatives will deliver 596 developed stands in Pumula South and 486 stands in Nkulumane. All in all we are providing an opportunity to 1 082 families to build their homes. Development commenced in November 2017 and we are targeting completion in May 2018. This will contribute to addressing the country's housing backlog in urban areas.

Chief Executive Officer's Report (CONTINUED)

The sale of houses under the Budiriro Housing Development improved significantly from the prior year. The Group partnered with the City of Harare to improve the road infrastructure in the area and work on electrification of houses is progressing, although there are constraints around foreign currency availability.

Customer centric service offering

We continue our focus on making it easier for customers to do business with us.

Our short term insurance business partnered ZINARA and the Zimbabwe Broadcasting Corporation (ZBC) to issue car licensing and car radio licensing.

We are alive to the cash challenges facing our customers; as such we continued infrastructure investments to support cashless transactions through deployment of point of sale (POS) machines. As of 31 December 2017 we had the largest number of POS machines in the market. We also collaborated with Ecocash to enable seamless transactions between our platforms. These channels continue to mitigate the cash challenges by providing customers with alternative transacting platforms and also contributed to financial performance of the business through transaction based income.

We remain committed to making the necessary investments in our business to ensure that it continues to be a financial services champion for years to come. Following the successful launch and positive feedback from our customers on the convenience and high quality service from our Green Zones in Harare, Bulawayo and Zvishavane, we opened three more Green Zones at Old Mutual Gardens in Harare, in Masvingo and in Chiredzi. Green Zone refers to our one-stop-financial services shop concept that seeks to enhance customer experience by providing all the services offered by the Group's subsidiaries under one roof.

Keeping our business future fit

The Group saw upgrades of the life and banking systems to improve business capacity and improve customer experience. Some challenges were encountered in the upgrade of the banking system in October 2017 but these had largely been resolved by the end of the year.

We developed a digital proposition for the Group which aims to enable and optimise digital self-servicing for our customers in order to improve customer experience whilst lowering operating costs. The asset management business launched OMUT Connect in May 2017. OMUT Connect is a web based portal that allows unit trust customers to view their account statements and make portfolio enquiries online.

Our people are a significant component of our competitive advantage. We continued with investments towards enriching our people and retained our certification as a Top Employer in Zimbabwe and Africa.

Financial inclusion

In 2017 we made good progress on construction of the SME market that is located in Harare's central business district. The project involves the construction of a new two storey SME market building and a structured steel bridge between the existing Eastgate Mall and the SME market building. Commissioning of the SME market is expected in the first half of 2018. There however, remains a risk that foreign currency shortages may adversely affect the project in terms of time to completion and cost.

In the 2016/2017 agricultural season we piloted drought micro-insurance by issuing drought insurance cover to maize farmers in Goromonzi, Chinhoyi and Chiweshe. For the 2017/2018 farming season we contracted more farmers, in more districts and covered more risks. We expect this initiative to add to the sustainability of small-scale farming activities.

Chief Executive Officer's Report (CONTINUED)

Financial performance

The Group registered strong financial performance for the year ended 31 December 2017 with growth registered in total revenue, non-life sales, adjusted operating profit (AOP), net client cash flows (NCCF), funds under management (FUM), deposits, and loans and advances.

Adjusted operating profit (AOP), which is comprised of operating profit plus normalized investment returns on shareholder funds, increased by 25% from US\$76.1 million in 2016 to US\$95.5 million. This was due to higher life, banking and asset management profits and increased long term investment returns (LTIR) on the back of a higher asset base. The normalising of investment returns allows for easier year-on-year comparability of results by adjusting for short term volatility in investment markets. The 25% growth in AOP highlights the strong performance of core business operations despite the challenging operating environment. Profit after tax based on International Financial Reporting Standards (IFRS) increased by 139% from US\$91.8 million to US\$219.3 million

The banking business recorded a net surplus growth of 7%, to US\$42.1 million, up from US\$39.2 million in 2016. This was mainly due to growth in non-interest income by 27% emanating from increased use of card based and electronic banking platforms as an alternative to cash transactions, as well as an improvement in the non-performing loan ratio. Net interest income remained flat at US\$58.6 million as the impact of interest rate caps was mitigated by a 15% growth in loans and advances from US\$583.3 million to US\$669.2 million as well as a lower cost of deposits.

Gross Written Premiums grew by 5% from US\$185.4 million to US\$194.8 million in total for the life and short term insurance businesses due to a combination of improved client retention and new business that was underwritten. AOP for the life business was 43% higher than prior year, having grown from US\$21.8 million to US\$31.2 million. This was driven by higher risk profits

and positive variances on asset based fees. The short term insurance business, however, achieved an underwriting margin of 13% compared to 18% in 2016, weighed down by weather related claims experienced in the first quarter of 2017, and increasing repair costs on the private motor vehicle book in the second half of the year.

Funds Under Management (FUM) for the asset management business were up by 50% from US\$1.8 billion to US\$2.7 billion largely due to a combination of growth in net client cash flows (NCCF) generated and gains on ZSE listed equity investments. As a result of the growth in FUM, fee income and profit before tax for the asset management business increased by 28% and 64% to US\$20.6 million and US\$10.7 million respectively.

Operating and administration expenses increased by 5% to US\$93.8 million, from US\$89.4 million in prior year. The relatively low increase in expenses in an environment of rising inflation underscores the success of cost containment measures implemented throughout the course of 2017.

Total assets increased by 45% from US\$2.2 billion to US\$3.1 billion driven by growth in investments and securities; loans and advances, and cash and cash equivalents.

Corporate social responsibility initiatives

We continued to support the community through a number of initiatives. Highlights of some of the key initiatives we sponsored in 2017 are shown below.

Education

- 2017 Mathematics Olympiad competition
- Financial literacy program
- Zimbabwe Schools Quiz

Sports

- Old Mutual sponsored runs – Harare Marathon, Vumba Half Marathon, Westgate Half Marathon, Chitungwiza Fun Run, Dangamvura Fun Run and the Nkulumane Fun Run

Chief Executive Officer's Report (CONTINUED)

- Five teams represented Zimbabwe at the Craven Week rugby tournament
- Old Mutual Heath Streak Under-14 Inter-Nation Africa Cricket Cup

Arts and Culture

- 40th National Choir Festival

Environment

- Friends Of The Environment (FOTE) initiatives
- Donation to KidzCan Zimbabwe Children's Cancer Relief
- Donation of groceries and hosting a Christmas party at Jairos Jiri Waterfalls Centre

Focus areas for 2018

The focus areas for 2018 have been generated with reference to the risks and opportunities in the economy. These key focus areas are as follows:

- Exploit opportunities that arise in the environment
- Improve operational efficiency
- Strengthen digital capabilities
- Scaling up Financial inclusion initiatives and launching of the SME Centre.

Appreciation

On behalf of management, I would like to thank our Board of Directors for their guidance, our customers for their continued support in 2017 and the group's employees for their tremendous efforts in serving our customers and shareholders throughout 2017.

Directors' Report

Responsibility

The directors are responsible for the preparation and fair presentation of the Group and parent annual financial statements, comprising the statement of financial position at 31 December 2017; and the statement of profit or loss; statements of comprehensive income; changes in equity and cash flows for the year then ended; and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act (Chapter 24:03). In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Compliance with legislation

These financial statements which have been prepared under the historical cost convention are in agreement with

the underlying books and records, have been properly prepared in accordance with the accounting policies set out in note 2, and comply with the disclosure requirements of the Companies Act (Chapter 24:03) and the relevant regulations made thereunder; the Insurance Act (Chapter 24:07); the Pension and Provident Funds Act (Chapter 24:09); the Microfinance Act (Chapter 24:09); the Building Societies Act (Chapter 24:02); the Banking Act (Chapter 24:20); the Asset Management Act (Chapter 24:26); the Collective Investments Schemes Act (Chapter 24:19) and the Securities Act (Chapter 24:25).

Compliance with IFRSs

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs). IFRSs comprise interpretations adopted by the International Accounting Standards Board (IASB), which includes standards adopted by the International Accounting Standards Board (IASB) and interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretations Committee (SIC).

Capital

The issued share capital is made up of 249 035 156 "A" class shares of US\$0,0000032 each, 83 011 718 "B" class shares of US\$0,0000032 each and 1 redeemable preference share of US\$1.00. The shares are owned by OM Zimbabwe Holdco Limited (75%); as well as allocations to Indigenisation Trusts and intended indigenous beneficiaries (21.5%) and a strategic partner (3.5%). The 1 redeemable preference share issued is owned by Old Mutual (Zimbabwe) Dividend Access Trust.

Directors' Report (CONTINUED)

Dividend

During the year the following dividends were paid out as follows:

- I. Preference dividend declared out of 2016 profits and paid during the year;

April 2017	US\$2 957 259
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- II. Ordinary dividends declared out of 2016 profits and paid during the year;

April 2017	US\$7 500 000
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- III. An interim preference dividend declared out of 2017 profits and paid during the year;

October 2017	US\$2 469 509
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- IV. An interim ordinary dividend declared out of 2017 profits and paid during the year,

October 2017	US\$5 000 000
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- V. An ordinary dividend of US\$10 000 000 is proposed out of 2017 profits as well as another additional special dividend of US\$10 000 000.

Directors

- Mr. J !Gawaxab (Chairman)
- Mr. D Benecke
- Mr. TM Johnson
- Mr. MP Mahlangu
- Dr. K Mandevani
- Mr. IT Mashinya (Group Chief Operating Officer)
- Mr. NTT Mudekanye (Group Finance Director)
Appointed 27th April, 2017
- Mr. J Mushosho (Group Chief Executive Officer)
- Dr. LL Tumba
- Mr. IG Williamson

Dr LL Tumba and Messrs. D Benecke and I Williamson retire by rotation, and being eligible, offer themselves for re-election.

Far reaching amendments to the Banking Act (Chapter 24:20) were gazetted on 13 May 2016. This legislation affects Central Africa Building Society (CABS) as well as Old Mutual Zimbabwe Limited, which is defined as a Controlling Company in terms of Section 2 of the Act. The Group is in the process of instituting measures to achieve compliance with the Act, particularly around Board composition.

The annual financial statements for the year ended 31 December 2017 set out on pages 30 to 108 were approved by the Board of Directors on 22 March 2018 and are signed on its behalf by:



Director



Director

22 March 2018

Corporate Governance Report

Board and Board Committees

The Board acts as a strategic controller and provides oversight in respect of all the Business Operations that form part of Old Mutual Zimbabwe Limited (OMZIL), collectively referred to as the OMZIL Group. Part of its role is to ensure that each subsidiary complies with its regulatory landscape, as some of the entities are separately regulated by the Reserve Bank of Zimbabwe, the Insurance and Pensions Commission and the Securities and Exchange Commission. Being the controlling company of CABS, OMZIL is regulated by the Reserve Bank of Zimbabwe. OMZIL also subscribes to the rules of the Financial Securities Exchange (Finsec), given that 25% of its shares are listed on its Alternative Trading Platform.

The operating entities of OMZIL are:

- Old Mutual Life Assurance Zimbabwe Limited (OMLAC),
- RM Insurance Holdings Limited (RMI), holding company of Old Mutual Insurance Company (Private) Limited (OMICO),
- Central Africa Building Society (CABS),
- Old Mutual Investment Group (Zimbabwe) Private Limited (OMIG),
- Old Mutual Property Zimbabwe (Private) Limited (OMP),
- Old Mutual Securities (Private) Limited (OMSEC),
- Old Mutual Shared Services (Private) Limited (OMSS),
- Old Mutual Finance (Private) Limited (OMFin), and
- CABS Custodial Services (Private) Limited (CABS Cus).

Board Committees and their Functions

For the year ended 31 December 2017, the OMZIL Board of Directors comprised of ten directors, and the Chairman

of the Board is an independent non-executive director. Some directors who are members of the OMZIL Board are the Chairmen of the Group's subsidiaries, namely, for OMLAC, OMICO, CABS, and OMIG. The Board had two committees in place, that is, the Group Audit, Risk and Compliance Committee, and the Remuneration and Nominations Committee.

The Group Audit, Risk and Compliance Committee is responsible for reviewing the principles, policies and practices adopted in the preparation of the accounts of companies in the OMZIL Group and to ensure that the annual financial statements of the Group comply with all statutory, regulatory and internal governance requirements. The Committee also reviews compliance and risk management controls. The Chairman of this Committee is an independent non-executive director, and the membership includes the Chairmen of the Audit, Risk and Compliance Committees of the Group's subsidiaries. Among other things, the role of the Remuneration and Nominations Committee is to consider and approve the remuneration of the Group's senior executives. The Committee is also responsible for overseeing the process nominating directors to the OMZIL Board and the Boards of its subsidiaries. The Chairman of this Committee is an independent non-executive director.

Board and Committee attendance

During the year ended 31 December 2017, the Board and its two committees met at least four times.

Corporate Governance Report (CONTINUED)

OMZIL Board of Directors

#	Name	Meetings Held				
		1	2	3	4	5
1.	!Gawaxab J	•	•	•	•	•
2.	Benecke D	•	•	•	•	•
3.	Johnson TM	•	•	•	•	•
4.	Mahlangu MP	•	•	•	•	•
5.	Mandevani K, Dr	•	•	•	•	•
6.	Mashinya IT	•	•	•	•	•
7.	Mudekanye NTT	NA	NA	•	•	•
8.	Mushosho J	•	•	•	•	•
9.	Tsumba LL, Dr	•	•	•	•	•
10.	Williamson IG	A	•	A	A	A

Group Audit, Risk and Compliance Committee

#	Name	Meetings Held				
		1	2	3	4	5
1.	Benecke D	•	•	•	•	•
2.	Chitengu RCD, Mrs ^S	A	A	•	•	•
3.	Frost N ^S	•	•	•	•	•
4.	Mills A ^S	•	•	•	•	•
5.	Nkomo BL ^S	•	•	•	A	•
6.	Zamchiya B ^S	•	•	•	•	•

Remuneration and Nominations Committee

#	Name	Meetings Held				
		1	2	3	4	5
1.	!Gawaxab J	•	•	•	•	•
2.	Johnson TM	•	•	•	•	•
3.	Mahlangu MP	•	•	•	•	A

Key

- - Present
- # - Annual strategy meeting
- S - Subsidiary Board & ARCC member
- A - Apology
- NA- Not yet appointed

Director Training

During 2017, sundry business unit specific and generic training was conducted for the various directors. The areas covered included Actuarial technical training, Corporate Governance, Anti-Money Laundering, Basel II & Internal Capital Adequacy Assessment Process, IFRS, Tax, and property management and development regulations. Members of the Group Audit, Risk and Compliance Committee also attended the second annual KPMG Audit Committee Forum.

Enterprise Risk Management Framework

The objective of Enterprise Risk Management [‘ERM’] in Old Mutual Zimbabwe Limited [‘OMZIL’] is to align strategy, capital, process, people, technology and knowledge in order to evaluate and manage business opportunities, uncertainties and threats in a structured, disciplined manner, ensuring that risk and capital implications are considered when making strategic and operational decisions. ERM is designed to increase the understanding of the risks inherent in the business in order to improve decision-making. It does not aim to eliminate risk from our business but rather to ensure that all risks are identified, quantified where possible, escalated to governance bodies, and effective mitigation plans put in place. The OMZIL Board in demonstrating its commitment to ERM has appointed a Chief Risk Officer who is a C-suite executive in the Group and has sufficient independence and resources to discharge the ERM mandate.

OMZIL adopts a three lines of defense approach in its ERM model as shown below:

Board			
	First Line Strategy, Performance & Primary Risk & Control Responsibility	Second Line Policy Formulation, Validation & Oversight (Monitoring)	Third Line Independent Assurance
What it covers	<ul style="list-style-type: none"> • Own risk management strategy, policy and process • Control owner • Process developer and owner • Set tone from the top and cascade positive risk culture • Risk-aligned performance management • Manage day-to-day risk origination and management in accordance with risk policy and strategy • Identify and assess risks and implement mitigating actions • Report and escalate material risks and issues to governance bodies • Track risk events and implement remedial actions on control gaps 	<ul style="list-style-type: none"> • Providing oversight and challenge • Support line management • Monitor and track control adequacy plus effectiveness • Propose risk policy and strategy • Provide assurance to board and regulators • ERM awareness • Risk Appetite Embedment 	<ul style="list-style-type: none"> • Independent assurance on the effectiveness of risk management and adherence to policies
Who is Accountable	<ul style="list-style-type: none"> • Group Chief Executive Officer • Group Finance Director • Business Unit Management • All Employees 	<ul style="list-style-type: none"> • Chief Risk Officer • Compliance Executives • Risk Executives • Actuarial Executive • Statutory Actuaries 	<ul style="list-style-type: none"> • Chief Internal Auditor • External Auditors • Board sub-committees

Figure 1: Three Lines of Defence Model

RISK GOVERNANCE SYSTEM

The Board is responsible for running the company as a whole and with regard to risk management, it is ultimately accountable for the effective governance and risk management. It reviews the outcomes of the ERM process on an ongoing basis to achieve its goal of delivering long-term value to its investors. The board ensures that clearly defined ERM roles and responsibilities for the Group Chief Executive Officer, his management team, sub-committees and key functions are in place. The board aligns the interests of management with that of the investors through appropriate performance contracting and remuneration structures. The board delegates its oversight and management responsibilities in terms of the three lines of defence governance model depicted above. This requires line management (first line) to operate with risk in mind, with risk professionals (second line) providing oversight and internal and external audit (third line) coming in to provide independent assurance on the appropriateness, adequacy and effectiveness of line 1 and line 2 roles and activities.

Enterprise Risk Management Framework (CONTINUED)

Audit and Risk Committees at subsidiary levels report to the Group’s Audit Risk and Compliance Committee (ARCC) to ensure uniform alignment of the risk governance framework across the Group. The Group risk governance system takes into account regulatory and compliance requirements. In this vein, in 2018, the Group’s ARCC will be split into two separate committees being the Audit Committee and the Risk and Compliance Committee, to comply with the requirements of the Banking Amendment Act, 2015.

The diagram below shows how authority flows within the OMZIL risk governance framework.

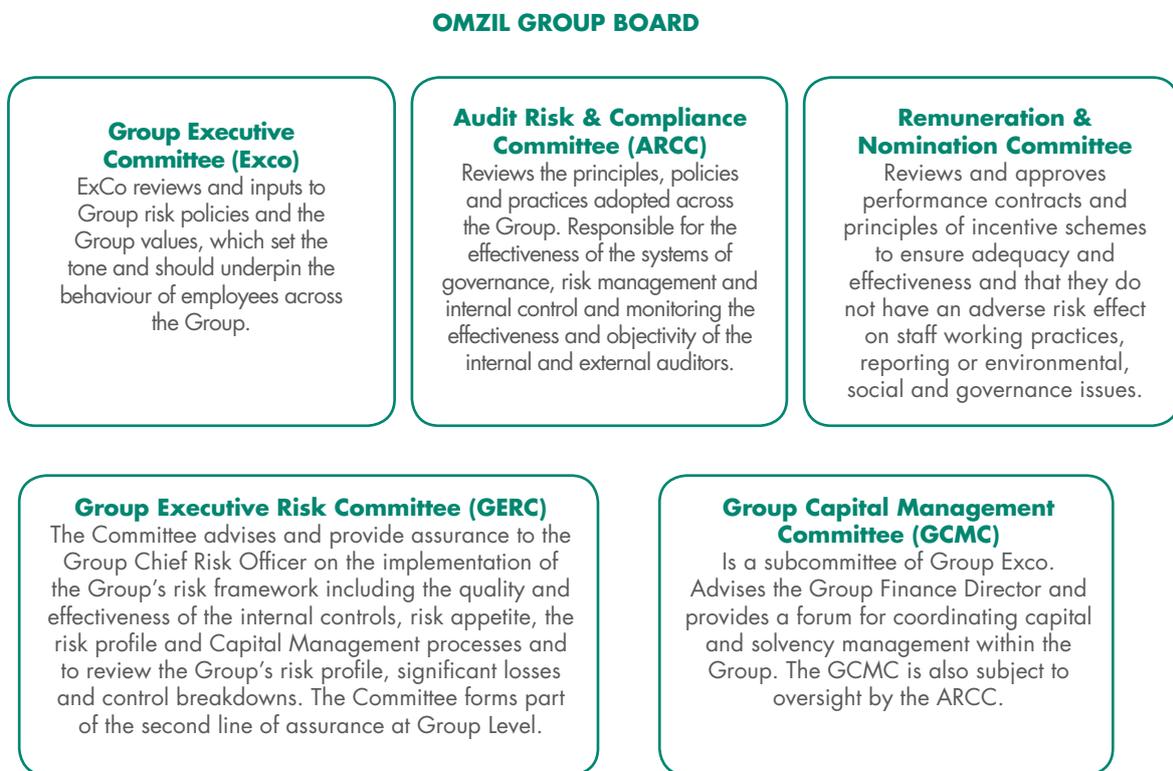


Figure 2: Risk Governance System

Enterprise Risk Management Framework (CONTINUED)

RISK TAXONOMY

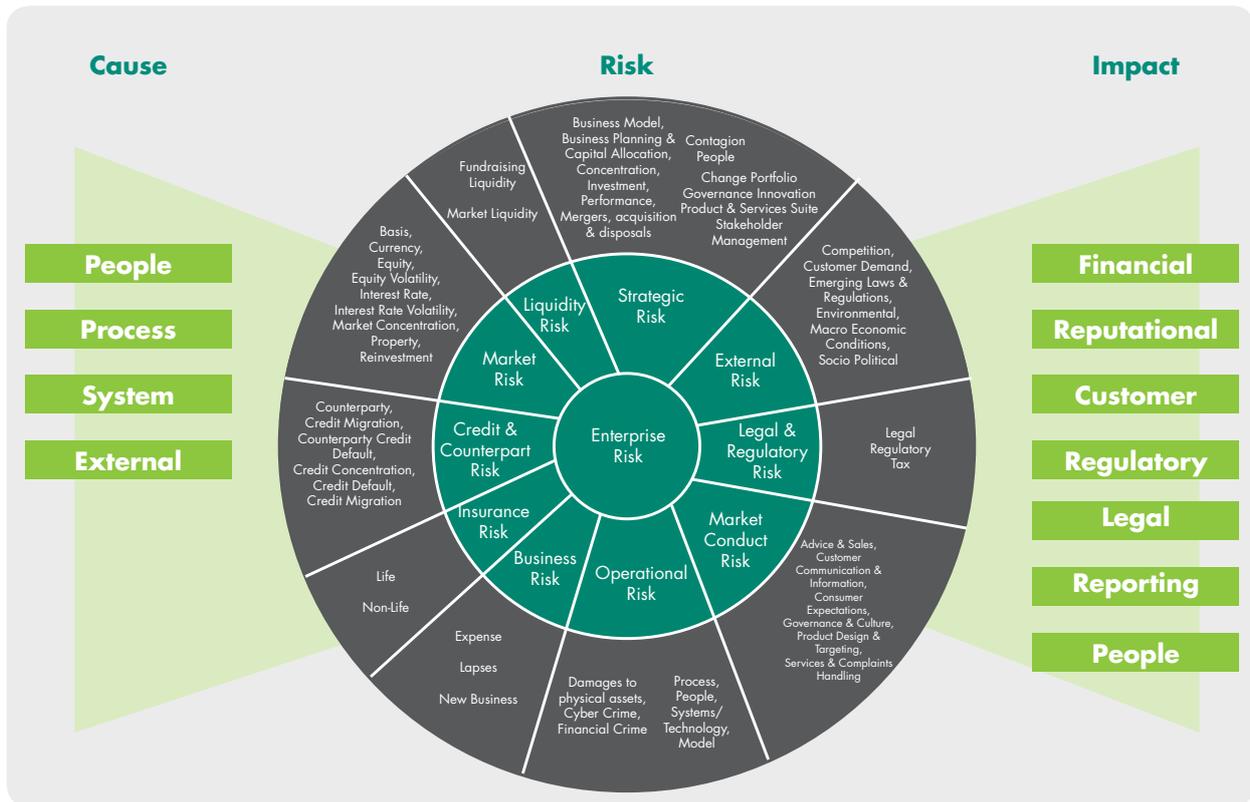
OMZIL has in place a consistent risk taxonomy (“common risk language”) to avoid problems such as duplication or omission of risks across all its Business Units. The risk taxonomy serves to increase the speed with which ERM becomes embedded in OMZIL, and is particularly important for a diversified financial services company like OMZIL, where the use of different terminology in different domains can confound the ERM process.

This makes aggregation of risks possible and gives a complete group-wide view of the risk profile. Attributes and

practices included in OMZIL’s risk taxonomy include:

- A universally understood top-down risk rating system e.g., a set of both financial and non-financial parameters that define high, medium and low risks.
- Reporting and escalation thresholds i.e. guidance and/or rules governing what risk issues need to be reported to who, and when.
- Standard templates for use across the Group.
- Common risk categories – a risk classification model covering various risk levels is in place and is shown below:

RISK CLASSIFICATION MODEL



RISK STRATEGY AND APPETITE

Risk Strategy

An important aspect of being our customers’ most trusted financial partner and of delivering on our brand promise is to be a certain friend in uncertain times. This provides the foundation for our approach to risk management: we want to ensure that we will be around to provide the benefits that our customers trust us to provide, especially in adverse financial conditions. Our reputation and success

as a business is based upon being financially strong and on treating our customers fairly.

The OMZIL risk strategy is an integral part of the OMZIL business strategy. It expresses our overall philosophy towards risk taking that we regard as necessary to achieve our vision, and reflects the risk elements of our business strategy.

Enterprise Risk Management Framework (CONTINUED)

The Old Mutual Zimbabwe business strategy mainly involves defending our dominant position in the market whilst simultaneously exploiting pockets of growth. The successful implementation of this strategy will rely on balanced risk management that manages the trade-off between risk and returns. Our risk strategy is therefore based on a prudent approach towards risk management and capital management where established businesses are concerned, but a greater degree of risk may be necessary in those markets where we want to grow.

From a shareholder perspective, our risk strategy is influenced by our growth aspirations. We recognise and accept that in order to grow, we need to be willing to take on and accept higher risks in those markets/sectors where we aim to grow. We recognise that if we take an excessively cautious approach, this will limit our growth opportunities. We are therefore willing and able to take greater risks where this is necessary for growth, while still maintaining appropriate controls and capital levels. Capital and balance sheet management will play an important role in this risk strategy as we take a risk based approach in determining optimal capital levels.

We also recognise that in order to provide protection for our customers, and to provide them with good value for money, we need to accept certain risks on their behalf. We are therefore willing to accept certain risks, and there are some risk types for which we have a strong appetite. We will ensure that the risks we take are not so great or so concentrated that they could threaten the financial security of the Old Mutual group in uncertain times.

We seek to take on those risks where the expected return more than compensates us for the risk taken, and we want to avoid those risks where the expected return is too low. In the main, we seek not to sell new business at a loss or where the long-term expected return is less than our cost of capital. We however, recognise that in some cases, such as instances where we are establishing market presence and scale, we may initially need to sell loss-making businesses. These instances will be exceptional rather than the norm.

In the financial services business, it is very important for customers and regulators to trust us, but trust takes time to be earned and can be undermined very quickly by poor

decisions or actions. A key part of our strategy is therefore based on treating customers fairly and integrity continues to be one of our core values. We believe that these are essential for sustainable long-term growth.

In order to provide our customers with value for money, we will charge them a reasonable (not excessive) price for the risks that we underwrite and the services that we provide, whilst recognising the importance of earning competitive investment returns. When selling new business, we will only sell products that meet our customers' needs and which they can afford, which then has a better chance of being retained on our books. Strong sales growth (with good persistency) will be the result of successfully meeting customers' needs, rather than sales growth being an end in itself.

Good internal controls to manage operational risks also contribute to building trust by ensuring good customer service, clear communication, preventing fraud and taking quick action to fix mistakes.

We believe in the value of diversification (of risk types, products, target markets and distribution channels) to avoid excessive risk concentration, so that we do not depend excessively on success in one particular area, which would compromise the sustainability of our business.

Risk Preferences

Qualitative statements of risk appetite are in place for the Group and are approved by the OMZIL board. The Group is in the process of refining its suite of early warning thresholds and key risk indicators to ensure quantitative elements of risk appetite can be objectively and appropriately measured. Risk preferences for the Group are broadly as follows:

- Insurance (life & non-life) and credit risks - We readily accept and would like to strongly grow our exposure to these risks as managing them is a core competency or is central to our business strategy. We would like to sell and retain as much of this business as possible, subject to such products meeting customer needs and affordability considerations.
- Market & Liquidity risks - The Group is willing to accept these risks in certain circumstances, up to specified risk limits, in exchange for appropriate expected returns.

Enterprise Risk Management Framework (CONTINUED)

- Operational risk should be minimised and mitigated, taking into account the cost versus the benefit of doing so.
- Reputational and compliance risks - The Company has a limited or zero appetite for these risks, and where they arise, extra measures will be taken to mitigate them.

RISK and CONTROL CULTURE

A proactive risk and control culture is essential to support our reputation and operation as a responsible business. Culture and values are aligned across the Group and embedded through our Code of Conduct and ACT NOW! Leadership Behaviours. Our risk culture is not separate from but is part of our corporate culture and conduct. Individual behaviours and judgements support a strong risk governance framework.

We measure our risk and control culture by considering our governance and tone from the top, understanding of risk, attitude to risk, control functions, quality of management information, and remuneration structures. Risk culture surveys are conducted across the Group and culture metrics limits set. A process is in place to identify actions to close gaps identified during surveys and improve the risk and control culture.

UNDERSTANDING OMZIL'S RISKS

Risk Identification and Assessment (RIA)

OMZIL has a clearly defined business strategy, making it possible to identify events that would hinder the business from achieving its objectives as well as opportunities that might assist the business in advancing towards or achieving its objectives. Business planning includes risk identification and assessment.

Current and emerging risks that could threaten the business model, strategy and sustainability are identified and assessed through a top-down RIA process. In addition, risks identified through the business unit (BU) strategic planning processes provide a bottom-up view.

Other regular risk identification exercises are conducted at a project, process or product level. These may be based on

the BUs' approved strategic objectives or part of the Risk and Control Self-Assessment process for the departments.

Risks identified and assessed within the BUs are aggregated and ranked at group level to ensure that the full risk profile picture is clear at Group level.

Risk Mitigation and Control

Various mitigating actions are employed to keep risks within risk appetite. These include internal and financial controls, stakeholder management and diversification of assets among others. Risks are considered both gross and net of controls. The second line of defence provides oversight over controls instituted and the third line of defence provides independent assurance.

Risk Monitoring and Reporting

Key risks are monitored and reported to governance committees and the Board. The reporting includes risk ratings, risk trend and direction as well as effectiveness of controls in place.

Stress Testing and Scenario Analysis

Stress testing activities are conducted for key risks across the Group among them solvency risk, credit risk, market risk and liquidity risk. Stress scenarios are considered taking into account plausible future developments in the operating environment.

OVERVIEW OF KEY RISKS

OMZIL's principal risks have been determined by assessing the possible effects on its reputation, its stakeholders, its earnings, capital and liquidity, and the future sustainability of its business. The risk landscape is changing rapidly, particularly in the context of the persistently volatile, uncertain, complex and ambiguous global and local macro-economic environment. OMZIL's business is also affected by a number of risks inherent to the products it offers and the industry it operates in, such as exposure to market levels, interest rates and insurance liability risk. The risks are closely monitored and overseen by the OMZIL Group management and reported to the Board on a regular basis. Further detail on each of the key risks is provided below:

Enterprise Risk Management Framework (CONTINUED)

Risk	Description	Mitigating actions
<p>Liquidity Risk This is the risk that available liquid assets will be insufficient to meet changing market and business conditions, liabilities, funding of asset purchases or an increase in client demands for cash</p>	<p>Ultimate responsibility for managing liquidity risk rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the OMZIL Group’s short-, medium- and long-term funding and liquidity requirements. The OMZIL Group manages liquidity by maintaining adequate reserves and banking facilities, continuously monitoring forecasted and actual cash flows, and matching the maturity profiles of financial assets and liabilities.</p> <p>In 2017, whilst there was a decrease in cash and nostro balances when compared to 2016, the bank’s liquid asset ratio remained above the regulatory and internal minimum requirements.</p>	<p>The following are some of the actions to manage liquidity risk within the group:</p> <ul style="list-style-type: none"> • Daily monitoring of liquidity positions. • Board approved liquidity & treasury policies • Monitoring of lending, maintaining a higher liquidity ratio and managing the liquidity mismatch in the 0-30 days’ time horizon. • Continued promotion and enhancing the use of electronic money. • Negotiations with the Central Bank for the supply of cash and nostro funding. • Onboarding exporters and cash rich retailers for deposits. • Continuing to explore other correspondent banking relationships in order to reduce dependence on one or a few counterparties.
<p>Market Risk This is the risk of a financial impact arising from changes in the value of financial assets or financial liabilities from changes in equity, bond and property prices, interest rates and foreign exchange rates.</p>	<p>Market risk arises from different sources across the Group businesses depending on the financial assets and liabilities held.</p> <p>There is a risk that claims settlement values will not be enough to restore the insured to the original position. There is also the risk of deterioration in policy values and this will make investments in life products not very attractive.</p> <p>Policyholder and Shareholder returns may be impacted by the volatility in investment markets.</p>	<p>The OMZIL Group has put in place a robust market risk management framework that includes a set of policies, principles and governance processes to monitor and manage market risk within the business and in accordance with local regulatory requirements. The framework sets the boundaries for risk taking within approved limits structure and early warning triggers that ensure management is informed promptly of potential issues.</p> <p>The following are some of the mitigating actions:</p> <ul style="list-style-type: none"> • Alternative investments in unlisted equities to diversify risk • Oversight and Monitoring of Investments Performance by the Investments Committee • Appointed Actuary Involvement in Setting up Investment Mandates for Policyholder funds. • Board approved Investment Policy and Market Risk policies. • Monitoring Investments Performance against the Market & Peers. • Client engagement to manage policyholder expectations.

Enterprise Risk Management Framework (CONTINUED)

Risk	Description	Mitigating actions
<p>Operational Risk-Cyber crime This is the risk of financial loss, loss of information, disruption of service or damage to the reputation of an organisation or individual from some sort of failure of technology.</p>	<p>There is potential loss of sensitive data, system disruptions, financial loss or litigation due to cyber incidents. Ransomware, a malware that infects the target host by encrypting all data thereby holding the victim hostage and demanding payment of a ransom for the data to be released, has become a common attack among phishing and other types of cyber fraud. OMZIL, conducts simulated phishing exercises to test phishing susceptibility. Cyber security e-learning was launched to ensure the Group is vigilant and more cyber-aware.</p>	<p>The following are some of the mitigating actions:</p> <ul style="list-style-type: none"> • Disaster recovery Planning (to counter loss of data) • Awareness Campaign Activities • Information Communication Technology Policies e.g Password Policy • Deployment of Security Information Event Management (SIEM) Capabilities (Mail Filtering Software, Antivirus and Firewall) • Cybersecurity Induction • Cyber Security Incident Response Team in place.
<p>Strategic Risk This is the risk that strategic decisions made may adversely affect future earnings and the sustainability of the business.</p>	<p>In pursuing OMZIL strategic objectives (defend dominant position, exploit opportunities for growth and ensure business is future fit), there is a risk of discretionary decisions being made that may adversely affect future earnings and sustainability of the business. Decisions relating to product choices (discontinuing or modification of existing products or introducing new ones), distribution channels (terminating existing channels or introducing new channels) and ICT investments (investing in IT solutions that do not meet business requirements) may be detrimental to the business.</p>	<p>The following are some of the mitigating actions:</p> <ul style="list-style-type: none"> • Consideration of customer requirements for new initiatives. • Alignment of ICT Projects to Business Objectives. • Enhanced due diligence of all strategic partners. • Application of the Treating Customers Fairly (TCF) Principle within OMZIL.
<p>Operational Risk This is the risk arising from operational activities, such as failure of a major system, or losses incurred as a consequence of people and / or process failures, including failure to recover business processes from the impact of external events.</p>	<p>Within the Group, practices to minimize and mitigate operational risk are embedded across all business units, taking into account the cost versus the benefit of doing so. ICT systems related risks, system implementation projects overrun/failures, data integrity issues, fraud and inadequate document management system leading to failure to retrieve data timely. The business is closely monitoring these risks to ensure that the going concern of the business is not compromised.</p>	<p>The following are some of the mitigating actions:</p> <ul style="list-style-type: none"> • Projects to drive data sanitisation. • Group wide Internal Process Reviews project. • Financial Crime Prevention Workshops and Investigation of suspected fraudulent transactions (both internal & external) • Establishment of Project Management Office for disciplined project delivery and project monitoring and oversight by Project Steering Committee • Refurbish and upgrade current systems and infrastructure. • Independent and continuous assessment of operations by the Group Internal Audit and Group Forensic Services departments.

Enterprise Risk Management Framework (CONTINUED)

Risk	Description	Mitigating actions
<p>Credit and Counterparty Risk This risk is defined as the risk that one party to a financial transaction will cause a financial loss to the OMZIL Group by failing to discharge an obligation through cash or equivalent or delivering another financial asset.</p>	<p>Credit risk arises from a number of activities of the Group, such as lending, trading and investments.</p> <p>There is risk of loss from non-performing loans, concentration to a few counterparties and rental arrears from group and managed properties. At CABS, the level of non-performing loans ratio in 2017 has been gradually improving when compared to 2016.</p> <p>The levels of rental arrears remained largely static throughout the year 2017.</p>	<p>The following are some of the mitigating actions:</p> <ul style="list-style-type: none"> • Credit Governance Structures with clear segregation of duties. • Strengthening Internal Credit Underwriting Standards (Selective lending), Robust tenant selection process and Minimum Credit ratings for Reinsurance Counterparties. • Litigation and engagement of debt collectors (for rental arrears). • Monitoring Counterparty Financial Position & exposures. • Lending and Counterparty Limits to manage credit risk concentration. • Credit Risk Monitoring & Loan Restructuring. • Security on loans and guarantees by employers.
<p>Compliance and Regulatory Risk This is the risk that laws, regulations and internal policies will be breached resulting in financial loss through leakages and penalties and reputational damage.</p>	<p>The Group activities are regulated by various regulators. This risk is managed by a Board approved Compliance Programme which also includes an anti-money laundering (AML) and counter-financing of terrorism (CFT) Plan & Strategy, internal policies and processes and maintaining an independent Compliance function for each business unit within the Group.</p> <p>Money Laundering and Terrorist Financing (Financial Crime) is also a key component of compliance risk that the Group is faced with as there are AML and CFT legislations and regulatory requirements that need to be complied with. The OMZIL Group recognises its accountability and responsibilities to all stakeholders under the legal, regulatory and supervisory requirements applicable to its businesses.</p> <p>Failure to comply with legislation and regulatory directives poses threats to the business. This results in regulatory sanctions, material financial loss, reputational loss, and restrictions on the OMZIL Group’s ability to operate.</p>	<p>The following are some of the mitigating actions:</p> <ul style="list-style-type: none"> • Continuous engagement with all stakeholders including regulators. • Independent Compliance functions across all OMZIL businesses. • Embedding Compliance requirements in business practices. • Conducting compliance training and awareness workshops. • Compliance Risk Management Plans outlining the regulatory universe, its impact and control measures. • Board approved Compliance Monitoring Plans to manage key compliance risks on a risk based approach. • Compliance risk self-assessments for all new and pending regulations. • Regular monitoring of Money Laundering risk through dashboards. The Group has automated AML processes for the banking ambit, and is in the process of automating AML processes for the non-banking businesses.
<p>Insurance Risk Arises from fluctuations in the timing, frequency and severity of insured events, relative to the expectation of OMZIL at the time of underwriting or pricing. This includes mortality, morbidity, property and casualty risks.</p>	<p>The group faces this risk in its life and general insurance business. There is the risk that higher than expected claim levels will reduce expected profits on affected products. This risk includes mortality and morbidity risk, as well as non-life risk from events such as fire and accidents.</p>	<p>The following are some of the mitigating actions:</p> <ul style="list-style-type: none"> • Experience monitoring and investigation • Product design and pricing reviews; • Robust underwriting practices; and • In some instances reinsurance

Enterprise Risk Management Framework (CONTINUED)

LOOKING INTO THE FUTURE

Although the economic outlook and overall business confidence improved towards the end of 2017, the risk profile for the Group will be dependent on the post-elections operating environment. A number of projects being pursued are expected to further improve the risk management environment.

In 2018 the Group will be working on embedding a Combined Assurance Framework which is expected to improve collaboration and coordination of assurance activities amongst the three assurance providers:- management, oversight (risk & compliance) and internal audit.

Independent Auditor's Report

To the Shareholders of Old Mutual Zimbabwe Limited

Opinion

We have audited the consolidated and separate financial statements of Old Mutual Zimbabwe Limited (the group and company) set out on pages 30 to 108, which comprise the statements of financial position as at 31 December 2017, and the statements of profit or loss, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Old Mutual Zimbabwe Limited as at 31 December 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act (Chapter 24:03) of Zimbabwe.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the group and company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA code) together with the ethical requirements that are relevant to our audit of the financial statements in Zimbabwe, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current year. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report (CONTINUED)

Valuation of investment property (applicable to the consolidated and separate financial statements)

Refer to the summary of significant accounting policies in Note 2.9, and to Notes 18 and 43 to the financial statements.

The key audit matter	How we addressed the matter in our audit
<p>The group and company hold investment properties, carried at fair value in the consolidated and separate financial statements.</p> <p>The key inputs and assumptions used in the valuations, such as, rental rates per square meter and yield rates are determined in an environment where there is limited market activity due to illiquidity in the market.</p> <p>Given the significant judgement and estimation required in determining the key inputs and assumptions, the valuation of the group's and company's investment properties was considered a key audit matter.</p>	<p>Our procedures included, among others:</p> <ul style="list-style-type: none"> • We evaluated the independence, professional competence and objectivity of the internal professional valuers ("internal valuers") and the external independent valuers ("external valuers") engaged by the directors to value the properties; • We evaluated the appropriateness of the valuation methodologies used by the valuers based on our knowledge of the industry and the requirements of the applicable financial reporting standard; • We compared the key assumptions and key inputs used by the internal and external valuers to externally derived data; • For the portfolio of properties valued by external valuers, we compared these values to the values determined by the internal valuers and where material differences were identified we evaluated the directors rational in respect of the final value adopted; and • We evaluated whether the disclosures for the valuation of investment properties in the financial statements, meets the requirements of the relevant financial reporting standards.

Independent Auditor’s Report (CONTINUED)

Valuation and classification of unlisted investments (applicable to the consolidated and separate financial statements)

Refer to the summary of significant accounting policies in Note 2.3, and to Notes 21 and 46.1 to the financial statements.

The key audit matter	How we addressed the matter in our audit
<p>The group and company hold unlisted investments, which are carried at fair value through profit and loss and are classified as Level 3 in the fair value hierarchy as the valuation techniques used by the directors employ significant unobservable inputs which require significant judgement and estimation.</p> <p>The classification of unlisted investments in which the group’s and company’s investment holding exceeds 20% involves significant judgement in determining whether the group and company exerts significant influence over those investments, and therefore, whether the investments should be classified as investments in associates in accordance with the international financial reporting standard, IAS 28 Investments in Associates and Joint Ventures (IAS 28).</p> <p>Given the significant judgement and estimation applied by the directors, the valuation and classification of unlisted investments was considered a key audit matter.</p>	<p>Our procedures in respect of the valuation included, among others:</p> <p>We used our internal valuation experts as part of our audit team to test the inputs and assumptions used for significant unlisted entities by:</p> <ul style="list-style-type: none"> • evaluating and challenging the appropriateness of the methodologies applied, assumptions and inputs used in the valuation by establishing their own range of the key assumptions and inputs, based on externally available metrics and wider economic and commercial factors and using their knowledge and industry experience; • evaluating the reasonableness of the directors’ inputs by comparing the inputs to historical trends. <p>Our procedures in respect of the classification included, among others:</p> <ul style="list-style-type: none"> • evaluating the directors’ assessment of whether the group and company exert significant influence over investees in which the group’s and company’s shareholding exceeds 20%, against the criteria in IAS 28; and • evaluating whether unlisted investments are presented in accordance with the relevant financial reporting standard in the financial statements.

Independent Auditor's Report (CONTINUED)

Insurance contract liabilities (applicable to the consolidated financial statements)

Refer to the summary of significant accounting policies in Note 2.6 and to Notes 26, and 42 to the financial statements.

The key audit matter	How we addressed the matter in our audit
<p>The group has recognised significant liabilities relating to long term insurance contracts at year end valued at US\$1 355 808 986.</p> <p>We considered insurance contract liabilities to be a key audit matter in respect of the consolidated financial statements because significant estimation and judgement is required over key valuation assumptions such as valuation interest rates, expense inflation and mortality basis used in determining the valuation of the insurance contract liabilities.</p> <p>The Zimbabwean Government concluded its inquiry into the loss in value for certain policyholders and beneficiaries upon the conversion of pension and insurance benefits after the dollarization of the economy in 2009. On 09 March 2018 the results of the Zimbabwean Government's inquiry were made public.</p>	<p>Our procedures included, among others:</p> <ul style="list-style-type: none"> • we tested the design, implementation and operating effectiveness of key controls over the identification, measurement and recording of the group's and company's calculation of insurance contract liabilities; • we evaluated the appropriateness of the methodology applied and assumptions used by the group and company using our knowledge and industry experience; • we engaged our internal actuarial specialist as part of our audit team to assist us in challenging the assumptions used and the process followed for setting and updating the assumptions, particularly around persistency, expense and mortality/morbidity assumptions; • we challenged the assumptions used by the directors by comparing the assumptions to external data; and • We enquired of management of their view of the commission of inquiry report and their consideration of the its possible implications; and • we evaluated the disclosures in the financial statements met the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Independent Auditor’s Report (CONTINUED)

Impairment of loans and advances (applicable to the consolidated financial statements)

Refer to the summary of significant accounting policies in Notes 2.13 and 2.14 and to Notes 23 and the “credit risk” section of Note 41 to the financial statements.

The key audit matter	How we addressed the matter in our audit
<p>The Group’s retail loans, mortgage loans and corporate loans, which amount to US\$669 180 201, are subject to high credit risk in the current economic environment prevailing in the country.</p> <p>The Directors exercise significant judgement over the following assumptions:</p> <ul style="list-style-type: none"> • the timing of cash flows and discount rate applied; and • classification of loan grades for the purpose of Regulatory provisions. <p>Due to the high credit risk, the significance of loans and advances to the financial statements, and the significant judgements exercised by the Directors, this was considered to be a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • performed a retrospective review of the adequacy of the provision for impairment losses, by comparing written off debtors to provision created in the prior year; • tested the design, implementation and operating effectiveness of key controls over loan origination, credit grading, and monitoring of loans and advances; • tested the accuracy of estimated inputs by comparing the estimates with externally derived information; • evaluated the reasonableness the timing of the cash flows used in the cash flow forecast; • tested the accuracy of the discounting rates used to discount the forecasted recoverable cash flows by agreeing it to the signed loan documentation; and • inspected selected loans and advances to determine whether the minimum regulatory impairment provisions and classification of loans into various credit quality grades are as prescribed by the Reserve Bank of Zimbabwe.

Independent Auditor's Report (CONTINUED)

Valuation of treasury bills (applicable to the consolidated financial statements)

Refer to the summary of significant accounting policies in Note 2.3, and to Note 21.5 to the financial statements.

The key audit matter	How we addressed the matter in our audit
<p>The Group holds treasury bills (TBs) of US\$195 359 411 and these are classified and measured at fair value through profit or loss.</p> <p>In determination of the fair value, management derives a yield curve based on the known trading statistics in both the primary and secondary market which requires significant judgement.</p> <p>Accordingly, these instruments are measured as level 2 in fair value hierarchy.</p> <p>Due to the significant judgement, the valuation of the treasury bills was considered a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • we evaluated the appropriateness of Directors' classification of treasury bills in accordance with the relevant accounting standard; • we tested the design, implementation and operating effectiveness of key controls over the capturing of the key inputs of fair value calculation of TBs; and • we used our financial risk management specialists to evaluate the methodology applied by Directors, and developed an independent yield curve that we used to discount future cash flows arising from the treasury bills, and compared our results with the fair value calculation.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and in a manner required by the Companies Act (Chapter 24:03) of Zimbabwe, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

Independent Auditor's Report (CONTINUED)

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and / or company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



KPMG Zimbabwe
Registered Accountants and Auditors
Chartered Accountants (Zimbabwe)

Per: Michael de Beer
Partner
Registered Auditor
PAAB Practising Certificate Number 0369

22 March 2018

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

Group Statement Of Profit Or Loss

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Group US\$	2016 Group US\$
Revenue			
Gross earned premiums	4	194 762 961	185 331 898
Outward reinsurance		(10 062 972)	(10 820 108)
Net earned premiums		184 699 989	174 511 790
Investment income (non banking)	5	640 946 266	116 899 502
Banking interest and similar income	6	91 364 015	93 339 766
Fee income, commissions and income from service contracts	7	71 685 808	58 734 149
Other income	8	3 273 940	1 566 461
Total revenue		991 970 018	445 051 668
Expenses			
Claims and benefits (including change in insurance contract provisions)	9	(563 021 342)	(219 229 113)
Reinsurance recoveries		3 664 575	3 420 387
Net claims incurred		(559 356 767)	(215 808 726)
Change in provision for investment contract liabilities	10	(51 809 502)	(6 682 553)
Fees, commissions and other acquisition costs		(21 163 318)	(7 313 092)
Banking interest payable and similar expenses	6	(20 239 362)	(22 955 977)
Impairment charges		(2 701 279)	(3 531 106)
Other operating and administration expenses	11	(93 823 387)	(89 355 607)
Profit before tax		242 876 403	99 404 607
Income tax expense	12	(23 614 160)	(7 571 867)
Profit for the year		219 262 243	91 832 740
Attributable to non-controlling interests		7 695 743	3 155 851
Attributable to owners of parent company		211 566 500	88 676 890
		219 262 243	91 832 741

Group Statement Of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 Group US\$	2016 Group US\$
Profit for the year		219 262 243	91 832 741
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Property revaluation		1 045 173	(1 120 337)
Shadow accounting	10.1	(724 662)	(700 327)
Regulatory impairment allowance		(1 440 001)	(5 984 345)
Total comprehensive income for the year		218 142 753	84 027 732
Total comprehensive income attributable to:			
Owners of parent company		210 447 010	80 871 881
Non-controlling interests		7 695 743	3 155 851
		218 142 753	84 027 732
Earnings per share			
Basic and diluted (US cents)	13.1	63.72	26.71

Company Statement Of Profit Or Loss And Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Company US\$	2016 Company US\$
Revenue			
Investment income	14	119 982 813	34 964 628
Other income	15	719 454	43 660
Total revenue		120 702 267	35 008 288
Expenses			
Other operating and administration expenses	16	(8 372 415)	(4 595 175)
Profit before tax		112 329 852	30 413 113
Income tax (expense)/credit	17	(8 796 540)	(3 602 828)
Profit/(loss) and total comprehensive income for the year		103 533 312	26 810 285

Group Statement Of Financial Position

AS AT 31 DECEMBER 2017

	Notes	2017 Group US\$	2016 Group US\$
Assets			
Investment property	18	405 171 878	392 554 780
Property and equipment	19	96 322 048	92 466 009
Deferred acquisition costs		741 681	893 405
Reinsurer contracts	20	3 278 568	1 949 657
Investments and securities	21	1 610 459 137	801 700 043
Deferred tax assets	30	932 245	1 030 934
Current tax assets		737 798	-
Loans and advances	23	669 180 202	583 252 405
Other assets	24	145 628 854	128 839 053
Cash and cash equivalents	25	190 251 626	154 825 305
Total assets		3 122 704 037	2 157 511 591
Liabilities			
Insurance contract liabilities	26	1 355 608 987	900 788 677
Investment contract liabilities	27	120 815 870	76 330 845
Provisions	29	14 303 061	15 002 534
Deferred tax liabilities	30	42 089 309	30 298 182
Current tax payables		557 924	452 664
Amounts due to group companies	22	68 647 703	57 347 829
Amounts owed to bank depositors	31	838 026 610	617 561 524
Credit lines	32	23 317 769	28 654 056
Other liabilities	33	79 148 600	52 127 147
Total liabilities		2 542 515 833	1 778 563 458
Net assets		580 188 204	378 948 133
Shareholders' equity			
Share capital and premium	54	1 065	1 065
Non-distributable reserve		52 457 048	52 457 048
Revaluation reserve		18 776 760	18 456 249
Share option reserve		32 480 501	32 037 134
Regulatory provisions reserve		17 957 094	16 517 093
Retained earnings		439 983 423	247 192 464
		561 655 891	366 661 053
Non-controlling interests		18 532 313	12 287 080
Total equity		580 188 204	378 948 133

Company Statement Of Financial Position

AS AT 31 DECEMBER 2017

	Notes	2017 Company US\$	2016 Company US\$
Assets			
Investment property	43	530 000	480 000
Investments in subsidiary companies	44	80 874 529	79 301 169
Property and equipment	45	133 336	217 317
Investments and securities	46.1	176 717 409	78 995 256
Amounts due by group companies	47	28 041 597	26 564 293
Current tax receivable		298 416	-
Other receivables	48	178 354	917 603
Cash and cash equivalents	49	3 316 468	5 106 337
Total assets		290 090 109	191 581 975
Liabilities			
Provisions	51	305 114	261 389
Deferred tax liability	52	2 037 569	1 141 628
Current tax payable		-	13 912
Amounts due to group companies	47	51 864 010	42 422 224
Other liabilities	53	41 020 844	38 489 003
Total liabilities		95 227 537	82 328 156
Net assets		194 862 572	109 253 819
Shareholders' equity			
Share capital and premium	54	1 065	1 065
Non-distributable reserve		19 953 027	19 953 027
Share option reserve		64 244 338	63 308 611
Retained income		110 664 142	25 991 116
Total equity		194 862 572	109 253 819

Group Statement Of Changes In Equity

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital & premium US\$	Share distributable reserve US\$	Non-revaluation reserve US\$	Share option reserve US\$	Regulatory provisions reserve US\$	Retained income US\$	Equity total US\$	Non-controlling interests US\$	Equity total US\$
2017									
Shareholders' equity at beginning of year	1 065	52 457 048	18 456 249	32 037 134	16 517 093	247 192 464	366 661 053	12 287 080	378 948 133
Profit for the financial year						211 566 500	211 566 500	7,695,743	219 262 243
Other comprehensive income									
Shadow accounting (note 10.1)			(724 662)				(724 662)		(724 662)
Revaluation of property			1 045 173				1 045 173		1 045 173
Transfer to reserve					1 440 001	(1 440 001)	-		-
Total Comprehensive income for the year	-	-	320 511	-	1 440 001	210 126 499	211 887 011	7 695 743	219 582 754
Vested Shares				935 727			935 727		935 727
Movement in treasury shares				(492 360)			(492 360)		(492 360)
Dividends declared						(17 335 540)	(17 335 540)	(1 450 510)	(18 786 050)
Transactions with shareholders				443 367		(17 335 540)	(16 892 173)	(1 450 510)	(18 342 683)
Shareholders' equity at end of year	1 065	52 457 048	18 776 760	32 480 501	17 957 094	439 983 423	561 655 891	18 532 313	580 188 204
2016									
Shareholders' equity at beginning of year	1 065	52 457 048	20 276 913	45 121 581	10 532 748	179 231 048	307 620 403	10 514 195	318 134 598
Profit for the financial year						88 676 890	88 676 890	3 155 851	91 832 741
Other comprehensive income									
Shadow accounting (note 10.1)			(700 327)				(700 327)		(700 327)
Revaluation of property			(1 120 337)				(1 120 337)		(1 120 337)
Transfer to reserve					5 984 345	(5 984 345)	-		-
Total Comprehensive income for the year	-	-	(1 820 664)	-	5 984 345	82 692 545	86 856 226	3 155 851	90 012 077
Vested shares				1 653 642			1 653 642		1 653 642
Movement in treasury shares				(14 738 089)			(14 738 089)		(14 738 089)
Dividends declared						(14 731 129)	(14 731 129)	(1 382 966)	(16 114 095)
Transactions with shareholders				(13 084 447)		(14 731 129)	(27 815 576)	(1 382 966)	(29 198 542)
Shareholders' equity at end of year	1 065	52 457 048	18 456 249	32 037 134	16 517 093	247 192 464	366 661 053	12 287 080	378 948 133

Company Statement Of Changes In Equity

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital & premium US\$	Non- distributable reserve US\$	Share option reserve US\$	Retained income US\$	Equity total US\$
2017					
Shareholders' equity at beginning of year	1 065	19 953 027	63 308 611	25 991 116	109 253 819
Changes in equity arising in the year					
Total comprehensive income				103 533 312	103 533 312
Vested shares			935 727		935 727
Dividends				(18 860 286)	(18 860 286)
Shareholders' equity at end of year	1 065	19 953 027	64 244 338	110 664 142	194 862 572
2016					
Shareholders' equity at beginning of year	1 065	19 953 027	56 099 929	15 638 239	91 692 260
Changes in equity arising in the year					
Total comprehensive income				26 810 285	26 810 285
Indigenisation transaction			7 208 682		7 208 682
Dividends declared				(16 457 408)	(16 457 408)
Shareholders' equity at end of year	1 065	19 953 027	63 308 611	25 991 116	109 253 819

Group Statement Of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Group US\$	2016 Group US\$
Cash flows from operating activities			
Profit before tax		242 876 403	99 404 608
Non-cash movements and adjustments to profit before tax	58.1	(69 313 356)	33 116 013
Changes in working capital	58.2	149 555 341	(30 629 434)
Taxation paid	58.3	(12 356 883)	(9 275 187)
Net cash from operating activities		310 761 505	92 616 000
Cash flows from investing activities			
Acquisition of financial assets		(235 771 224)	(36 054 591)
Acquisition of investment properties		(6 932 337)	(4 585 996)
Acquisition of property and equipment		(13 664 672)	(10 881 926)
Net cash used in investing activities		(256 368 233)	(51 522 513)
Cash flows from financing activities			
Dividends paid	58.4	(18 786 050)	(16 114 095)
Net cash used in financing activities		(18 786 050)	(16 114 095)
Net increase in cash and cash equivalents		35 607 222	24 979 392
Net foreign exchange differences on cash and cash equivalents		(180 901)	(134 289)
Cash and cash equivalents at the beginning of the year		154 825 305	129 980 202
Cash and cash equivalents at the end of the year		190 251 626	154 825 305

Company Statement Of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Company US\$	2016 Company US\$
Cash flows from operating activities			
Profit before tax		112 329 852	30 413 113
Non-cash movements and adjustments to profit before tax	59.1	(68 166 389)	(10 785 417)
Changes in working capital	59.2	11 235 570	2 109 275
Taxation paid	59.3	(8 212 928)	(3 889 572)
Net cash from operating activities		47 186 105	17 847 399
Cash flows from investing activities			
Acquisition of financial assets		(29 302 964)	2 712 898
Proceeds from disposal of property and equipment		-	1 250
Increase in investments in subsidiaries		(800 000)	(700 000)
Acquisition of property and equipment		(12 724)	(72 716)
Net cash (used in)/generated from investing activities		(30 115 688)	1 941 432
Cashflows from financing activities			
Dividends paid	59.4	(18 860 286)	(16 457 408)
Net (decrease)/increase in cash used in financing activities		(18 860 286)	(16 457 408)
Net increase/(decrease) in cash and cash equivalents		(1 789 869)	3 331 423
Cash and cash equivalents at the beginning of the year		5 106 337	1 774 914
Cash and cash equivalents at the end of the year		3 316 468	5 106 337

Notes to the annual financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

1. General Information

Old Mutual Zimbabwe Limited (OMZIL) and its subsidiaries are incorporated in Zimbabwe. These consolidated financial statements comprise the Group and its Subsidiaries (collectively the 'Group' and individually 'Group companies'). The Group's Subsidiaries and main activities are as follows:

- Central Africa Building Society (banking);
- Old Mutual Life Assurance Company Zimbabwe Limited (life assurance, pension and employee benefits services);
- Old Mutual Investment Group Zimbabwe (Private) Limited (asset management);
- Old Mutual Property Zimbabwe (Private) Limited (property management company);
- CABS Custodial Services (Private) Limited (back-office and custody services in respect of scrip and certain documents of title);
- Old Mutual Securities (Private) Limited (licensed securities dealing firm);
- RM Insurance Holdings Company Limited, with an operating subsidiary, Old Mutual Insurance Company (Private) Limited (short term insurer);
- Old Mutual Finance (Private) Limited (credit only micro-finance company);
- Old Mutual Shared Services (Private) Limited (professional services).

The holding company (OMZIL) is a 75% owned subsidiary of OM Zimbabwe Holdco limited which is ultimately a wholly owned subsidiary of Old Mutual plc.

2. Accounting Policies

2.1 Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) and in accordance with the requirements of the Insurance Act (Chapter 24:07); the Pension and Provident Funds Act (Chapter 24:09); the Building Societies Act (Chapter 24:02); the Asset Management Act (Chapter 24:26); the Securities Act (Chapter 24:25); the Collective Investment Schemes Act (Chapter 24:19) and the Zimbabwe Companies Act (Chapter 24:03). IFRSs comprise standards adopted by the International Accounting Standards Board (IASB) and interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretations Committee (SIC).

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the Group). The Parent Company financial statements present information about the Company as a separate entity and not about the Group.

2.2 Basis of preparation

The financial statements provide information about the financial position, results of operations and changes in the financial position of the Group. They are based on the statutory records that are maintained under the historical cost convention with the exception of investments and securities, investment properties and owner occupied properties which are included at valuation as described in note 2.9, 2.10 and 2.13 below; insurance contract provisions and provisions for investment contracts with discretionary participating features which are calculated on a Financial Soundness Valuation Basis as per note 2.6 below. The accounting policies have been consistently applied to all periods presented.

The Group's functional and presentation currency is the United States Dollar (US\$). The Group's presentation currency is the United States Dollar (US\$) and all amounts have been rounded to US\$. Please refer to the use of estimates and judgements paragraph below which details the considerations made in determining the Group's functional currency (refer note 2.3). The Group financial statements have been prepared on the going concern basis which the directors believe to be appropriate having taken into consideration the points set out in the Director's report.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2.3 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Critical accounting estimates are those which involve the most complex or subjective judgement or assessments. The areas of the Group's business that typically require such estimates are life insurance contract provisions, determination of the fair value for financial assets and liabilities, investment properties and provisions. Insurance contract accounting and key assumptions made in determining insurance contract provisions are discussed in more detail in note 2.6.

Functional currency

There was new legislation promulgated in the form of Statutory Instruments 133 of 2016 and 122a of 2017 which prescribed bond notes and coins issued by the Reserve Bank of Zimbabwe as legal tender with a 1:1 parity with the USD. The acute shortage of USD cash and other foreign currencies in the country has seen increases in the utilisation of different modes of payment for goods and services such as settlement via the Real time Gross Settlement (RTGS) system overseen by the Reserve Bank of Zimbabwe (RBZ), Point of sale machines (POS) and mobile money platforms. In addition:

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

As a result of these and other factors, management had to make an assessment of whether the use of the United States dollar as the Company's functional currency was still appropriate. In doing this management considered the following factors:

- The currency that mainly influences sales prices for goods and services;
- The currency of the competitive forces and regulations that mainly determine the sales prices of goods and services;
- The currency of reference used by the country's fiscal authorities in delivering the National Budget and maintaining the national accounts;
- the currency that mainly influences labour, material and other costs of providing goods or services;
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained

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

The directors are therefore of the view, that the USD is still the Company's functional currency.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Financial assets and liabilities

The fair values of investment properties, financial assets and liabilities are classified and accounted for in accordance with the policies set out in section 2.9 and 2.13 below. They are valued on the basis of listed market prices in so far as this is possible. If prices are not readily determinable, fair value is based either on internal valuation models or management estimates of amounts that could be realized under current market conditions.

The translation of the foreign currency denominated assets and liabilities to local currency is based on the year-end exchange rate and transactions at the average exchange rate for the reporting period.

Assets are subject to annual impairment reviews or whenever there is an indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is determined as the higher of fair value less costs to sell or value in use. Impairment losses are recorded in profit or loss in the period in which they occur.

The Group is required to make judgements on what constitutes an investment in associate. IAS 28 "Investments in Associates and Joint Ventures" defines an associate as an entity which the investor has significant influence. The standard states that if an entity holds 20%, directly or indirectly of the voting power of the investee, it is presumed that the entity has significant influence unless it can clearly be demonstrated that it is not the case. The Standard provides an exemption for venture capital organizations, mutual funds, unit trusts and similar entities including investment linked insurance funds to measure investments in those entities at fair value through profit or loss in accordance with IAS 39 "Financial instruments: Recognition and Measurement".

- The Group has investment linked insurance funds which include investments in which the Group has more than 20% disclosed on Note 18.4. These funds are backed by investment contracts with discretionary participating features and meet the following characteristics:
 - The policyholder has a clear understanding of the type of investments the Group invests in;
 - There is a link between the investments and what the policyholders are entitled to;
 - The valuation of the liability is based on the value of the assets; and
 - The assets backing these liabilities are ring-fenced.
- The Group has funds which operate like unit trusts and also include investments in which the Group has more than 20%. These funds back investment contracts accounted for in terms of IAS 39, at fair value.

Valuations of housing projects

Housing projects are valued at the lower of cost or net realisable value of the completed housing units. The significant judgement is the estimate of cost to completion used in determination of the net realisable value. Management makes use of external valuations performed by valuers for confirmation of the determined net realisable value.

Valuation of treasury bills

The valuation of treasury bills on initial recognition and the subsequent measurement thereof has been identified as a complex area due to the fact that there are varying views in the banking sector on the correct accounting treatment of these treasury bills and due to the absence of an active market with sufficient trades to inform the fair value of the treasury bills. The treasury bills are disclosed in note 18.5 and are recorded at fair value with no impairment as both capital and interest continue to be settled on maturity date.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2.4 Scope of consolidation

2.4.1 Subsidiary undertakings

Subsidiary undertakings are those entities controlled by the Group. The financial statements of subsidiaries are included in the Group financial statements from the date that control commences until the date that control ceases. Subsidiary undertakings include structured entities created to accomplish a narrow well-defined objective, which may take the form of a corporation, trust, partnership or unincorporated entities, and for which the substance of the relationship between the Group and the entity indicates that the entity is controlled by the Group.

Control exists when the Group is exposed or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group considers the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has control. Entities in which the Group holds half or less of the voting rights, but are controlled by the Group retaining the majority of risks or benefits, are also included in the group accounts. The Group financial statements include the assets, liabilities, and results of the Group and subsidiary undertakings controlled by the Group.

The results of subsidiary undertakings acquired and disposed of during the year are included in profit or loss from the date of acquisition, up to the date of disposal or control ceasing. Intra-group balances and transactions, and all profits and losses arising from intra-group transactions, are eliminated in preparing the Group financial statements. Unrealised losses are not eliminated to the extent that they provide evidence of impairment.

Non-controlling interests (NCI) are measured at their proportionate share of the values of the assets and liabilities recognised. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of Control

When the Group loses control over a subsidiary, it derecognizes (eliminated from statement of financial position) the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost, or in terms of IAS 28.

2.5 Revenue

Revenue comprises premium income from insurance contracts and investment contracts with a discretionary participating feature, fee income from investment management contracts, commission income, banking and non-banking interest income, dividend income and investment income and fees for the administration and management of policyholder funds. Fees charged for management services provided are recognised as revenue in profit or loss as the services are provided. Revenue is accounted for in accordance with the particular accounting policies as set out in section 2.6 and 2.13 below.

2.6 Insurance and investment contracts

2.6.1 Classification of contracts

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is risk which is distinct from financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. If significant additional benefits would be payable in scenarios that have commercial substance, significant insurance risk exists even if the insured event is extremely unlikely or even if the expected present value of contingent cash flows is a small proportion of the expected present value of all remaining contractual cash flows.

A contract that is classified as an insurance contract remains as an insurance contract, until all rights and obligations are extinguished or expire. Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts. Contracts with a discretionary participating feature are those under which the policyholder holds a contractual right to receive additional payments as a supplement to guaranteed minimum payments. These additional payments, the amount or timing of which is at the Group's discretion, represent a significant portion of the total contractual payments and are contractually based on:

- (i) the performance of a specified pool of contracts or a specified type of contract, and
- (ii) realised and/or unrealised investment returns on a specified pool of assets held by the Group.

Contracts with a discretionary participating feature may be classified either as insurance contracts or investment contracts. All contracts with a discretionary participating feature are accounted for in the same manner as insurance contracts.

2.6.2 Premiums on contracts

Premiums and annuity considerations receivable under insurance contracts and investment contracts with a discretionary participating feature are recognised gross of commission, and exclude taxes and levies. Premiums in respect of other insurance contracts and investment contracts with a discretionary participation feature are recognised when due for payment.

Outward reinsurance premiums are recognised when due for payment.

Amounts received under investment contracts other than those with a discretionary participating feature are recorded as deposits in investment contract liabilities.

2.6.3 Revenue on investment management service contracts

Fees charged for investment management services provided in conjunction with an investment contract are recognised as revenue as the services are provided. Initial fees, which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period in which the service will be provided. Fees charged for investment management service contracts in our asset management business are also recognized on this basis.

2.6.4 Claims on contracts

Claims and benefits incurred under insurance contracts and investment contracts with a discretionary participating feature include maturities, annuities, surrenders, and death and disability payments and are recognised in profit or loss.

Maturity and annuity claims are recorded as they fall due for payment. Death and disability claims and surrenders are accounted for when notified. Reinsurance recoveries are accounted for in the same period as the related claim.

Amounts paid under investment contracts other than those with a discretionary participating feature are recorded as deductions from investment contract liabilities.

Claims incurred in respect of short-term insurance general business consist of claims, and claims handling expenses, paid during the financial year together with the movement in the provision for outstanding claims.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Claims outstanding comprise provision for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and an appropriate prudential margin. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as change in claims handling procedure, inflation, judicial trends, legislative changes and past experience and trends. Anticipated reinsurance recoveries are disclosed separately as assets. Reinsurance and other recoveries are assessed in a manner similar to the assessment of claims outstanding. Claim provisions for claims outstanding are discounted where there is a particularly long period from incident to claims settlement and where there exists a suitable claims pattern from which to calculate the discount.

2.6.5 Insurance contract liabilities

Insurance contract provisions are measured using the Financial Soundness Valuation (FSV) method as set out in the guidelines issued by the Actuarial Society of South Africa (ASSA) in Standard of Actuarial Practice (SAP) 104 (version 8). Under this guideline, provisions are valued using realistic expectations of future experience, with prescribed margins for prudence and deferral of profit emergence.

Provisions for investment contracts with a discretionary participating feature are also computed using FSV method. Surplus allocated to policyholders but not yet distributed (i.e. bonus smoothing reserve) related to these contracts is included as a carrying value of liabilities.

Investment options and guaranteed payments are computed on the prospective deposit method, which produces reserves equal to the present value of future benefit payments.

Derivatives embedded in an insurance contract are not separated and measured at fair value if the embedded derivative itself qualifies for recognition as an insurance contract. The entire contract is measured as described above.

The Group performs liability adequacy testing on its insurance liabilities (including insurance liabilities with discretionary participating features) to ensure that the carrying amount of its liabilities is sufficient in view of estimated future cash flows. When performing the liability adequacy test, the Group discounts all contractual cash flows and compares this amount to the carrying value of the liability. Where a shortfall is identified, an additional provision is made.

The provision estimation techniques and assumptions are periodically reviewed, with any changes in estimates being reflected in profit or loss as they occur.

Whilst the directors consider that the gross insurance contract provisions and the related reinsurance recovery are fairly recognised on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. The Group applies shadow accounting in relation to certain insurance contract provisions, which are supported by owner-occupied properties, on which unrealized gains and losses are recognised within other comprehensive income.

2.6.6 Investment contract liabilities

Liabilities for investment contracts without a discretionary participating feature are classified as financial liabilities at fair value through profit or loss and are measured at fair value. For unit linked and market linked contracts, this is calculated as the account balance, which is the value of the units allocated to the policyholder, based on the bid price value of the assets in the underlying fund (adjusted for tax). For other linked contracts, the fair value of the liability is determined by reference to the fair value of the underlying assets, and is in accordance with the FSV method, except that negative dollar reserves arising from the capitalisation of future margins are not permitted. The fair value of the liability is subject to the "deposit floor" such that the liability established cannot be less than the amount repayable on demand.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2.6.7 Acquisition costs on long-term insurance

Acquisition costs, disclosed as sales remuneration, comprise all direct and indirect costs arising from the sale of insurance contracts. The FSV method, used to determine insurance contract provisions and provisions for investment contracts with a discretionary participating feature, makes implicit allowance for the deferral of acquisition costs; therefore no explicit deferred acquisition cost asset is recognised in the statement of financial position for the contracts issued in these areas.

2.6.8 Deferred acquisition costs in respect of investment management service contracts

Costs that are directly attributable to securing an investment management service contract are deferred if they can be identified separately and measured reliably and it is probable that they will be recovered. The costs represent the contractual right to benefit from providing investment management services and is amortised as the related revenue is recognised.

2.7 Intangible assets

Intangible assets are measured at cost on initial recognition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment losses.

Intangible assets are amortised over their useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method is reviewed at least each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. Intangible assets are amortised over a period between of 5 years using the straight line method.

The carrying value of capitalized development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. On derecognition of intangible assets, the remaining carrying amount of the asset, is written down in profit or loss in the period of derecognition.

2.8 Investment in subsidiary companies

Investments in subsidiary companies are initially recognised at cost. Subsequent measurement is at cost less any impairment.

2.9 Investment property

Investment property is real estate held to earn rentals and/or for capital appreciation. It does not include owner-occupied property.

Investment properties are initially measured at cost and subsequently at fair value through profit and loss. Recorded values are determined by internal professional valuers who perform valuations annually. The recorded values are tested by comparing with values determined by independent external valuers for a sample of properties accounting for at least 65% of the total value of the property portfolio, or for at least the top twenty five buildings by value and for properties being valued for the first time.

An investment property shall be derecognized (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from

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disposal. The valuation methodology adopted is dependent upon the nature of the property. The investment method was applied on all income producing properties. This method was applied on industrial, retail and commercial properties and offices. The direct comparison method was applied to land holdings and residential properties. Property developments are valued in a similar manner to income generating assets except where information about future net income cannot be determined with sufficient confidence, in which case fair value is estimated with reference to the value of the land, and the cost of construction to date. Surpluses and deficits arising from changes in fair value are reflected in profit or loss.

For properties reclassified during the year from property and equipment to investment properties any revaluation gain arising is initially recognised in profit or loss to the extent of previously charged impairment losses. Any residual excess is taken to the revaluation reserve.

Revaluation deficits are recognised in the revaluation reserve to the extent of previously recognised gains and any residual deficit is accounted for in profit or loss.

Investment properties that are reclassified to owner occupied property should be revalued at date of transfer, with any difference recognised in profit or loss. Its fair value at date of reclassification becomes its fair value for subsequent accounting.

2.10 Property and equipment

Owned assets

Owner-occupied property is recognised at revalued amounts, being the fair value at the date of the revaluation less subsequent accumulated depreciation and accumulated impairment losses.

Equipment, principally computer equipment, motor vehicles, fixtures and furniture, are recognised at cost less accumulated depreciation and impairment losses. Property under development is valued at cost.

Subsequent expenditure

Subsequent expenditure is capitalised when it can be reliably measured and will result in probable future economic benefits. Expenditure incurred to replace a separate component of an item of owner-occupied property or equipment is capitalised to the cost of the item and the component replaced is derecognised. All other expenditure is recognised in profit or loss as an expense when incurred.

Revaluation of owner-occupied property

Owner-occupied property is recognised at fair value. Internal professional valuers perform valuations annually. Valuations are carried out on properties accounting for at least 65% of the total value of the property portfolio, and properties being valued for the first time. External valuations are obtained for top ten buildings by value or properties representing 65% of the total value of the buildings. The procedures followed are as per note 2.9 and 15.

When an individual owner-occupied property is re-valued, any increase or decrease in its carrying amount (as a result of the revaluation) is recognised in other comprehensive income in a revaluation reserve, except to the extent it represents an increase that reverses a revaluation decrease previously recognised in profit or loss, or a decrease that exceeds the revaluation surplus.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. On derecognition of property and equipment, any gain

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or loss on disposal, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss in the period of derecognition. In the case of owner-occupied property, any surplus in the revaluation reserve in respect of the individual property is transferred directly to retained earnings.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of items of owner-occupied property and equipment that are accounted for separately.

In the case of owner-occupied property, on revaluation any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the property concerned and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised. Land is not depreciated.

Owner-occupied property is depreciated over a period of 50 years using the straight line method. Leasehold property is depreciated over a period of 20 years using the straight line method. Motor vehicles, computer equipment, fixtures and furniture are depreciated over 5 years using the straight line method.

Residual values, useful lives and depreciation methods are re-assessed at each reporting date.

2.11 Taxation

The tax charge for the current year comprises current and deferred tax. Included within the tax charge are charges relating to normal income tax, taxes payable on behalf of policyholders and capital gains tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly to other comprehensive income, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred taxation is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date. Deferred taxation is charged to profit or loss except to the extent that it relates to a transaction that is recognized directly in equity or other comprehensive income. The effect on deferred taxation of any changes in tax rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity or other comprehensive income.

Deferred tax liability is not recognised on temporary differences that arise from:

- o Initial recognition of goodwill;
- o initial recognition of an asset or liability in a transaction that is not a business combination which, at the time of transaction, affects neither the accounting nor taxable profit or loss; and
- o temporary differences associated with investment in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred-tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available, against which the unutilised tax losses and

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deductible temporary differences can be used. Deferred-tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefits will be realised, such reductions are reversed when the probability of future taxable profits improves.

2.12 Reinsurance

Reinsurance assets comprise contracts with reinsurers under which the Group is compensated for losses on one or more contracts which are classified as insurance contracts. Reinsurance on contracts that do not meet this classification is classified as financial assets.

A reinsurance asset principally includes the reinsurers' share of liabilities in respect of contracts with policyholders. Amounts recoverable under reinsurance contracts are recognised in a manner consistent with the reinsured risks and in accordance with the terms of the reinsurance contract. Reinsurance is presented in the statement of financial position on a gross basis.

Reinsurance assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

2.13 Financial instruments

Recognition and derecognition

A financial instrument is recognized when and only when the Group becomes a party to the contractual provisions of the particular instrument. The Group derecognises a financial asset when and only when:

- The contractual rights to the cash flows arising from the financial assets have expired or been forfeited by the Group; or
- It transfers the financial asset including substantially all the risks and rewards of ownership of the asset; or
- It transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retains control of the asset.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or has expired. The difference between the carrying amount of a financial liability (or part thereof) extinguished or transferred to another party and consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

All purchases and sales of financial assets carried at fair value through profit or loss that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. Refer to note 18.1 for the different categories of financial instruments.

Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method, taking into account the expected timing and amount of cash flows. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

Dividend income

Dividend income is recognised in profit or loss on the date which the Group's right to receive payment is established.

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Where financial assets are measured at fair value through profit or loss, the dividend income is recognised separately from fair value changes.

Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss comprise financial assets classified as held-for-trading and those that the Group has elected to designate at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recognised at fair value excluding transaction costs directly attributable to their acquisition which are recognised immediately in profit or loss. After initial recognition, financial assets at fair value through profit or loss are measured at fair value with the resulting fair value gains or losses adjustment being recognised directly in profit or loss.

Financial assets that the Group has elected to designate at fair value through profit or loss are those where this designation either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise when using a different measurement basis and are managed, evaluated and reported on using a fair value basis. This election is in respect of financial assets held to support liabilities in respect of contracts with policyholders.

All related fair value gains and losses are included in investment income. Interest earned whilst holding financial assets at fair value through profit or loss is reported as interest income. Dividends received are included separately in investment income (non-banking).

Fair value measurement considerations

The fair values of quoted financial assets are based on quoted prices. If the market for a financial asset is not active, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

To the extent that the fair values of unlisted equity instruments cannot be measured reliably, such instruments are carried at cost, subject to impairment assessment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Group at fair value through profit or loss. Subsequent to initial measurement, loans and receivables including those made to fellow Group entities are measured at amortised cost using the effective interest rate less any impairment losses. Interest income is recognised as part of investment income (non-banking), and for the banking business as banking interest and similar income.

Cash and cash equivalents

Cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and balances with banks but excluding cash and cash equivalent instruments held for investing purposes. They are measured at amortised cost.

Financial liabilities

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process as finance cost.

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Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to set off and there is intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position.

2.14 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets, excluding financial assets at fair value through profit or loss, is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans or receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Loans and advances

Balances outstanding in respect of advances are considered to be of a financing nature. Accordingly, these amounts, less interest in suspense and specific and general risk provisions, are treated as receivables. Specific impairment is made when the repayment of identified advances is in doubt and reflects estimated losses. In determining specific impairment, the value of collateral held on mortgage advances is deducted from arrear balances. A prudent valuation of collateral is made by the Group's valuers. A portfolio impairment is made in respect of an estimate to cover the inherent risk in lending and advancing, which cannot be stated in specific terms.

The Reserve Bank of Zimbabwe (RBZ) also requires the Group to provide for provisions for loan losses rather than impairment losses as determined in accordance with International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement". Where the provision as per RBZ guidelines is higher than the IAS 39 impairment losses, the excess is treated as an appropriation of equity.

2.15 Foreign currency translation

Foreign currency transactions are translated into United States Dollars, the Group's functional currency, at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at rates of exchange ruling at the reporting date. Non-monetary assets

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and liabilities denominated in foreign currencies that are recognised at fair value are translated into the functional currency at foreign exchange rates ruling at the dates the fair values were determined.

Non-monetary assets and liabilities denominated in foreign currencies that are recognised at historical cost are translated into the functional currency at the rate of exchange ruling at the date of the initial recognition of the asset and liability and are not subsequently translated. Exchange gains and losses on the translation and settlement during the period of foreign monetary assets and liabilities are recognised in profit or loss. Exchange differences for non-monetary items are recognised in other comprehensive income when the changes in the fair value of the non-monetary item are recognised in other comprehensive income and in profit or loss if the changes in fair value of the non-monetary item are recognised in profit or loss.

2.16 Employee benefits

Employee benefits are all forms of consideration given by the Group in exchange for services rendered by employees.

(i) Post employment benefits

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer to those benefits and when the Group recognises costs for restructuring. If the benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted. Termination benefits for voluntary redundancies are recognised as an expense at the earlier of when the employee accepts the offer; and when a restriction on the Group's ability to withdraw the offer takes effect.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

(v) Deferred employee benefits

Deferred employee benefits are expensed on a straight line basis over the period for which the employee is obligated to provide services to the Group.

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example

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under the Group's insurance arrangements, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. Where the effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Future operating costs or losses are not provided for.

2.18 Share-based payments

Equity-settled share-based payment transactions

The services received from employees in terms of the Indigenisation and Economic Empowerment Act (Chapter 14:33) transaction entered into in June 2012, are equity-settled and are measured at the fair value of the equity instruments granted. The fair value of those equity instruments are measured at grant date and are not subsequently re-measured. If the equity instruments granted vest immediately and the employee is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the services received are recognised in full on grant date in profit or loss, with a corresponding increase in equity.

Where the equity instruments do not vest until the employee has completed a specified period of service, it is assumed that the services rendered by the employee, as consideration for those equity instruments, will be received in the future, during the vesting period. These services are accounted for in the statement of comprehensive income as they are rendered during the vesting period, with a corresponding increase in equity.

2.19 Leases

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

2.20 Impairment of non-financial assets

The carrying amounts of the Group's other assets, other than financial assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount is the greater of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and of the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation if no impairment loss had been recognised.

2.21 Sale and repurchase agreements

The Group enters into purchases (sales) of the investments under agreements to resell (repurchase) identical investments at a certain date in the future at a fixed price. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the appropriate and applicable accounting policy. The proceeds from the sale of the investments are reported under deposits. The difference between the sale and repurchase agreement is treated as interest and accrued over the life of the agreement using the effective interest rate method. Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless they are sold to third parties, in

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which case the purchase and sale are recorded with the gain or loss included in investment income. The obligation to return them is recorded at fair value as a trading liability.

2.22 Dividends

Dividends payable to holders of equity instruments are recognised in the period in which they are declared.

2.23 Inventory

Inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. The cost of inventories is based on the first in first out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

2.24 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.25 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions. The Group has related party relationships with its subsidiaries, fellow subsidiaries of Old Mutual Plc, company directors, other key shareholders and key management personnel. Transactions and balances are reflected in note 39.

2.26 Share capital

Ordinary and preference share capital is classified as equity if they are non-redeemable by the holder, and if dividends are discretionary. Coupon payments on preference share instruments are recognised as distributions within equity. Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the holder or if dividend payments are not discretionary. If the preference shares are non-redeemable by the holder and the entity has an obligation to deliver cash (or other financial assets) which the entity cannot defer until liquidation then the preference shares would be classified as a liability. Coupon payments thereon are recognised in profit or loss as an interest expense.

2.27 Segment reporting

The Group's results are analysed and reported consistently with the way that management and the Directors consider information when making operating decisions and also with the basis on which resources are allocated and performance assessed by management and Directors. The operating segments are Life Assurance, General Insurance, Banking, Asset Management, and other (being the Holding Company and other Group entities).

There are four principal business activities from which the Group generates revenues. These are premium income (Life assurance and General insurance), fee and commission income (Asset management) and banking interest and fee income (Banking). In addition to this, investment returns are also earned on funds invested. The revenues generated in each reported segment can be seen in the analysis of Profits and Losses in note 3.

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2.28 New and amended standards

The Group has adopted the following standards and amendments for the first time in their annual reporting period commencing 1 January 2017:

- Amendments to IAS 12 'Income Taxes', recognition of deferred tax assets for unrealised losses, effective for annual periods beginning on or after 1 January 2017
- Amendments to IAS 7 'Statement of Cash Flows', disclosure initiative, effective for annual periods beginning on or after 1 January 2017; and
- Amendments to IFRS 12 'Disclosure of Interests in other entities' (part of Improvements to IFRS 2014 to 2016 Cycle).

The adoption of these amendments did not have any material impact on the current period and is not likely to affect future periods.

2.29 Forthcoming requirements

Future amendments that have not been early adopted in the 2017 annual financial statements

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out as follows:

IFRS 16 Leases (effective for accounting periods beginning on or after 1 January 2019)

The IASB issued IFRS 16 in January 2016. IFRS 16 replaces IAS 17 'Leases' and its related interpretations for reporting periods beginning on or after 1 January 2019.

The Group as lessee: IFRS 16 introduces a 'right-of-use' model whereby the lessee recognises a right of use asset and an associated financial obligation to make lease payments for all leases with a term of more than 12 months. The asset will be amortised over the lease term and the financial liability measured at amortised cost with interest recognised in profit and loss using the effective interest rate method.

The Group as lessor: IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify and account for its leases as operating leases or finance leases.

The Group is in the process of assessing the impact of IFRS 16.

IFRS 15 Revenue from Contracts with Customers (effective for accounting periods beginning on or after 1 January 2018)

IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of the standards on leases, insurance contracts and financial instruments.

The core principle of the standard is that revenue recognised reflects the consideration to which the Group expects to be entitled to, in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition.

The standard is effective for the Group for the financial year commencing 1 January 2018. The Group plans to adopt the fully retrospective approach, with the use of certain practical expedients, to the adoption of IFRS 15.

During the year, the Group performed a high level assessment to determine the potential impact of the new standard on the Group's statement of financial position and performance. Based on this assessment, nothing has come to the attention of the Group that would indicate that the impact of the new standard would be significant.

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Key matters arising from the assessment relate to the determination of when performance obligations are satisfied.

IFRS 9 Financial Instruments (effective for accounting periods beginning on or after 1 January 2018)

IFRS 9 Financial Instruments

The Group will implement IFRS 9 'Financial Instruments' with effect from 1 January 2018, with the impact of the cumulative adjustment reflected as an adjustment to opening retained income.

(a) Classification and measurement

As at 31 December 2017, the proportion of financial assets measured in terms of the current standard (IAS 39 "Financial Instruments: Recognition and Measurement") was 61.57% at fair value; 38.43% at amortised cost; 10.6% of financial liabilities was measured at fair value while 89.4% was measured at amortised cost..

IFRS 9 has required the Group to consider the business model for managing and monitoring performance of the financial instruments. Only the assets where the entity intends to collect payments of solely interest and principle ('SPPI') can be measured at amortised cost. Financial assets that contain characteristics of SPPI and where there is a mixed intention to hold the instruments will be measured at fair value through other comprehensive income.

The majority of equity instruments will be recognised at fair value through profit and loss except for instruments irrevocably designated at fair value through other comprehensive income.

There have been no material changes in the requirements for the classification and measurement of financial liabilities.

IFRS 9 allows an upfront, irrevocable designation of financial assets and financial liabilities to be designated at fair value through profit and loss when it eliminates or significantly reduces an accounting mismatch. Changes in the value of an attributable to entity's own credit in respect of financial liabilities designated at fair value will in future be required to be recognised in profit and loss.

The current measurement categories for financial instruments in the Statement of Financial Position as required by IFRS 9 are estimated to be in the following ranges:

Assets

- Amortised cost	40% – 44%
- Fair value through profit and loss	50% – 56%

Liabilities

- Amortised cost	55% – 60%
- Fair value through profit and loss	35% – 40%

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(b) Impairment

The new accounting standard requires that impairment losses are recognised on an expected credit loss basis for all financial assets that are measurement at amortised cost and for debt instruments that are measured at fair value through other comprehensive income.

The amount of the expected credit loss to be recognised in profit and loss is dependent on the credit quality of the financial asset. If the credit quality of the financial asset has not deteriorated since inception then it will be categorised in Bucket 1 and an impairment loss provision equal to 12 months of the expected credit loss. If there has been significant deterioration in the credit quality of a financial asset then a lifetime expected credit loss is recognised. If a financial asset is in default then a lifetime expected loss impairment is recognised.

The table below provides a comparison of the impairment balances under the previous classification (portfolio/specific) and the classification under IFRS 9 as at 31 December 2017.

	Description	%
IAS 39		
Specific provision	Clients identified requiring a specific provision	83.43%
Portfolio provision	No specific factor identified	16.57%
IFRS 9		
Bucket 1	No deterioration in credit quality since origination	51.33%
Bucket 2	Signification deterioration in credit quality since origination	20.08%
Bucket 3	Default	28.59%

2.30 Comparative figures

As much as possible, comparative figures are reclassified in line with current year presentation.

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	Life Assurance US\$	General Insurance US\$	Banking US\$	Asset Management US\$	Holding Co & Other US\$	Consolidation Adjustments US\$	Total US\$
3. Segment information							
A Statement of profit or loss - segment information for the year ended 2017							
Revenue							
Gross earned premiums	1 60 289 275	37 888 386	-	-	-	(3 414 700)	194 762 961
Outward reinsurance	(1 906 702)	(8 156 270)	-	-	-	-	(10 062 972)
Net earned premiums	158 382 573	29 732 116	-	-	-	(3 414 700)	184 699 989
Investment income (non banking)	588 056 246	13 506 386	-	275 015	175 579 264	(136 470 645)	640 946 266
Banking interest and similar income	-	-	91 314 069	-	49 946	-	91 364 015
Fee income, commissions and income from service contracts	5 341 331	1 731 167	54 526 850	20 636 709	15 058 006	(25 608 255)	71 685 808
Other income	24 033	34 404	2 914 477	29 142	2 072 162	(1 800 278)	3 273 940
Total revenue	751 804 183	45 004 073	148 755 396	20 940 866	192 759 378	(167 293 878)	991 970 018
Expenses							
Claims and benefits (including change in insurance contract provisions)	(545 619 616)	(17 401 726)	-	-	-	-	(563 021 342)
Reinsurance recoveries	1 088 544	2 576 031	-	-	-	-	3 664 575
Net claims incurred	(544 531 072)	(14 825 695)	-	-	-	-	(559 356 767)
Change in provision for investment contract liabilities	(51 809 502)	-	-	-	-	-	(51 809 502)
Fees, commissions and other acquisition costs	(9 781 793)	(5 932 229)	(13 264 770)	(172 925)	-	7 988 399	(21 163 318)
Banking interest payable and similar expenses	-	-	(32 740 007)	-	-	12 500 645	(20 239 362)
Impairment charges	-	-	(2 687 262)	-	(14 017)	-	(2 701 279)
Other operating and administration expenses	(17 404 694)	(6 986 227)	(57 950 308)	(10 059 721)	(70 639 464)	69 217 027	(93 823 387)
Profit before tax	128 277 122	17 259 922	42 113 049	10 708 220	122 105 897	(77 587 807)	242 876 403
Income tax expense/(credit)	(8 303 295)	(1 659 390)	-	(3 844 950)	(9 387 940)	(418 585)	(23 614 160)
Profit for the year	119 973 827	15 600 532	42 113 049	6 863 270	112 717 957	(78 006 392)	219 262 243

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Life Assurance US\$	General Insurance US\$	Banking US\$	Asset Management US\$	Holding Co & Other US\$	Consolidation Adjustments US\$	Total US\$
3. Segment information							
A Statement of profit or loss - segment information for the year ended 2016							
Revenue							
Gross earned premiums	151 948 793	36 848 015	-	-	-	(3 464 910)	185 331 898
Outward reinsurance	(2 316 362)	(8 503 746)	-	-	-	-	(10 820 108)
Net earned premiums	149 632 431	28 344 269	-	-	-	(3 464 910)	174 511 790
Investment income (non banking)	105 884 870	3 100 303	-	223 041	40 068 288	(32 377 000)	116 899 502
Banking interest and similar income	-	-	93 339 766	-	-	-	93 339 766
Fee income, commissions and income from service contracts	7 187 635	2 309 238	44 280 000	16 140 323	14 068 273	(25 251 320)	58 734 149
Other income	(134 511)	-	940 009	292 010	203 180	265 773	1 566 461
Total revenue	262 570 425	33 753 810	138 559 775	16 655 374	54 339 741	(60 827 457)	445 051 668
Expenses							
Claims and benefits (including change in insurance contract provisions)	(204 269 543)	(14 959 570)	-	-	-	-	(219 229 113)
Reinsurance recoveries	1 802 932	1 617 455	-	-	-	-	3 420 387
Net claims incurred	(202 466 611)	(13 342 115)	-	-	-	-	(215 808 726)
Change in provision for investment contract liabilities	(6 682 553)	-	-	-	-	-	(6 682 553)
Fees, commissions and other acquisition costs	(6 849 117)	(5 687 436)	(3 154 555)	(26 153)	-	8 404 169	(7 313 092)
Banking interest payable and similar expenses	-	-	(34 831 590)	-	-	11 875 613	(22 955 977)
Credit losses and impairment charges	-	-	(3 531 106)	-	-	-	(3 531 106)
Other operating and administration expenses	(15 640 312)	(6 743 086)	(57 814 539)	(10 080 726)	(18 073 453)	18 996 510	(89 355 606)
Profit before tax	30 931 832	7 981 173	39 227 985	6 548 495	36 266 288	(21 551 165)	99 404 608
Income tax expense/(credit)	690 516	(1 581 911)	-	(2 247 663)	(2 626 472)	(1 806 337)	(7 571 867)
Profit for the year	31 622 348	6 399 262	39 227 985	4 300 832	33 639 816	(23 357 502)	91 832 741

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

3 B Segment information Statement of financial position - segment information at 31 December 2017	Assets							Total US\$
	Life Insurance US\$	General Insurance US\$	Banking US\$	Asset Management US\$	Holding Co & Other US\$	Consolidation Adjustments US\$		
Investment property	380 770 678	449 000	23 422 200	-	530 000	-	405 171 878	
Property and equipment	27 854 500	402 149	64 550 930	1 497 856	2 016 613	-	96 322 048	
Deferred acquisition costs	-	741 681	-	-	-	-	741 681	
Reinsurer contracts	-	3 278 568	-	-	-	-	3 278 568	
Investments and securities	1 339 795 755	35 835 637	233 543 725	6 035 462	365 572 140	(370 323 582)	1 610 459 137	
Deferred tax assets	-	564 200	-	193 108	174 937	-	932 245	
Loans and advances	-	-	668 823 481	-	356 721	-	669 180 202	
Current tax receivable	248 079	-	-	-	489 719	-	737 798	
Other assets	24 856 396	4 047 345	111 597 661	5 591 683	44 111 880	(44 576 111)	145 628 854	
Cash and cash equivalents	15 502 254	8 354 919	164 812 227	1 231 823	7 251 952	(6 901 549)	190 251 626	
Total assets	1 789 027 662	53 673 499	1 266 750 224	14 549 932	420 503 962	(421 801 242)	3 122 704 037	
Liabilities								
Insurance contract liabilities	1 341 376 432	14 232 555	-	-	-	-	1 355 608 987	
Investment contract liabilities	120 815 870	-	-	-	-	-	120 815 870	
Provisions	871 953	88 150	5 272 607	767 142	7 303 209	-	14 303 061	
Deferred tax liabilities	36 577 506	15 696	3 265 701	24 072	2 901 699	(695 365)	42 089 309	
Current tax payables	164 419	93 353	-	300 152	-	-	557 924	
Amounts due to group companies	4 541 318	92 481	-	2 423 021	106 166 996	(44 576 113)	68 647 703	
Amounts owed to bank depositors	-	-	1 019 215 894	-	-	(181 189 284)	838 026 610	
Credit lines	-	-	23 317 769	-	-	-	23 317 769	
Other liabilities	13 368 944	600 049	26 879 788	2 849 004	80 665 112	(45 214 297)	79 148 600	
Total liabilities	1 517 716 442	15 122 284	1 077 951 759	6 363 391	197 037 016	(271 675 059)	2 542 515 833	
Net assets	271 311 220	38 551 215	188 798 465	8 186 541	223 466 946	(150 126 183)	580 188 204	
Shareholders' equity								
Share capital and premium	30 121 844	9 405	35 000 000	3 850 202	1 501 330	(70 481 716)	1 065	
Non-distributable reserve	29 838 703	3 177 617	1 445 851	728 710	21 374 207	(4 108 040)	52 457 048	
Revaluation reserve	-	-	18 769 422	-	7 338	-	18 776 760	
Share option reserve	3 732 032	1 277 010	5 627 027	2 524 545	69 384 472	(50 064 585)	32 480 501	
Regulatory provisions reserve	-	-	17 957 074	1 083 084	-	(25 471 842)	17 957 094	
Retained earnings	207 618 641	15 554 870	109 999 071	8 186 541	131 199 599	(150 126 183)	439 983 423	
	271 311 220	20 018 902	188 798 465	8 186 541	223 466 946	(150 126 183)	561 655 891	
Non-controlling interests	-	18 532 313	-	-	-	-	18 532 313	
Total equity	271 311 220	38 551 215	188 798 465	8 186 541	223 466 946	(150 126 183)	580 188 204	

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

3 B	Segment information Statement of financial position - segment information at 31 December 2016	Life Insurance US\$	General Insurance US\$	Banking US\$	Asset Management US\$	Holding Co & Other US\$	Consolidation Adjustments US\$	Total US\$
	Assets							
	Investment property	369 474 690	349 000	22 251 090	-	480 000	-	392 554 780
	Property and equipment	27 503 364	341 802	60 686 502	1 698 037	2 236 304	-	92 466 009
	Deferred acquisition costs	-	893 405	-	-	-	-	893 405
	Reinsurer contracts	-	1 949 657	-	-	-	-	1 949 657
	Investments and securities	725 615 942	15 886 917	205 940 003	3 707 667	217 439 179	(366 889 665)	801 700 043
	Deferred tax assets	-	562 651	-	299 303	151 847	17 133	1 030 934
	Loans and advances	-	-	583 252 405	-	-	-	583 252 405
	Other assets	33 873 650	4 037 621	79 114 301	4 565 736	43 301 612	(36 053 867)	128 839 053
	Cash and cash equivalents	15 985 148	15 351 048	121 851 499	1 497 790	7 165 547	(7 025 727)	154 825 305
	Total assets	1 172 452 794	39 372 101	1 073 095 800	11 768 533	270 774 489	(409 952 126)	2 157 511 591
	Liabilities							
	Insurance contract liabilities	888 345 414	12 443 263	-	-	-	-	900 788 677
	Investment contract liabilities	76 330 845	-	-	-	-	-	76 330 845
	Provisions	841 242	615 793	5 467 850	774 047	7 316 506	(12 904)	15 002 534
	Deferred tax liabilities	29 019 415	-	-	3 287	2 359 939	(1 084 459)	30 298 182
	Current tax payables	-	264 691	-	49 711	105 673	32 589	452 664
	Amounts due to group companies	3 397 431	246 375	-	986 500	95 016 391	(42 298 868)	57 347 829
	Amounts owed to bank depositors	-	-	845 047 209	-	-	(227 485 685)	617 561 524
	Credit lines	-	-	28 654 056	-	-	-	28 654 056
	Other liabilities	13 323 191	-	17 843 722	2 291 012	38 049 323	(19 380 101)	52 127 147
	Total liabilities	1 011 257 538	13 570 122	897 012 837	4 104 557	142 847 832	(290 229 428)	1 778 563 458
	Net assets	161 195 256	25 801 979	176 082 963	7 663 976	127 926 657	(119 722 698)	378 948 133
	Shareholders' equity							
	Share capital and premium	30 121 844	9 405	35 000 000	3 600 202	1 001 327	(69 731 713)	1 065
	Non-distributable reserve	29 838 703	3 177 617	1 445 850	728 710	20 558 208	(3 292 040)	52 457 048
	Revaluation reserve	-	-	18 448 911	-	7 338	-	18 456 249
	Share option reserve	3 589 892	1 208 475	5 345 083	2 444 676	68 197 870	(48 748 862)	32 037 134
	Regulatory provisions reserve	-	-	16 517 093	-	-	-	16 517 093
	Retained earnings	97 644 817	9 119 402	99 326 026	890 388	38 161 914	2 049 917	247 192 464
		161 195 256	13 514 899	176 082 963	7 663 976	127 926 657	(119 722 698)	366 661 053
	Non-controlling interests	-	12 287 080	-	-	-	-	12 287 080
	Total equity	161 195 256	25 801 979	176 082 963	7 663 976	127 926 657	(119 722 698)	378 948 133

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group 2017 US\$	Group 2016 US\$
4 Gross premiums		
Gross premiums		
Single	2 660 298	1 613 086
Recurring	17 505 788	17 990 905
Individual business	20 166 086	19 603 991
Single	58 509 238	59 238 309
Recurring	79 364 950	70 857 493
Group business	137 874 188	130 095 802
General insurance	36 722 687	35 632 105
Total gross premiums	194 762 961	185 331 898
Comprising:		
Insurance contracts	39 286 937	41 125 720
Investment contracts with discretionary participating features	118 753 337	108 574 073
General insurance	36 722 687	35 632 105
Total gross written premium	194 762 961	185 331 898
5 Investment income (non banking)		
Dividend income		
Financial assets at fair value through profit or loss	22 790 893	18 358 536
Financial assets- other	-	-
Interest income		
Cash and cash equivalents	11 964 934	10 185 815
Financial assets at fair value through profit or loss	.	.
Net rental income		
Investment property	10 326 217	11 144 268
Realised gains and losses		
Investment property	-	-
Financial assets at fair value through profit or loss	16 528 326	(6 359 844)
Unrealised gains and losses		
Investment property	6 348 026	(19 527 793)
Financial assets at fair value through profit or loss	572 987 870	103 098 520
	579 335 896	83 570 727
Total investment returns included in income statement	640 946 266	116 899 502

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group 2017 US\$	Group 2016 US\$
6 Banking interest and similar income		
Interest and similar income		
Loans and advances		
Investments	15 875 002	16 971 222
Loans and advances	75 489 013	76 368 544
Total interest and similar income	91 364 015	93 339 766
Interest Expense:		
Credit lines	(2 768 551)	(3 497 123)
Savings certificates deposits	(16 987 029)	(18 412 720)
Term deposits	(10 076)	(26 745)
Savings deposits	(473 706)	(1 019 389)
Total interest expense	(20 239 362)	(22 955 977)
Net interest income	71 124 653	70 383 789
7 Fee income, commissions and income from service contracts		
Banking operations:		
Commissions	22 149 454	6 357 804
Service fees	17 317 618	23 481 502
Administration fees	16 790 944	14 435 142
Total fee income and commission from banking operations	56 258 016	44 274 448
Long term business	5 341 332	7 187 634
Asset management business	10 086 460	7 272 067
	71 685 808	58 734 149

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group 2017 US\$	Group 2016 US\$
8. Other income		
Exchange gains	(180 901)	(134 289)
Other	3 454 841	1 700 750
	<u>3 273 940</u>	<u>1 566 461</u>
9. Claims and benefits		
Claims and benefits (including change in insurance contract provisions):		
Increase in insurance contracts provision	445 822 666	100 972 325
Gross claims expenses (refer to analysis in note 6.1 below)	117 858 118	118 894 086
Shadow accounting to revaluation reserve (see note 7.1 below)	(659 442)	(637 298)
	<u>563 021 342</u>	<u>219 229 113</u>
9.1 Analysis of claims expenses		
Individual business	6 148 897	4 327 732
Death and disability benefits	1 252 212	1 977 468
Maturity benefits	3 337 497	544 594
Surrenders	1 559 188	1 805 670
Group business	94 307 496	99 606 784
Death and disability benefits	12 352 676	14 578 854
Pension commutations, maturities and withdrawal benefits	56 675 471	57 824 461
Annuities	14 875 550	14 667 042
Surrenders	10 403 799	12 536 427
General insurance	17 401 725	14 959 570
Total claims and benefits	117 858 118	118 894 086
Comprising:		
Insurance contracts	13 601 321	17 662 749
Investment contracts with discretionary participating features	86 855 072	86 271 767
General insurance	17 401 725	14 959 570
Total claims and benefits payable	<u>117 858 118</u>	<u>118 894 086</u>
10. Changes in provision for investment contract liabilities		
Investment contracts		
Increase in investment contract liabilities	51 874 722	6 745 582
Shadow accounting to revaluation reserve (see note 10.1 below)	(65 220)	(63 029)
	<u>51 809 502</u>	<u>6 682 553</u>
10.1 Shadow accounting		
Insurance contracts	659 442	637 298
Investment contracts	65 220	63 029
	<u>724 662</u>	<u>700 327</u>

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group 2017 US\$	Group 2016 US\$
11 Other operating and administration expenses		
Administrative expenses	8 706 268	9 551 695
Office space costs	7 270 754	6 907 216
Fees and levies	3 475 823	2 780 659
Donations	637 273	645 530
Insurance	1 023 697	992 986
Actuarial and consultancy fees	2 740 542	2 213 137
Advertising and marketing	3 423 270	2 854 804
Software licensing	6 772 750	6 072 750
Depreciation of property, plant and equipment	10 567 151	8 364 824
	44 617 528	40 383 601
Auditors' remuneration		
Statutory audit services - current year	593 257	588 278
Staff costs		
Wages and salaries	32 002 767	31 258 483
Retirement obligations	2 625 599	2 390 239
Social security costs	851 801	803 873
Bonus and incentive remuneration	4 893 721	4 799 745
Share based payments	935 727	1 499 475
Other staff costs	5 864 940	5 292 824
	47 174 555	46 044 639
Other	1 438 047	2 339 089
Total expenses	93 823 387	89 355 607
12 Income tax expense		
Normal income tax		
Shareholders	10 324 041	7 843 511
Policyholders	720 256	446 772
	11 044 297	8 290 283
Deferred tax		
Shareholders	8 543 122	1 018 071
Policyholders	4 026 741	(1 736 487)
	12 569 863	(718 416)
	23 614 160	7 571 867
Reconciliation of the effective tax rate	%	%
Standard rate of taxation	25.75	25.75
Adjusted for:		
		(18.13)
Exempt income	(63.69)	(38.80)
Disallowable expenses	47.66	20.67
Capital gains		
Effective tax rate	9.72	7.62

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

13 Earnings per share

The calculation of basic earnings per share was based on the profit attributable to ordinary equity holders of the parent divided by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares adjusted for the effects of all potentially dilutive ordinary shares. The Group had no potentially dilutive ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2017 US\$	2016 US\$
13.1 Basic and diluted (US cents)	63.72	26.71
Earnings		
Basic and diluted earnings attributable to equity holders of the parent (US\$)	211 566 500	88 676 890
Number of shares used in calculations (weighted)		
Basic and diluted earnings per share	332 046 874	332 046 874

	Company 2017 US\$	Company 2016 US\$
14 Investment income		
Dividend income		
Financial assets at fair value through profit or loss	50 630 111	24 054 675
Interest income		
Cash and cash equivalents	883 516	468 952
Realised gains and losses		
Financial assets at fair value through profit or loss	929 687	(431 853)
Unrealised gains and losses		
Financial assets at fair value through profit or loss	67 489 499	10 872 854
Investment property	50 000	
	67 539 499	10 872 854
Total investment returns included in income statement	119 982 813	34 964 628

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Company 2017 US\$	Company 2016 US\$
15 Other income		
Directors' fees received	35 900	25 500
Other	683 554	18 160
	719 454	43 660
16 Other operating and administration expenses		
Administrative expenses	5 616 092	3 365 642
Asset management expenses	1 056 941	537 525
Depreciation of property, plant and equipment	100 060	106 461
	6 773 093	4 009 628
Auditors' remuneration		
Statutory audit services - current year	58 065	65 698
Staff costs		
Wages and salaries	371 184	335 760
Retirement obligations	29 510	26 837
Bonus and incentive remuneration	424 641	(383 380)
Social security costs	3 939	4 364
Share based payments	112 367	187 706
Other staff costs	599 616	348 562
	1 541 257	519 849
Total other operating and administration expenses	8 372 415	4 595 175
17 Income tax expense		
Normal income tax		
Deferred tax	895 941	(31 946)
Current taxation	7 900 599	3 634 774
Total taxation charge	8 796 540	3 602 828
Reconciliation of taxation rate on profit before tax	%	%
Standard rate of taxation	25.75	25.75
Adjusted for:		
	(17.92)	(13.90)
Exempt income	(26.28)	(16.96)
Disallowable expenses	8.36	3.06
Effective tax rate	7.83	11.85

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group 2017 US\$	Group 2016 US\$
18 Investment property		
Carrying amount at beginning of year	392 554 780	408 390 833
Additions	6 932 337	4 585 996
Transfer to mortgage bonds	-	-
Transfer from/(to) Non current assets held for sale	-	-
Disposal	(663 265)	(894 256)
Gain/(loss) from fair value adjustments	6 348 026	(19 527 793)
Carrying amount at end of year	<u>405 171 878</u>	<u>392 554 780</u>
Comprising:		
Freehold property	<u>405 171 878</u>	<u>392 554 780</u>
The fair value of freehold property leased to third parties under operating leases	<u>321 000 630</u>	<u>330 006 300</u>
Rental income from investment property	30 310 100	28 517 962
Direct operating expenses arising from rented-out investment property	(19 983 883)	(17 373 694)
	<u>10 326 217</u>	<u>11 144 268</u>

The carrying amount of investment property is the fair value of property as determined annually by internal professional valuers, having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. The recorded values are tested by comparing with values determined by independent external valuers for a sample of properties accounting for at least 65% of the total value of the property portfolio, or for at least the top twenty five buildings by value and properties being valued for the first time. The Group's current lease arrangements, which are entered into on an arm's length basis and which are comparable to those for similar properties in the same location, are taken into account. Investment properties were fair valued using yield rates of between 7.00% and 12.00% (2016:7.00 % and 12.00%) and rental rates of between \$0.50 and \$20.00 (2016:\$0.50 and \$20.00). The fair value of the Group's properties are categorised into Level 3 of the fair value hierarchy due to the use of unobservable units.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

As security for a credit line from PTA Bank (note 32), CABS registered a bond of US\$1 million over a property, and issued powers of attorney to register bonds (in the event of default) over other properties with a total value of US\$37.29million as at 31 December 2017 (both investment properties and owner occupied properties). OMZIL has guaranteed the Shelter Afrique loan for a full amount of US\$14.4million. Shelter Afrique also took a cession of the performing loan book covering two times the exposure at any point in time. The Society secured the Proparco Loan through a negative pledge of assets plus cash security amounting to US\$555 555.

Investment property valuation

The fair value of the Group's properties are categorised into Level 3 of the fair value hierarchy through their use of unobservable units. The following table shows the valuation techniques used in the determination of the fair values for investment properties, as well as the unobservable inputs used in the valuation models.

Type of property	Valuation approach	Key unobservable inputs	Inter-relationship between unobservable inputs and key fair value measurement
Office, Retail and Industrial Properties	Income capitalisation	Rental income per square meter and capitalisation rates ☒ Vacancies	The estimated fair value would increase if: > net rental income increased > capitalisation rates decreased. > vacancies decreased The estimated fair value would decrease if the unobservable inputs changed the other way.
Residential property	Sales comparison approach.	Price for comparable properties	The estimated fair value would increase if prices for comparable properties increased.
☒ Land	Sales comparison approach	Price for comparable properties	The estimated fair value would increase if prices for comparable properties increased.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

19 Property and equipment

	Land & buildings US\$	Intangible assets US\$	Motor vehicles US\$	Computer equipment US\$	Fixtures & fittings US\$	Group Total 2017 US\$
Carrying amount at beginning of year (1 January 2017)	65 285 098	11 630 410	3 199 228	8 464 558	3 886 713	92 466 007
Additions	2 449 914	2 791 865	2 182 192	5 359 349	881 352	13 664 672
Revaluation	1 046 489	-				1 046 489
Disposals			(1 152 070)	(1 17 611)	(1 118 288)	(1 287 969)
Depreciation/amortisation	(961 423)	(3 923 629)	(1 318 518)	(3 456 569)	(907 012)	(10 567 151)
Carrying amount at end of year	67 820 078	10 498 646	3 910 832	10 349 727	3 742 765	96 322 048
Cost/Valuation	68 065 381	25 102 523	8 520 153	24 962 226	6 435 079	133 085 362
Accumulated depreciation	(245 303)	(14 603 877)	(4 609 321)	(14 612 499)	(2 692 314)	(36 763 314)
Carrying amount at end of year (31 December 2017)	67 820 078	10 498 646	3 910 832	10 349 727	3 742 765	96 322 048

	Group Land & buildings US\$	Group Intangible assets US\$	Group Motor vehicles US\$	Group Computer equipment US\$	Group Fixtures & fittings US\$	Group Total 2017 US\$
Carrying amount at beginning of year (1 January 2016)	65 601 793	12 775 335	3 128 329	6 914 496	2 801 600	91 221 553
Additions	1 764 305	2 608 717	1 202 571	2 674 184	2 632 150	10 881 927
Revaluation surplus	(1 122 545)	-				(1 122 545)
Disposals			(46 120)	(39 182)	(64 790)	(150 092)
Depreciation/Amortisation	(958 453)	(3 753 642)	(1 085 552)	(1 084 930)	(1 482 247)	(8 364 824)
Carrying amount at end of year	65 285 100	11 630 410	3 199 228	8 464 568	3 886 713	92 466 019
Cost/Valuation	65 535 428	23 030 600	5 501 974	10 904 782	4 878 961	109 851 745
Accumulated depreciation	(250 328)	(11 400 190)	(2 302 746)	(2 440 224)	(992 248)	(17 385 736)
Carrying amount at end of year (31 December 2016)	65 285 100	11 630 410	3 199 228	8 464 558	3 886 713	92 466 009

The carrying amount of owner-occupied property is the fair value of property as determined annually by internal professional valuers, having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values are determined by having regard to recent market transactions for similar properties in the same location as the Group's owner-occupied property.

20 Reinsurer contracts

	Group 2017	Group 2016
Provision for unearned premiums	1 284 086	866 415
Outstanding claims	1 994 482	1 083 242
Balance at end of year	3 278 568	1 949 657

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group 2017 US\$	Group 2016 US\$		
21 Investments and securities				
21.1 Analysis of investments				
Equity securities - listed	1 165 222 538	448 057 542		
- unlisted	43 822 003	32 197 797		
Total Equities (see note 21.2 below)	1 209 044 541	480 255 339		
Unit trust investments	10 844 863	8 869 053		
Public sector securities	79 523 382	123 081 268		
Treasury bills (see note 21.5 below)	195 359 411	88 931 464		
Deposits and money market securities	115 686 940	100 562 919		
	<u>1 610 459 137</u>	<u>801 700 043</u>		
21.2 Spread of equity securities by sector				
Commodities	148 535 378	56 693 245		
Consumer	786 293 908	300 044 063		
Financial	87 258 885	80 750 647		
Property	18 330 442	11 675 521		
Manufacturing	135 665 622	27 311 137		
Mining	32 960 308	3 780 726		
	<u>1 209 044 543</u>	<u>480 255 339</u>		
21.3 Movements of investment and securities				
Opening balance	801 700 043	664 014 093		
Fair value movements through profit and loss	574 579 855	102 964 539		
Interest earned	11 964 934	10 185 815		
Additions	412 625 066	36 590 596		
Disposals	(84 743 439)	(4 321 255)		
Maturities	(105 667 322)	(7 733 745)		
Closing balances	<u>1 610 459 137</u>	<u>801 700 043</u>		
21.4 Investment in unlisted equities above 20% shareholding				
Company	% holding	Value US\$	% holding	Value US\$
Takura Fund II (Limited Partner) "B Shares" (held by Shareholders and OMLAC Main Fund)	40%	16 472 429	40%	14 789 687
Africa Takura Ventures-Fund 1 "M Shares" (held by Shareholders and OMLAC Main Fund)	26%	4 829	26%	7 029
MBCA Holdings (held in Shareholder Funds)	21%	10 386 661	20%	8 894 706
Lake Harvest Aquaculture (held by Shareholders and OMLAC Main Fund)	26%	1 882 944	26%	1 902 466
Lobels Holdings Limited ((held by OMLAC Main Fund)	49%	2 075 877	49%	1 708 806
Manica Board and Doors (MBD) (held by OMLAC Main Fund)	55%	1 359 859	55%	4 847 903
Kupinga Renewable Energy (held by OMLAC Main Fund)	40%	3 960 585	40%	4 215 009
		<u>31 011 029</u>		<u>36 365 606</u>

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

The Group has accounted for unlisted investments of this nature on the basis of IAS 39, as Financial Assets at Fair Value through Profit and Loss, in spite of the percentage holding in each entity. The above investments which originate from the investments of policyholder funds are invested into investment linked insurance funds and funds which operate like unit trusts which are managed on a fair value basis. These funds back investment contracts with discretionary participating features and investment contracts accounted for in terms of IAS 39.

The Group has not consolidated the investment in MBD. Management concluded that the investment in MBD is not material.

	Group 2017 US\$	Group 2016 US\$
21.5 Treasury bills maturity analysis		
On demand to 3 months	63,293,681	20 850 309
3 months to 12 months	28 424 413	47 033 044
1 year to five years	103 641 317	21 048 111
Total	<u>195 359 411</u>	<u>88 931 464</u>

In the absence of an active bond market and formal auction for government securities, treasury bills fair value computations have become difficult in the Zimbabwean market. Treasury bills which in other markets provide guidance to fixed income investors through a yield curve are currently being issued through private placements while in the secondary market the same paper is trading at heterogeneous yields.

Given the challenges mentioned above, a number of factors had to be considered in coming up with what would be considered fair discount rates for the treasury bills as disclosed in the table below:

Type of asset	Valuation technique	Key inputs	Range
Treasury bills	Discounted Cash flow (DCF)	<ul style="list-style-type: none"> Interest/coupon rates of recent bond issues Money market rates and direction Inflation expectations (especially for instruments above 5 years) Bonds of similar characteristics (coupon rate and maturity date) were treated as the same security and a single discount rate was applied 	5% - 10% 3.8% - 4.2% 5.5% - 7%

22 Amounts due by or (to) group companies

	2017 US\$ Amounts due by	2017 US\$ Amounts due (to)	2016 US\$ Amounts due by	2016 US\$ Amounts due (to)
Old Mutual Netherlands B.V.	-	(50 000 000)	-	(50 000 000)
Old Mutual Africa Holdings	-	(275 038)	-	-
Old Mutual Zimbabwe Holdco Limited	-	(14 437 500)	-	5 343 750
Old Mutual Life Assurance Company (South Africa)	-	(3 935 165)	-	2 004 079
	<u>-</u>	<u>(68 647 703)</u>	<u>-</u>	<u>(57 347 829)</u>

The amounts due by or to group companies above are unsecured and are payable on demand.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group 2017 US\$	Group 2016 US\$
23 Loans and advances		
Concentration - gross loans and advances		
Housing	199 467 565	194 022 218
Unsecured personal loans	167 085 292	124 610 000
Commercial and industrial	318 217 365	284 067 312
Gross loans and advances	684 770 222	602 699 530
Less provision for impairment	(15 590 020)	(19 447 125)
Net loans and advances	669 180 202	583 252 405
Maturity analysis - gross and loans advances		
On demand to 3 months	100 406 266	62 680 000
3 months to 12 months	205 164 266	134 209 481
1 year to 5 years	316 761 569	209 277 011
Over 5 years	62 438 121	196 533 038
	684 770 222	602 699 530
Non performing loans	43 276 779	49 918 162
Analysis of past due but not impaired		
30 to 60 days past due	79 570 817	98 175 446
61 to 90 days past due	42 450 437	34 421 909
	122 021 254	132 597 355

23.1 Sectoral analysis of loans and advances

The business monitors concentrations of credit risk on loans and advances by sector. An analysis of concentrations of credit risk from loans and advances at the balance sheet date is shown below:

Sector		
Trade and services	43 622 388	31 870 000
Energy and minerals	11 267 113	8 997 508
Agriculture	86 254 224	69 224 200
Construction and property	240 953 020	240 484 101
Light and heavy industry	30 827 853	32 757 070
Unsecured personal loans	158 952 071	122 138 749
Transport and distribution	97 343 553	74 404 759
State and state enterprises	15 550 000	22 823 143
Total gross loans	684 770 222	602 699 530

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group 2017 US\$	Group 2016 US\$
24 Other assets		
Accrued interest and rent	19 046 399	23 504 154
Agent debtors and prepayments	28 638 596	18 397 143
Capitalised project costs	54 284 530	57 088 944
Banking settlement and other clearing accounts.	32 664 140	18 768 487
Inventory	540 755	601 833
Trade debtors	296 463	320 521
Other	10 157 971	10 157 971
	145 628 854	128 839 053
25 Cash and cash equivalents		
Cash at bank and on hand	190 251 626	154 825 305
	190 251 626	154 825 305

In the year 2016 the Central Bank, through Exchange Control Operational Guide 8 (ECOGAD8), introduced a prioritisation criterion which has to be followed when making foreign payments for customers. After prioritisation, foreign payments are then made subject to availability of bank balances with foreign correspondent banks, resulting in possible delay of payment of telegraphic transfers. However, no delay is expected in the settlement of local transactions through the Real Time Gross Settlement system.

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\$.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group 2017 US\$	Group 2016 US\$
26 Insurance contract liabilities		
Outstanding claims	2 869 977	3 135 866
Future policyholders' benefits (see analysis of movement in provision below)	1 352 739 010	897 652 811
	1 355 608 987	900 788 677
26.1 Future policyholders' benefits		
Movement in provision for insurance contracts		
Balance at beginning of year	897 652 811	782 482 670
Inflows		
Premium income	184 699 989	174 511 790
Investment income	430 005 795	85 706 378
Fee and other income	5 341 329	8 358 619
Outflows		
Claims and policy benefits	(117 858 118)	(118 894 086)
Operating expenses	(26 981 552)	(22 489 650)
Taxation	-	-
Current tax	(720 256)	(446 772)
Deferred tax	(4 026 741)	1,736,487
Transfer to operating profit	(15 374 247)	(13 312 625)
	1 352 739 010	897 652 811
27 Investment contract liabilities		
Liabilities at fair value through profit or loss	120 815 870	76 330 845
Movement in liabilities fair valued through profit or loss		
Balance at beginning of year	76 330 845	71 381 199
New contributions received	1 272 183	8 294 364
Withdrawals	(8 661 880)	(10 090 300)
Fair value movements	51 874 722	6 745 582
Balance at end of year	120 815 870	76 330 845

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

28 Share-based payments

28.1 Indigenisation Transactions

In 2012 the Group entered into an Indigenisation transaction under the Indigenisation & Economic Empowerment Act of 2008 (Chapter 14:33). OMZIL donated \$60 000 000 to qualifying indigenous groups through trusts to acquire OMZIL shares from the main shareholder Old Mutual Netherlands B.V. The shares were transferred to the various trusts on 1 June 2012. The grants represent a share-based payment transaction as defined in IFRS 2, Share-based payments.

OMZIL may be called upon from time to time, to provide such funds as may be required by the Trustees of the various trusts in their capacities as such, to defray the costs and expenses arising out of and in connection with the administration of the trusts.

OMZIL Indigenisation Employee Share Scheme

This scheme operates for the benefit of all employees of the Group who met the qualification criteria set by management. On 1 June 2012, an allocation was made by means of a once-off share award to the participants. The award is not subject to any performance targets but are required to be in the service of Old Mutual during the vesting period.

Participants only take delivery of the shares after the vesting periods of two years (one-third), three years (one-third) and 4 years (one-third) of participation in the scheme. The related expenses are recognised over the respective vesting periods. All shares that were issued under this trust vested in 2016 and there are currently no shares outstanding to staff.

OMZIL Management Incentive Share Scheme

This scheme operates for the benefit of management and its primary purpose is to attract, reward and retain senior and middle management. Awards will be made annually on agreed terms and conditions with a vesting period of three years. Participants receive dividends from the date of the award. Staff joining the Group after the allocation date also participate in the scheme.

OMZIL Clients Pension Ex-gratia Trust

This scheme operates for the benefit of client pensioners. Once off share awards were allocated to participants. These vested immediately and were not subject to any conditions.

Kurera/Ukondla Youth Fund Trust

This scheme operates for the benefit of the youth population of Zimbabwe. It administered in collaboration with the Ministry of Women and Youth Affairs through the Zimbabwe Youth Council. The shares act as collateral to loans accessed from CABS by young people as defined. These share awards vested immediately and were not subject to any conditions.

Strategic Partner

The Strategic partner is Stiefel Investments (Private) Limited (Stiefel), an investment holding company and provider of advisory services. The beneficiary persons behind Stiefel are Messrs L.E.M. Ngwerume, Todd Moyo and Mrs Tracey Mutaviri. Mr Ngwerume was a non-executive director of CABS, while Mrs Mutaviri was a non-executive director of Old Mutual Life Assurance Company Zimbabwe Limited over the same period during 2017.

The purchase consideration of the shares was US\$13 016 238 for 11 621 641 issued and fully paid up 'B class' shares at a price of US\$ 1.12 per share. The amount funded (finance assisted) by the Group was US\$12 755 913 after a 2% down payment of US\$260 324 paid by Stiefel.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group 2017 US\$	Group 2016 US\$
Costs associated with Indigenisation transactions		
Employee Share Scheme	-	236 062
Management Incentive Scheme	935 727	1 263 413
	<u>935,727</u>	<u>1 499 475</u>

Movements relating to the share awards during the year are as follows:

OMZIL Indigenisation Employee Share Scheme

	Number of shares	Number of shares
Opening balance of shares	-	2 916 253
Exercised during the year	-	(2 908 323)
Forfeited	-	(7 930)
Closing balance of shares	<u>-</u>	<u>-</u>

The Employee share scheme came to completion following the vesting of the last batch of shares in the year 2016.

OMZIL Management Incentive Scheme

Opening balance number of shares	3 670 177	2 790 688
Issued during the year	-	1 734 073
Exercised during the year	(999 826)	(854 584)
Forfeited	(114 598)	-
Closing balance number of shares	<u>2 555 753</u>	<u>3 670 177</u>

Shares exercised during the year were exercised at an average price of \$2.05 (2016 : \$0.82). The expected vesting periods for shares outstanding as at end of year are as follows:

2017	935 727	1 499 475
2018	915 134	955 706
2019	1 640 619	1 734 073

The shares are listed on the "Finsec Automated Trading platform"(ATP)".
The ATP price as at 31 December 2017 was \$2.05 (2016 \$0.82).

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

28.2 Share-based payments reserve

The equity share-based payment reserve is maintained in the Group from the date of issue of the share awards. On exercise of the share awards, settlement will be made through the structured entities controlled by Old Mutual Zimbabwe Limited.

The movement of the reserve during the reporting period is included in the statement of changes in equity.

29 Provisions	Employee related provisions	Other	Total
	US\$	US\$	2017 US\$
Balance at beginning of year	5 559 525	9 443 009	15 002 534
Amount utilised	(5 601 265)	(706 204)	(6 307 469)
Released	(472 681)	(306 827)	(779 508)
Charge	6 164 149	223 355	6 387 504
Balance at end of year	5 649 728	8 653 333	14 303 061

	US\$	US\$	Total 2016 US\$
Balance at beginning of year	11 811 643	7 787 161	19 598 804
Amount utilised	(4 943 936)	(1 307 263)	(6 251 199)
Released	(1 723 045)	(332 003)	(2 055 048)
Charge	414 863	3 295 114	3 709 977
Balance at end of year	5 559 525	9 443 009	15 002 534

30 Deferred tax	At beginning 2017	Charge to equity	Income statement charge	At end 2017
	US\$	US\$	US\$	US\$
Deferred tax liability				
Shareholders	7 850 508	(680 047)	8 444 433	15 614 894
Policyholders	22 447 674	-	4 026 741	26 474 415
	30 298 182	(680 047)	12 471 174	42 089 309
Deferred tax asset				
Shareholders	(1 030 934)	-	98 689	(932 245)
	(1 030 934)	-	98 689	(932 245)
Aggregate deferred tax	29 267 248	(680 047)	12 569 863	41 157 064
Analysis of deferred tax				
Wear and tear				25 639 083
Capital gains				15 473 311
Assessed loss				44 670
				41 157 064

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	At beginning 2017 US\$	Charge to equity US\$	Income statement charge US\$	At end 2016 US\$
Deferred tax liability				
Shareholders	7 294 604	(703 095)	1 258 999	7 850 508
Policyholders	24 184 161	-	(1 736 487)	22 447 674
	31 478 765	(703 095)	(477 488)	30 298 182
Deferred tax asset				
Shareholders	(790 006)	-	(240 928)	(1030 934)
	(790 006)	-	(240 928)	(1030 934)
Aggregate deferred tax	30 688 759	(703 095)	(718 416)	29 267 248
Analysis of deferred tax				
Wear and tear				22 459 046
Capital gains				8 181 861
Assessed loss				(1 373 659)
				29 267 248

31 Amounts owed to bank depositors	2017 US\$	2016 US\$
Money market deposits	357 003 412	203 864 816
Term deposits	479 436	714 748
Savings deposits	480 543 762	412 981 960
	838 026 610	617 561 524
Maturity analysis		
On demand to 3 months	611 585 863	450 172 141
3 months to 6 months	3 379 713	2 498 349
6 months to a year	70 973 965	52 465 329
1 year to 5 year	84 492 816	62 458 725
Over 5 years	67 594 253	49 966 980
	838 026 610	617 561 524

Concentration	2017 US\$	%	2016 US\$	%
Financial institutions	358 675 389	42.80%	332 568 122	53.85%
Companies	387 168 294	46.20%	219 083 206	35.48%
Individuals	92 182 927	11.00%	65 910 196	10.67%
	838 026 610	100.00%	617 561 524	100.00%

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 US\$	2016 US\$
32 Credit lines		
PTA Bank loan	10 000 948	8 234 588
Shelter Afrique	9 744 240	11 490 900
ZADT loan	-	2 950 000
Proparco loan	3 332 581	5 654 301
Accrued interest on credit lines	240 000	324 267
Balance at end of the year	23 317 769	28 654 056
Maturity analysis		
On demand to 3 months	683 477	5 233 310
3 months to 6 months	4 024 970	1 969 948
6 months to 1 year	4 600 863	9 498 985
1 year to 5 years	14 008 459	11 951 823
	23 317 769	28 654 066

The PTA bank loan is repayable over 3 years and the Shelter Afrique and Proparco loans over 10 years. The PTA loan was obtained in October 2017, the Proparco loan in October 2016 and the Shelter Afrique loans in 2014. As a security for the PTA Bank loan, the Society registered a bond of US\$1 million over a property, and issued powers of attorney to register bonds (in the event of default) over immovable properties with a total value of US\$37.3 million as at 31 December 2017 (note 18). The Shelter Afrique loan is secured by a guarantee from OMZIL as well as a cession of the performing loan book covering two times the exposure at any given time. The Proparco loan is secured by a negative pledge of assets plus a cash security deposit of US\$0.56 million.

	2017 US\$	2016 US\$
33 Other liabilities		
Amounts owed to policyholders	2 500 089	881 253
Accruals and deferred income	19 851 441	9 347 062
Trade creditors	19 930 711	11 837 376
VAT payable	211 813	51 584
Dividend payable	25 396 125	25 396 125
Other liabilities	11 258 421	4 613 747
	79 148 600	52 127 147

34 Contingent Liabilities

34.1 Tax on Indigenisation shares

The Group is committed to conducting its tax affairs in accordance with the tax legislation of Zimbabwe. Historic transactions undertaken and the tax law interpretations made by the Group may be routinely reviewed by the Zimbabwe Revenue Authority. All interpretations made by management are made with reference to the specific facts and circumstances of the transaction and the relevant legislation. Old Mutual Zimbabwe Limited (OMZIL) appealed a decision reached in the courts relating to the taxation of shares awarded to staff in accordance with the Indigenisation and Economic Empowerment Act of 2008 (Chapter 14:33). The case was heard in May 2017 and judgement was reserved by the Supreme Court. The estimated financial impact would be approximately \$1,7 million in the event of judgement against the Group.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

34.2 Commission of Inquiry

A commission of inquiry established by the Zimbabwean Government has concluded its inquiry into the loss in value for certain policyholders and beneficiaries upon the conversion of pension and insurance benefits after the dollarization of the economy in 2009. On 9 March 2018 the results of the Zimbabwean Government's inquiry were made public.

Although the Commission believes that policyholders may have been prejudiced, and that government, regulators and the insurance industry played a role in the loss of value, this finding is subject to review by the President and Cabinet. Furthermore, the Commission did not determine a methodology for quantifying or allocating responsibility for this prejudice, and recommended that this be the subject of a further independent process to determine a criteria for assessing prejudice as well as a basis for compensation, which will also take into account the need to maintain stability and confidence in the industry. As such we are not currently able to establish what impact the commission's findings will have on the Group.

35 Post employment benefits obligations

The Group provides pension benefits to permanent employees and post-retirement benefits to qualifying employees. Pension benefits have been designed and are administered in accordance with the Pension and Provident Funds Act (Chapter 24:09), and are defined contribution schemes.

The Old Mutual Staff Pension Fund

The Fund is a defined contribution plan registered to provide retirement benefits for the Group's full-time employees.

National Social Security Authority Scheme

This scheme was promulgated under the National Social Security Authority Act 1989. The Group's obligation under the scheme is limited to specific contributions as legislated from time to time and is presently \$45 per month per employee. The Group agreed to keep the employee contributions at \$6 per month and pay any contributions above \$6 on behalf of the employees.

Old Mutual Post Retirement Medical Aid Subsidy Fund

The fund is a defined contribution plan for the Group's full-time employees.

	2017	2016
	US\$	US\$
Contributions recognised as an expense for the year		
- Old Mutual Staff Pension Fund	2 625 599	2 390 239
- National Social Security Authority Scheme	851 801	803 873

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group 2017 US\$	Group 2016 US\$
36 Post employment benefits obligations(continued)		
Old Mutual Post Retirement Medical Aid Subsidy Fund		
The fund is a defined contribution plan for the Group's full-time employees.		
Contributions recognised as an expense for the year		
- Old Mutual Staff Pension Fund	2 625 599	2 390 239
- National Social Security Authority Scheme	851 801	803 873
37 Capital commitments		
Authorised	24 276 932	12 908 768
The Group is committed to incur capital expenditure and the commitments are expected to be settled in the year 2018.		
For advances		
Aggregate commitments due under advances granted but not yet disbursed	29 201 522	18 283 340
38 Leases		
The Group as lessor - operating lease arrangements		
Total future minimum lease receivables under operating leases		
Not later than one year	15 402 797	16 392 947
Later than one year and not later than five years	71 965 372	81 964 737
Later than five years	87 368 168	98 357 685
	174 736 337	196 715 369
The Group as lessee - operating lease arrangements		
Non-cancellable operating lease rentals are payable as follows:		
Not later than one year	730 252	532 411
Later than one year and not later than five years	3 392 352	2 572 633
	4 122 604	3 105 044

The operating lease agreements relate to property rental agreements between the Group and third parties both as lessee and lessor.

39 Related party disclosures

Holding company and fellow subsidiaries and associates.

The Group's immediate holding company is OM Zimbabwe Holdco Limited which holds 75% of the Group's ordinary shares. The ultimate holding company is Old Mutual plc., incorporated in the United Kingdom.

Other Group companies consist of fellow subsidiaries and associates.

Transactions and balances with holding company and fellow subsidiaries.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group 2017 US\$	Group 2016 US\$
Fellow related parties		
Old Mutual Life Assurance Company (South Africa) Limited		
Amounts due to as at 31 December	(3 935 165)	(2 004 079)
Old Mutual Africa Holdings		
Amounts due to as at 31 December	(275 038)	-
Old Mutual Zimbabwe Holdco Limited		
Amounts due to as at 31 December	(14,437,500)	(5 343 750)
Old Mutual Netherlands B.V		
Amounts due to as at 31 December	(50 000 000)	(50 000 000)
MBCA Bank Limited		
Amounts due by as at 31 December	14 159 618	13 552 203

Loans due by or to subsidiaries and other group companies

Loans due by or to subsidiaries or other group companies accrue interest at market related interest rates.

All the Group's principal subsidiaries together with loans due by or to them are listed in note 43 and 46.

Capital advances and amounts due by or to group companies are disclosed in note 43.

Key management personnel

Key management personnel and their close family members and entities which they control, jointly control or over which they exercise significant influence are considered related parties to the Group.

	Group 2017 US\$	Group 2016 US\$
Key management personnel remuneration and other compensation		
Short-term employee benefits	2 652 522	2 013 586
Share based payments	922 370	1 813 457
Post-employment benefits	51 739	26 837
	3 626 631	3 853 880

Notes to the annual financial statements (CONTINUED)

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40 Group statement of financial position

The Group is exposed to financial risk through its financial assets (investments, reinsurance assets and loans), financial liabilities (investment contracts and borrowings), insurance liabilities and bank deposits. The key focus of financial risk management for the Group is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its operations. The most important components of financial risk are credit risk, market risk (arising from changes in equity, interest and foreign exchange rates), and liquidity risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and/or conditions.

40.1 Categories of financial instruments

The analysis of assets and liabilities into their categories as defined in IAS 39 "Financial Instruments: Recognition and Measurement" is set out in the following table. For completeness, assets and liabilities of a non-financial nature, or financial assets and liabilities that are specifically excluded from the scope of IAS 39, are reflected in the non-financial assets and liabilities category.

At 31 December 2017	Designated At fair value through profit or loss US\$	Loans and receivables/ liabilities at amortised cost US\$	Non-financial assets/ liabilities US\$	Total US\$
Assets				
Investment property	-	-	405 171 878	405 171 878
Property and equipment	-	-	96 322 048	96 322 048
Deferred acquisition costs	-	-	741 681	741 681
Reinsurers' share of insurance contract provisions	-	-	3 278 568	3 278 568
Investments and securities	1 610 459 137	-	-	1 610 459 137
Deferred tax assets	-	-	932 245	932 245
Current tax assets	-	-	737 798	737 798
Loans and advances	-	669 180 202	-	669 180 202
Other assets	-	80 889 889	64 738 965	145 628 854
Cash and cash equivalents	-	190 251 626	-	190 251 626
	1 610 459 137	940 321 717	571 923 183	3 122 704 037
Liabilities				
Insurance contract liabilities	-	-	1 355 608 987	1 355 608 987
Investment contract liabilities	120 815 870	-	-	120 815 870
Provisions	-	-	14 303 061	14 303 061
Deferred tax liabilities	-	-	42 089 309	42 089 309
Current tax payable	-	-	557 924	557 924
Amounts due to group companies	-	68 647 703	-	68 647 703
Amounts owed to bank depositors	-	838 026 610	-	838 026 610
Credit lines	-	23 317 769	-	23 317 769
Other liabilities	-	79 148 600	-	79 148 600
	120 815 870	1 009 140 682	1 412 559 281	2 542 515 833

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

At 31 December 2016	Designated At fair value through profit or loss US\$	Loans and receivables/ liabilities at amortised cost US\$	Non-financial assets/ liabilities US\$	Total US\$
Assets				
Investment property	-	-	392 554 780	392 554 780
Property and equipment	-	-	92 466 009	92 466 009
Deferred acquisition costs	-	-	893 405	893 405
Reinsurers' share of insurance contract provisions	-	-	1 949 657	1 949 657
Investments and securities	801 700 043	-	-	801 700 043
Deferred tax assets	-	-	1 030 934	1 030 934
Current tax assets	-	-	-	-
Loans and advances	-	583 252 405	-	583 252 405
Other assets	-	60 669 784	68 169 268	128 839 053
Cash and cash equivalents	-	154 825 305	-	154 825 305
	801 700 043	798 747 494	557 064 053	2 157 511 591
Liabilities				
Insurance contract liabilities	-	-	900 788 677	900 788 677
Investment contract liabilities	76 330 845	-	-	76 330 845
Provisions	-	-	15 002 534	15 002 534
Deferred tax liabilities	-	-	30 298 182	30 298 182
Current tax payable	-	-	452 664	452 664
Amounts due to group companies	-	57 347 829	-	57 347 829
Amounts owed to bank depositors	-	617 561 524	-	617 561 524
Credit lines	-	28 654 056	-	28 654 056
Other liabilities	-	52 127 147	-	52 127 147
	76 330 845	755 690 556	946 542 056	1 778 563 458

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

40 Group balance sheet - assets and liabilities (continued)

40.2 Fair values of financial assets and liabilities

Determination of fair value

The best evidence of fair value is a quoted price in an active market. In the event that the market for a financial asset or liability is not active, or quoted prices cannot be obtained without undue effort, another valuation technique is used.

This is after:

- Assessing whether instruments are trading with sufficient frequency and volume, that they can be considered liquid.
- The inclusion of a measure of the counterparties' non-performance risk in the fair value measurement of loans and advances, which involves the modelling of dynamic credit spreads.
- The inclusion of credit valuation adjustment (CVA) and debit valuation adjustment (DVA) in the fair value measurement of derivative instruments.
- The inclusion of own credit risk in the calculation of the fair value of financial liabilities.

There have been no significant changes in the valuation techniques applied when valuing financial instruments. The general principles applied to those instruments measured at fair value are outlined below:

Loans and advances

Loans and advances include mortgage loans, other asset-based loans, including collateralised debt obligations, and other secured and unsecured loans.

In the absence of an observable market for these instruments, the fair value is determined by using internally developed models that are specific to the instrument and that incorporate all available observable inputs. These models involve discounting the contractual cash flows by using a credit-adjusted rate.

Investments and securities

Investments and securities include listed and unlisted equity securities, pooled investment, short term funds. Pooled investments represent the Group's holdings of shares/units in investment companies, unit trusts, mutual funds and similar investment vehicles. Pooled investments are recognised at fair value. The fair values of pooled investments are based on widely published prices that are regularly updated or models based on the market prices of investments held in the underlying pooled investment funds.

Other investment and securities that are measured at fair value are measured at observable market prices where available. In the absence of observable market prices, these investments and securities are fair valued utilising one or more of the following techniques: discounted cash flows, the applicable of an EBITDA multiple or any other relevant technique.

Investment contract liabilities

The fair value of investment contract liabilities is determined with reference to the underlying funds that are held by the Group.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Other financial assets and liabilities

The fair values of other financial assets and liabilities are reasonably approximated by the carrying amounts reflected in the statement of financial position as they are short-term in nature or re-priced to current market rates frequently.

Fair value hierarchy

Level 1 – quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets.

Level 2 – valuation techniques using observable inputs: financial assets and liabilities with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable.

Level 3 – valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

The judgment as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid / offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process.

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for them, the derivation of fair value is more judgmental. A financial asset or liability in its entirety is classified as valued using significant unobservable inputs if a significant proportion of that asset or liability's carrying amount is driven by unobservable inputs. In this context, 'unobservable' means that there is little or no current market data available for which to determine the price at which an arm's length transaction would likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value (for example, consensus pricing data may be used). Furthermore, in some cases the majority of the fair value derived from a valuation technique with significant unobservable inputs may be attributable to observable inputs.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

40 Group statement of financial position - assets and liabilities (continued)

40.2 Fair values of financial assets and liabilities (continued)

Analysis of instruments at fair value

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
At 31 December 2017				
Financial assets measured at fair value				
Investments and securities	1 165 222 538	285 727 656	43 822 003	1 494 772 197
Total financial assets measured at fair value	1 165 222 538	285 727 656	43 822 003	1 494 772 197
Financial liabilities				
Investment contract liabilities	-	120 815 870	-	120 815 870
Other liabilities	-	-	-	-
Total financial liabilities measured at fair value	-	120 815 870	-	120 815 870

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
At 31 December 2016				
Financial assets measured at fair value				
Investment and securities	448 057 543	220 881 785	32 197 796	701 137 124
Total financial assets measured at fair value	448 057 543	220 881 785	32 197 796	701 137 124
Financial liabilities				
Investment contract liabilities	-	76 330 845	-	76 330 845
Other liabilities	-	-	-	-
Total financial liabilities measured at fair value	-	76 330 845	-	76 330 845

The movement in level 3 instruments for the year can be analysed as follows:

	Opening balance 2017 US\$	Gains/losses recognised in profit or loss US\$	Purchases and issues US\$	Sales and settlements US\$	Transfers into level 3 from other categories US\$	Transfers out of level 3 to other categories US\$	Closing balance 2017 US\$
2017							
Financial assets measured at fair value							
Designated (fair value through profit or loss)	32 197 797	8 504 708	14 744 874	(11 625 376)	-	-	43 822 003
Total financial assets measured at fair value	32 197 797	8 504 708	14 744 874	(11 625 376)	-	-	43 822 003
2016							
Designated (fair value through profit or loss)	29 176 774	1 472 749	1 023 994	(2 496 743)	3 021 023	-	32 197 797
Total financial assets measured at fair value	29 176 774	1 472 749	1 023 994	(2 496 743)	3 021 023	-	32 197 797

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Key inputs and assumptions used in the valuation models include discount rates and price earnings ratio. The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as level 3:

Valuation Technique	Significant unobservable input	Average range of unobservable inputs
Discounted Cash flow (DCF)	Risk adjusted discount rate:	23.5%-29.3%
	- Equity risk premium	12.9%-17.24%
	- Industry premium	6%-7%
	- Company specific premium	2%-5%
	- Nominal free risk rate	7%
	- Terminal growth rate	2%-4%
Price Earnings(PE)	PE ratio/multiple :Discount applied	
	- Country risk discount	25%
	- Lack of marketability adjustment	25%

41 Financial risk management

The Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of financial risk are interest rate risk, liquidity risk, equity price risk, currency risk and credit risk.

These risks arise from open positions in the interest rate (both fair value and cash flow interest rate risk) and equity products, all of which are exposed to general and specific market movements.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

41 Financial risk management (continued)

Financial risk management strategy and policy

The principal technique of the Group is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders, as well as seeking to maximise the return on shareholders' funds, all within an acceptable risk framework.

The insurance contracts retain substantial exposures to the extent that the benefits payable to policyholders are not linked to the performance of the underlying assets. These exposures include duration risk, credit risk and market risk. The notes below explain how financial risks are mitigated by the maintenance of sufficient capital;

Capital Adequacy	2017 US\$	2016 US\$
Old Mutual Life Assurance Company Zimbabwe Limited (OMLAC)		
Excess assets	271 311 221	161 195 256
Capital adequacy requirements (CAR)	178 855 689	141 974 310
Ratio of excess assets to CAR	1.5	1.1
Regulatory capital adequacy requirement	5 000 000	2 000 000
Central Africa Building Society (CABS)		
Regulatory Capital	165 436 691	153 316 716
Total risk weighted assets	947 481 966	838 860 525
Capital adequacy ratio	17%	18%
Regulatory capital adequacy ratio	12%	12%
Old Mutual Investment Group Zimbabwe (Private) Limited (OMIG)		
Shareholders equity	3 159 291	3 366 055
Regulatory capital adequacy requirement	500 000	500 000
Old Mutual Securities (Private) Limited (OMSEC)		
Shareholders equity	407 968	241 527
Regulatory capital adequacy requirement	150 000	150 000
RM Insurance Holdings Limited (RMI)		
Shareholders equity	38 551 214	22 643 498
Regulatory capital adequacy requirement	1 500 000	1 500 000
Old Mutual Finance(Private) Limited (OMFIN)		
Shareholders equity	270 170	-
Regulatory capital adequacy requirement	20 000	-
CABS Custodial Services (Private) Limited		
Shareholders equity	1 630 005	1 111 805
Regulatory capital adequacy requirement	119,055	150 000

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

OMLAC

OMLAC is regulated by the Insurance and Pensions Commission (IPEC). Calculations have been determined in accordance with the requirements of the Standard of Actuarial Practice (SAP) 104: Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers issued by the Actuarial Society of South Africa (ASSA), using reliable estimates of the regulatory adjustments as the regulatory returns are yet to be completed. At 31 December 2017 the company shareholder assets were 1.5 times (2016: 1.1 times) of the internal capital adequacy requirement (CAR). CAR is the amount of capital the business needs to hold in excess of its liabilities to run smoothly and be able to withstand adverse experience and market shocks. The risks taken into account include underwriting, investment, credit, expense and operational. The formula isolates each major risk category and determines how much capital needs to be held in respect of that risk. The diversification between the risks is allowed for. The calculation also allows for the effect of a fall in the fair value of the assets backing the CAR as well as any credit risk associated with these assets. Investment resilience risk, credit risk and operational risk make up the majority of the CAR.

The Group had sufficient excess assets to cover its CAR requirements throughout the year.

CABS

The Society's lead regulator (Reserve Bank of Zimbabwe) sets and monitors capital requirements for the Society on a quarterly basis through quarterly BSD1 Returns. Currently RBZ requires the Society to maintain minimum capital of US\$25 million and a capital adequacy ratio of 12% as measured by the ratio of total capital to risk weighted assets.

OMIG

Securities and Exchange Commission (SEC) sets and monitors capital requirements for the company. The company met the regulatory requirements regarding capitalisation. The amount of the surplus available to be distributed to the shareholder, Old Mutual Zimbabwe Limited, is subject to available distributable reserves within the shareholders' equity and maintaining the minimum internal capital adequacy requirement.

OMSEC

The Securities and Exchange Commission (SEC) sets and monitors capital requirements for the company. The company met the regulatory requirements regarding capitalisation.

RMI

RMI is regulated by the Insurance and Pensions Commission (IPEC) which sets and monitors capital requirements for the company. The company met the regulatory requirements regarding capitalisation.

OMFIN

The Reserve Bank of Zimbabwe (RBZ) sets and monitors capital requirements for the company. The company met the regulatory requirements regarding capitalisation.

CABSCUS

The Securities Exchange Commission sets and monitors capital requirements for the company. The company met the regulatory requirements regarding capitalisation.

Capital management policies

Capital is actively managed to ensure that the Group is properly capitalised and funded at all times, having regard to its regulatory needs, risk adjusted margins prudent management and the needs of all stakeholders. The Group has a business planning process that runs on an annual cycle with regular updates to projections. It is through this process, which includes risk and sensitivity analyses of forecasts that the Group's capital is managed.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Specifically, the Group has adopted the following capital management policies:

- Maintenance, as a minimum, of capital sufficient to meet the statutory requirements and such additional capital as management believes is necessary to ensure that obligations can be met on a timely basis.
- Maintenance of an appropriate level of liquidity at all times. The Group further ensures that it can meet its expected capital and financing needs at all times, having regard to the business plans, forecasts and any strategic initiatives.

Insurance risks

The Group controls its exposures through underwriting and re-pricing procedures to determine whether cover can be provided and the pricing of such risk. Underwriting practice relies on regular review procedures to analyse actual experience.

Equity price risk

Equity price risk is the potential loss arising from changes in the value of equity securities. The group's investment portfolio consists of equity securities, fixed income assets and property. A substantial part of the equity portfolio consists of listed counters. Non-listed investments are subjected to regular financial analysis and review, while exposure levels to listed counters are regularly reviewed.

Credit risk

Credit risk is the risk that an asset, in the form of a monetary claim against a counterparty, may not result in a cash receipt (or equivalent) in accordance with the terms of a contract.

The Group is exposed to credit risk through its investment holdings (i.e. money markets, cash and cash equivalents, and loans and advances). Credit risk is managed by placing limits on exposure to a single counterparty, or groups of counterparties. These limits are based on credit ratings of the counterparties conducted within the various operating companies. Credit risk is monitored with reference to credit ratings with limits placed on exposure where credit risk is below acceptable levels and through holding security from the counterparty.

Credit risk associated with property rentals is managed through a credit vetting process, the requirement for rental deposits and close monitoring of the tenants' book.

Exposure to credit risk

Loans and advances

Collectively impaired

	2017 US\$	2016 US\$
Gross amount	684 770 222	602 699 530
Allowance for impairment	(15 590 020)	(19 447 125)
Carrying amount	669 180 202	583 252 405

Investments, rental debtors, cash and cash equivalents

	2017 US\$	2016 US\$
Short term funds and securities	401 414 596	321 444 704
Rental debtors	9 103 833	10 643 769
Cash and cash equivalents	190 251 626	154 825 305
	600 770 055	486 913 778

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s).

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

Exposure to counterparties

The Group is also exposed to counterparties arising from money market trading.

Allowances for impairment

The Group establishes an allowance for impairment based on the class of each loan and in line with IAS 39 and the Reserve Bank of Zimbabwe guideline on provisions.

Write off policy

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

Collateral

The Group holds collateral against loans and advances to customers in the form of mortgage interest over property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. The Group charges the maximum lending rate for all parties who fail to honour their obligations on time. Settlement risk is also monitored through risk assessment of counterparties and capping of trading limits in line with the risk profile of each institution.

Currency risk

The Group has exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. To the extent possible, exchange rate risk on foreign payables is mitigated by generating business which earns foreign currency.

The table below shows the Group's exposure to foreign currency exchange risk at 31 December 2017.

At 31 December 2017	ZAR	GBP	EURO	BWP	US\$ Total
Cash and cash equivalents	14,070,459	1,346,400	1,195,100	101,300	16,713,259

The table below shows the Group's closing exchange rates which were used in the financial statements.

	ZAR	GBP	EURO	BWP
At 31 December 2017	12.3340	1.3506	1.1968	0.0980
At 31 December 2016	13.6001	1.2284	1.0542	0.0936

The Group has settlement exposure to foreign suppliers, creditors, as well as related parties who require payments to be made in foreign currency. Ability to settle is constrained by exchange control restrictions as well as the unavailability of nostro funding.

Foreign liabilities	2017 US\$	2016 US\$
Life Assurance	2 335 102	1 199 928
General Insurance	189 640	6 297 449
Banking	23 409 119	28 612 322
Holding Company and other	92 136 547	75 396 125
	118 070 408	111 505 824

Notes to the annual financial statements (CONTINUED)

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41 Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that fluctuating interest rates will unfavourably affect the Group's earnings and the value of its assets, liabilities and capital.

The individual life and employee benefits businesses have due regard to the nature of the liabilities. The interest rate risk of such liabilities is managed by investing in available assets to ensure matching of current liabilities. Derivative instruments are not used to manage the interest rate risk of these long term assets and liabilities.

Interest rate risk represents the price sensitivity of a fixed income security or interest-carrying asset to changes in interest rates. This risk is controlled by careful monitoring of the level of interest-bearing investments.

The tables below set out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to interest rate risk.

Repricing profile of financial assets and liabilities (including insurance) exposed to interest rate risk:

	0 to 3 months US\$	3 to 12 months US\$	Over a year US\$	Total US\$
Money market investments	35 622 122	348 580 953	17 211 521	401 414 596
Loans and advances	100 406 266	205 164 266	379 199 690	684 770 222
	136 028 388	553 745 219	396 411 211	1 086 184 818

Loans and advances-Concentration-Gross	Low and high density housing	Individuals	Commercial and industrial	Total US\$
	199 467 565	167 085 292	318 217 365	684 770 222

Liquidity risk

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations when due.

The tables below set out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to liquidity risk.

Maturity profile of financial assets exposed to liquidity risk:

	0 to 3 months US\$	3 to 12 months US\$	Over a year US\$	2017 Total US\$
Cash & cash equivalents	190 251 626	-	-	190 251 626
Insurance contract short term investments	34 241 404	335 069 906	16 544 400	385 855 710
Investment contract short term investments	1 380 718	13 511 047	667 121	15 558 886
	225 873 748	348 580 953	17 211 521	591 666 222

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

The tables below analyse assets and liabilities into current and non-current categories based on the remaining period at balance sheet date to settlement date.

	Current US\$	Non Current US\$	2017 Total US\$
Cash and cash equivalents	190 251 626	-	190 251 626
Loans and advances	305 203 333	363 976 869	669 180 202
Money market short term investments	384 203 075	17 211 521	401 414 596
Insurance and other receivables	91 344 323	54 284 530	145 628 854
Amounts owed to bank depositors	(685 939 541)	(152 087 068)	(838 026 610)
Insurance and other payables	(79 148 600)	-	(79 148 600)
	205 914 216	283 385 852	489 300 068

Management of liquidity risk

The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Group's reputation. The daily liquidity position of the Group is managed by the treasury department in liaison with the relevant management. All liquidity policies and procedures are subject to review and approval by the Assets and Liabilities Committee.

Liquidity gap

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

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

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and short term dealing and investment securities for which there is an active and liquid market less any deposits from banks, other borrowing and liabilities maturing within the same short term period. Details of this ratio as at 31 December 2017 is given below.

	Total US\$
Total liquid assets	986 398 273
Total liabilities to the public	(765 088 141)
Liquidity ratio	129%

For the banking business the Group monitors liquidity risk by compliance with liquidity regulations of the Building Societies Act (Chapter 24:02) as well as submission of monthly liquidity returns to the Reserve Bank of Zimbabwe (RBZ). In addition, the Group matches long term lending to inflows into long term investments and this is monitored through the Risk Management Committee.

	2017	2016
Liquidity ratio (CABS)	38%	38%
Regulatory Minimum (CABS)	30%	30%

Notes to the annual financial statements (CONTINUED)

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Sensitivity analysis

A 5 percent weakening of the US\$ against the ZAR as at 31 December 2017 would have increased equity and profit by US\$703,522. The movement would not impact on profit and equity significantly. This analysis assumes that all other variables remain constant.

A 15 percent weakening of the listed equities as at 31 December 2017 would have reduced equity and profit by US\$56.9 million. The movement would represent a 26% impact on profit and 10% impact on equity. This analysis assumes that all other variables remain constant.

A 5 percent weakening of interest rates as at 31 December 2017 would have reduced equity and profit by US\$25 million. The movement would represent a 10% impact on profit and 4% impact on equity. This analysis assumes that all other variables remain constant.

A 5 percent decrease in investment property values as at 31 December 2017 would have reduced equity and profit by US\$61 million. The movement would represent a 21% impact on profit and 10% impact on equity. This analysis assumes that all other variables remain constant.

42 Insurance risk management

The Group assumes insurance risk by issuing insurance contracts, under which the Group agrees to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affecting the policyholder occurs. Insurance risk includes mortality risk.

For accounting purposes insurance risk is defined as risk other than financial risk. Contracts issued by the Group may include both insurance and financial risk; contracts with significant insurance risk are classified as insurance contracts, while contracts with no or insignificant insurance risk are classified as investment contracts. The Group's approach to financial risk management has been described in note 41.

Risk management objectives and policies for mitigating insurance risk

The Group effectively manages its insurance risks through the following mechanisms:

- Actuarial models, which use the above information to calculate premiums and monitor claims patterns. Past experience and statistical methods are used.
- Guidelines for concluding insurance contracts and assuming insurance risks. These include underwriting principles and product pricing procedures.
- The mix of assets, which is driven by the economic environment. The management of assets and liabilities is closely monitored to ensure that there are sufficient interest bearing assets to settle liabilities.

Terms and conditions of insurance contracts

The terms and conditions attached to insurance contracts determine the level of insurance risk accepted by the Group. The following tables outline the general form of terms and conditions that apply to contracts sold in each category of business, and the nature of the risk incurred.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Category	Essential terms	Main risks	Policyholders guarantees	Policyholder participation-investment returns
Employee Benefits Group life assurance	Rates are annually renewable	Mortality	No significant guarantees	None
With-profit annuity	Regular benefit payments participating in profits in return for consideration	Longevity Investment	Underlying pricing interest rate is guaranteed. Declared bonuses cannot be reduced	Yes, see below
Retail				
Life Plan	Premium rates are guaranteed but reviewable for new business	Mortality	Sum assured is guaranteed	None
Funeral Plan	Premium rates are guaranteed but reviewable for new business	Mortality	Sum assured is guaranteed	None

The extent of the Group's discretion as to the allocation of investment return to policyholders varies based on the type of contract. Where the contracts are of a pure risk type, there is no sharing of investment returns. For other contracts, investment return is attributed to the policyholder. Declared bonuses may be either vesting and/or non-vesting (in which case they can be reversed).

Smoothed bonus products constitute a significant proportion of the business. Particular attention is paid by ensuring that the declaration of bonuses is done in a responsible manner, such that sufficient reserves are retained for bonus smoothing purposes. Investment returns not distributed after deducting charges are credited to bonus stabilisation reserves, which are used to support subsequent bonus declarations.

In addition to the specified risks identified above, the Group is subject to the risk that policyholders discontinue the insurance policy through lapse or surrender.

Management of insurance risks

The table below summarises the variety of risks to which the Group is exposed to, and the methods by which it seeks to mitigate these risks.

Risks	Definition	Risk management
Underwriting	Misalignment of policyholders to the appropriate pricing basis or impact of anti-selection, resulting in a loss.	Experience is closely monitored. Underwriting limits, health requirements, spread of risks and training of underwriters all mitigate the risk.
Catastrophe	Natural and non-natural disasters could result in increased mortality risk and payouts on policies.	Catastrophe excess of loss re-insurance treaty covers all claims from one incident occurring within a specified period.

Notes to the annual financial statements (CONTINUED)

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42 Insurance risk management

Summary of key valuation assumptions (statutory basis)

Below are the key actuarial valuation assumptions per product

Product

Old Mutual Funeral Plan

	2017 US\$	2016 US\$
Valuation interest rate	6.50%	6.50%
Expense inflation	4.00%	4.00%
Effective interest rate for assurance	6.50%	6.50%
Mortality basis	Zim92	Zim92
Renewal costs per annum	\$11.35	\$7.62
Lapse rates		
Year 1	40.00%	40.00%
Year 2	20.00%	20.00%
Year 3	15.00%	15.00%
Year 4+	4.00%	4.00%

Old Mutual Life Plan

Valuation interest rate	6.50%	6.50%
Expense inflation	4.00%	4.00%
Effective interest rate for assurance	6.50%	6.50%
Mortality basis	Zim92	Zim92
Renewal costs per month	1141.00%	\$12.17
Lapse rates		
Late rate:	40.00%	40.00%
Year 1	20.00%	20.00%
Year 2	10.00%	10.00%
Year 3	2.00%	2.00%
Year 4+		

Savings Plan

Valuation interest rate	6.50%	6.50%
Expense inflation	4.00%	4.00%
Mortality basis	Zim92	Zim92
Renewal Costs per month-premium paying	\$9.86	\$3.57
Renewal Costs per month-premium paid up	\$9.86	\$2.10
Late rate:		
Year 1	20.00%	20.00%
Surrender rate:		
Year 2	10.00%	10.00%
Year 3	10.00%	10.00%
Year 4+	10.00%	10.00%

Old Mutual Term Plan

Valuation interest rate	6.50%	N/A
Expense inflation	4.00%	N/A
Effective interest rate for assurance	6.50%	N/A
Mortality basis	Zim92	N/A
Renewal costs per month	\$5.09	N/A
Lapse rates		
Year 1	40.00%	N/A
Year 2	20.00%	N/A
Year 3	15.00%	N/A
Year 4+	4.00%	N/A

Pension Plus

Pension Plus interest rate		
Valuing annuities	5.9%	5.9%
Valuing expenses	0%	0%
Mortality	a(90)	a(90)
Valuation interest rate per annum	5.90%	5.90%
After-retirement interest rate	3.50%	3.50%
Administration fee-per policy per annum	\$48	\$48

GLA IBNR reserves

2017
2016

85% of premiums earned in the last 2.8 months
85% of premiums earned in the last 2.8 months

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FOR THE YEAR ENDED 31 DECEMBER 2017

	Company 2017 US\$	Company 2016 US\$
43 Investment property		
Carrying amount at beginning of year	480 000	480 000
Additions - through acquisition(s)	-	-
Disposals	-	-
Net gain from fair value adjustments	50 000	-
Carrying amount at end of year	530 000	480 000
Comprising:		
Freehold property	530 000	480 000

The fair value of freehold property leased to third parties under operating leases is

The carrying amount of investment property is the fair value of property as determined annually by internal professional valuers, having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values are determined by having regard to recent market transactions for similar properties in the same location as the investment property. The Company's current lease arrangements, which are entered into on an arm's length basis and which are comparable to those for similar properties in the same location, are taken into account. Investment properties were fair valued using yield rates of between 7.00% and 12.00% (2016:7.00 % and 12.00%) and rental rates of between \$0.50 and \$20.00 (2016:\$0.50 and \$20.00). The fair value of the Group's properties are categorised into Level 3 of the fair value hierarchy due to the use of unobservable units.

44 Investment in subsidiary companies

	Number of issued ordinary & preference shares	Company % interest	2017 Carrying value of shares US\$
Total			
Unlisted - subsidiaries			
Old Mutual Life Assurance Company Zimbabwe Limited	13 184 355	100%	40 559 147
Central Africa Building Society	15 000 000	100%	20 685 680
Old Mutual Investment Group Zimbabwe (Private) Limited	100	100%	967 517
Three Anchor Investments (Private) Limited			
T/A Old Mutual Custodial Services	1 200	100%	3 178 862
Old Mutual (Zimbabwe) Foundation Trust	100	100%	-
Capital Growth Investment Trust	10 000	100%	-
Old Mutual Property Zimbabwe (Private) Limited	100	100%	6 435 191
Old Mutual Securities (Private) Limited	167	70%	2 225 266
Old Mutual Shared Services (Private) Limited	602	100%	4 899 284
MCZ (Private) Limited T/A Old Mutual			
International Services Organisation	10 000 783	70%	1
RM Insurance Holdings Limited	940 520	50.67%	1 423 581
Old Mutual Finance (Private) Limited	10,000	100%	500 000
			80 874 529

In May 2017, the Group formed a new company, Old Mutual Finance (OMFIN), which issued 10 000 ordinary shares at a nominal price of \$1 and premium of \$49. OMFIN is a non deposit taking microfinance whose main business is offering loans to individuals and Micro Enterprises (SME).

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

The Group has 55% shareholding in Manica Boards and Doors and decided not to consolidate the investment. Management concluded that the investment in MBD is not material.

	Number of issued ordinary & preference shares	%	2016 Carrying value of shares
Total			
Unlisted - subsidiaries			
Old Mutual Life Assurance Company Zimbabwe Limited	13 184 355	100%	40 417 008
Central Africa Building Society	15 000 000	100%	20 403 737
Old Mutual Investment Group Zimbabwe (Private) Limited	100	100%	918 974
Three Anchor Investments (Private) Limited			
CABS Custodial Services (Private) Limited	1 200	100%	3 173 906
Old Mutual (Zimbabwe) Foundation Trust	100	100%	-
Capital Growth Investment Trust	10 000	100%	-
Old Mutual Property Zimbabwe (Pvt) Ltd	100	100%	6 415 854
Old Mutual Securities (Private) Limited	167	70%	1 968 234
Old Mutual Shared Services (Private) Limited	602	100%	4 648 409
MCZ (Private) Limited T/A Old Mutual			
International Services Organisation	10 000 783	70%	1
RM Insurance Holdings Limited	940 520	50.67%	1 355 046
			79 301 169

45. Property and equipment

	Motor vehicles US\$	Computer equipment US\$	Fixtures & fittings US\$	Company Total 2017 US\$
Carrying amount at beginning of year	178 513	5 633	33 171	217 317
Additions	-	12 724	-	12 724
Disposals accumulated depreciation	65	29	3 261	3 355
Depreciation charge for the year	(63 879)	(4 842)	(31 339)	(100 060)
Carrying amount at end of year	114 699	13 544	5 093	133 336
Cost/Valuation	319 069	27 179	243 494	589 742
Accumulated depreciation	(204 370)	(13 635)	(238 401)	(456 406)
Carrying amount at end of year	114 699	13 544	5 093	133 336

	Motor vehicles US\$	Computer equipment US\$	Fixtures & fittings US\$	Total 2016 US\$
Carrying amount at beginning of year	164 323	5 668	81 071	251 062
Additions	69 853	2 498	365	72 716
Disposals	-	-	-	-
Disposals accumulated depreciation	-	-	-	-
Depreciation charge for the year	(55 663)	(2 533)	(48 265)	(106 461)
Carrying amount at end of year	178 513	5 633	33 171	217 317
Cost/Valuation	319 069	14 455	243 607	577 131
Accumulated depreciation	(140 556)	(8 822)	(210 436)	(359 814)
Carrying amount at end of year	178 513	5 633	33 171	217 317

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 US\$	2016 US\$
46 Investments and securities		
46.1 Analysis of investments		
At fair value through profit or loss		
Equity securities (see analysis in note 46.2 below)	150 135 930	71 711 233
Unit trusts	3 218 612	3 528 569
Debentures	525 127	142 837
Deposits and money market securities	22 837 740	3 612 617
	<u>176 717 409</u>	<u>78 995 256</u>
46.2 Spread of equity securities by sector		
At fair value through profit or loss		
Commodities	12 289 773	4 003 458
Consumer	96 918 166	44 353 791
Financial	3 063 685	1 347 391
Properties	4 992 944	3 994 355
Manufacturing	22 401 602	9 092 125
Mining	83 099	25 406
Unquoted	10 386 661	8 894 707
	<u>150 135 930</u>	<u>71 711 233</u>
46.3 Movements of investment and securities		
Opening balance	78 995 256	71 267 153
Fair value movements through profit and loss	68 469 186	10 441 001
Interest earned	883 516	468 952
Additions	28 369 451	7 102 404
Disposals	-	(9 815 304)
	<u>176 717 409</u>	<u>78 995 256</u>

Unquoted equities included in investments were valued at fair value.

	Company 2017 US\$ Due by	2017 US\$ Due to	Company 2016 US\$ Due by	2016 US\$ Due to
47 Amounts due by or (to) group companies				
Old Mutual Life Assurance				
Company Zimbabwe Limited	-	(103 360)	-	(12 266)
Old Mutual Zimbabwe Holdco Limited	-	(9 093 750)	-	(132 515)
Old Mutual Investment Group Zimbabwe (Private) Limited	1 898 661	-	-	(14 814)
Old Mutual (Zimbabwe) Foundation Trust	3 375 170	-	2 335 015	-
Old Mutual Securities (Private) Limited	431 542	-	397 602	-
Old Mutual Shared Services (Private) Limited	21 958	-	994 112	-
Old Mutual Properties (Private) Limited	-	(12 358)	12 115	-
Old Mutual Insurance Company (Private) Limited	-	(43 984)	-	(2 344)
CABS Custodial Services (Private) Limited	-	(34 201)	284 323	-
Central Africa Building Society	-	(186 906)	-	(8 044)
Old Mutual Netherlands B.V.	-	(10 730 134)	-	(10 730 134)
The OMZIL Client Pension Exgratia Trust	12 201 277	(8 162 095)	11 862 110	(8 162 095)
The OMZIL Indigenisation Employee Share Trust	7 916 282	(13 483 167)	8 383 340	(13 483 167)
The OMZIL Management Incentive Share Trust	2 196 707	(9 876 845)	2 295 676	(9 876 845)
Old Mutual Finance (Private) Limited	-	(4 518)	-	-
Old Mutual Life Assurance Company SA Limited	-	(132 692)	-	-
	<u>28 041 597</u>	<u>(51 864 010)</u>	<u>26 564 293</u>	<u>(42 422 224)</u>

The amounts due by or to group companies above are payable on demand.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Company 2017 US\$	Company 2016 US\$
48 Other receivables		
Dividend receivable	-	723 078
Other	178 354	194 525
	178 354	917 603
49 Cash and cash equivalents		
Cash at bank and on hand	3 316 468	5 106 337
	3 316 468	5 106 337

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

Included in cash and cash equivalents are bond notes. The bond note is a debit instrument which has been disclosed under cash and cash equivalents since it meets the definition of cash and cash equivalents and is pegged at an exchange rate of 1:1 with the US\$.

50 Share-based payments

50.1 Indigenisation Transactions

During 2012, the company entered into an Indigenisation transaction under the Indigenisation & Economic Empowerment Act of 2008 (Chapter 14:33). OMZIL donated \$60 000 000 to qualifying indigenous groups through trusts to acquire OMZIL shares from the main shareholder Old Mutual Netherlands B.V. The shares were transferred to the various trusts on 1 June 2012. The grants represent a share-based payment transaction as defined in IFRS 2, Share-based payments.

OMZIL may be called upon from time to time, to provide such funds as may be required by the Trustees of the various trusts in their capacities as such, to defray the costs and expenses arising out of and in connection with the administration of the trusts.

OMZIL Indigenisation Employee Share Scheme

This scheme operates for the benefit of all employees of the Company who met the qualification criteria set by management. On 1 June 2012, an allocation was made by means of a once-off share award to the participants. The award is not subject to any performance targets but are required to be in the service of Old Mutual during the vesting period.

Participants only take delivery of the shares after the vesting periods of two years (one-third), three years (one-third) and 4 years (one-third) of participation in the scheme. The related expenses are recognised over the respective vesting periods. All shares that were issued under this trust vested in 2016 and there are currently no shares outstanding to staff.

OMZIL Management Incentive Share Scheme

This scheme operates for the benefit of management and its primary purpose is to attract, reward and retain senior and middle management. Awards will be made annually on agreed terms and conditions with a vesting period of three years. Participants receive dividends from the date of the award. Staff joining the Company after the allocation date also participate in the scheme.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

OMZIL Clients Pension Ex-gratia Trust

This scheme operates for the benefit of client pensioners for Old Mutual Life Assurance company. Once off share awards were allocated to participants. These vested immediately and were not subject to any conditions.

Kurera/Ukondla Youth Fund Trust

This scheme operates for the benefit of the youth population of Zimbabwe. It is administered in collaboration with the Ministry of Youth Development, Indigenisation and Empowerment through the Zimbabwe Youth Council. The shares act as collateral to loans accessed from CABS by young people as defined. These share awards vested immediately and were not subject to any conditions.

Strategic Partner

The Strategic partner is Stiefel Investments (Private) Limited (Stiefel), an investment holding company and provider of advisory services. The beneficiary persons behind Stiefel are Messrs L.E.M. Ngwerume, Todd Moyo and Mrs Tracey Mutaviri. Mr Ngwerume is a non-executive director of CABS, while Mrs Mutaviri is a non-executive director of Old Mutual Life Assurance Company Zimbabwe Limited.

The purchase consideration of the shares was US\$13 016 238 for 11 621 641 issued and fully paid up 'B class' shares at a price of US\$ 1.12 per share. The amount funded (finance assisted) by the Company was US\$12 755 913 after a 2% down payment of US\$260 324 paid by Steifel.

Costs associated with Indigenisation transaction

	Company 2017 US\$	Company 2016 US\$
Employee Share Scheme	-	10 998
Management Incentive Scheme	112 367	176 708
	112 367	187 706

Movements relating to the share awards during the year are as follows:

	Company 2017 Number of shares	Company 2016 Number of shares
OMZIL Indigenisation Employee Share Scheme		
Opening balance of shares	-	94 268
Transfer in	-	-
Exercised during the year	-	(94 268)
Transfer out	-	-
Closing balance of shares	-	-
OMZIL Management Incentive Scheme		
Opening balance of shares	457 134	408 526
Issued during the year	.	189 238
Transfer in	-	-
Exercised during the year	(148 824)	(140 630)
Closing balance of shares	308 310	457 134
The expected vesting periods for shares outstanding as at end of year are as follows:-		
2017	-	148 824
2018	119 072	119 072
2019	189 238	189 238

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

50.2 Share based payments reserve

The equity share-based payment reserve is maintained in the Company from the date of issue of the share awards. On exercise of the share awards, settlement will be made through the structured entities controlled by Old Mutual Zimbabwe Limited.

The movement of the reserve during the reporting period is included in the statement of changes in equity.

51 Provisions	Employee related provisions	Other	Company Total 2017
	US\$	US\$	US\$
Balance at beginning of year	240 841	20 548	261 389
Amount utilised	(2 056 266)	(266 997)	(2 323 263)
Charge	2 158 978	208 010	2 366 988
Released	-	-	-
Balance at end of year	343 553	(38 439)	305 114

	Employee related provisions	Other	Total 2016
	US\$	US\$	US\$
Balance at beginning of year	868 125	30 597	898 722
Amount utilised	(236 997)	(291 765)	(528 762)
Charge	341 105	281 716	622 821
Released	(731 392)	-	(731 392)
Balance at end of year	240 841	20 548	261 389

52 Deferred tax liabilities

	At beginning 2017	Income statement charge	Company At end 2017
	US\$	US\$	US\$
Deferred tax liability			
Fair value adjustments	1 141 628	895,941	2 037 569
	1 141 628	895,941	2 037 569
Analysis of deferred tax			
Capital gains			2 037 569

	At beginning 2016	Income statement charge	At end 2016
	US\$	US\$	US\$
Deferred tax liability			
Fair value adjustments	1 173 574	(31,946)	1 141 628
	1 173 574	(31,946)	1 141 628
Analysis of deferred tax			
Capital gains			1 141 628

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 US\$	2016 US\$
53 Other liabilities		
Dividend payable	25 396 125	25 396 125
Kurera-Ukondla Fund	7 747 759	7 747 759
Other liabilities	7 876 960	5 345 119
	<u>41 020 844</u>	<u>38 489 003</u>
54 Share capital and premium		
Authorised share capital		
292 953 125 ordinary shares of \$0.0000032 each	937	937
249 035 156 'A' class ordinary shares of \$0.0000032 each	797	797
83 011 718 'B' class ordinary shares of \$0.0000032 each	267	267
1 preference share of \$1 each (2011: 1)	1	1
Issued share capital		
249 035 156 'A' class ordinary shares of \$0.0000032 each	797	797
83 011 718 'B' class ordinary shares of \$0.0000032 each	267	267
1 preference share of \$1 each	1	1
	<u>1 065</u>	<u>1 065</u>

Subject to the limitations imposed by the Companies Act, the Articles of Association permit the directors to allot the unissued share capital at their discretion without restriction.

These class 'A' and 'B' shares carry the same rights as the ordinary shares.

55 Post employment benefits obligation

The Company provides pension benefits to permanent employees and post-retirement benefits to qualifying employees. Pension benefits have been designed and are administered in accordance with the Pension and Provident Funds Act (Chapter 24:09), and are defined contribution schemes.

The Old Mutual Staff Pension Fund

The Fund is a defined contribution plan registered to provide retirement benefits for the Company's full-time employees.

National Social Security Authority Scheme

This scheme was promulgated under the National Social Security Authority Act 1989. The Company's obligation under the scheme is limited to specific contributions as legislated from time to time and is presently \$45 per month per employee. The Group agreed to keep the employee contributions at \$6 per month and pay any contributions above \$6 on behalf of the employees.

Old Mutual Post Retirement Medical Aid Subsidy Fund

The fund is a defined contribution plan for the Company's full-time employees.

	2017 US\$	2016 US\$
Contributions recognised as an expense for the year		
- Old Mutual Staff Pension Fund	29 510	26 837
- National Social Security Authority Scheme	3 939	4 364
56 Capital commitments		
Authorised	76 200	-
Authorised and contracted for	-	-

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

57 Related party disclosures

Holding company and fellow subsidiaries.

The Company's immediate holding company is Old Mutual (Netherlands) B.V. which holds 75% of the Group's ordinary shares. The ultimate holding company is Old Mutual plc, incorporated in the United Kingdom.

Other Group companies consist of subsidiaries and associates.

Transactions and balances with holding company and other group companies.

	2017 US\$	2016 US\$
Subsidiaries		
Old Mutual Zimbabwe Holdco Limited		
Nature of transactions		
Amounts due to at end of year	(9,093,750)	(132,515)
Old Mutual Investment Group Zimbabwe (Pvt) Ltd		
Nature of transactions: Asset Management Fees	680,480	361,121
Dividend income	5,200,000	3,000,000
Amounts due to at end of year	1,898,661	(14,814)
Central Africa Building Society		
Nature of transactions; Bank charges	2,511	3,020
Interest earned in investments	721,512	525,318
Dividend receivable	30 000 000	15 000 000
Amounts due at end of year	(186,906)	(8,044)
Old Mutual (Zimbabwe) Foundation Trust		
Nature of transactions		
Amounts due at end of year	3,375,170	2,335,015
Old Mutual Netherlands B.V.		
Nature of transactions		
Amounts due at end of year	(10,730,134)	(10,730,134)
CABS Custodial Services (Private) Limited		
Nature of transactions: Custody Fees	240,288	142,405
Dividend income	300,000	300,000
Amounts due at end of year	(34,201)	284,323
Old Mutual Securities (Pvt) Ltd		
Nature of transactions		
Amounts due at end of year	431,542	397,602
Old Mutual Shared Services (Pvt) Ltd		
Nature of transactions: Administration and internal Audit Fees	1,073,059	983,326
Amounts due at end of year	21,958	994,112

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Loans due by or to subsidiaries and other group companies

Loans due by or to subsidiaries or other group companies accrue interest at market related interest rates.

All the Company's principal subsidiaries together with loans due by or to them are listed in note 43 and 46.

Capital advances and amounts due by or to group companies are disclosed in note 46.

Key management personnel

Key management personnel and their close family members and entities which they control, jointly control or over which they exercise significant influence are considered related parties to the Group. Details of transactions are disclosed in note 38.

	Group 2017 US\$	Group 2016 US\$
58 Notes to the group statement of cash flows		
58.1 Non-cash movements and adjustments to profit before tax		
Depreciation and amortisation	10 567 151	9 699 169
Revaluation surplus shadow accounting	(724 662)	(700,327)
Net fair value gains for the year included in profit before tax	(584 357 365)	(75 877 704)
Charges to provisions and post employment benefits obligation	6 387 504	3 709 977
Share-based payments charge	935 727	1 499 475
Movement in policyholder liabilities	497 697 388	94 651 134
Unrealised exchange (gains)/losses	180 901	134 289
	<u>(69 313 356)</u>	<u>33 116 013</u>
58.2 Changes in working capital		
Insurance, other receivables and amounts due by group companies	(102 717 598)	(39,083,293)
Insurance, other payables and amounts due to group companies	253 450 126	8,607,435
Reinsurer's share of insurance contract liabilities	(1 328 911)	(158,021)
Deferred acquisition costs	151 724	4,445
	<u>149 555 341</u>	<u>(30 629 434)</u>
58.3 Taxation paid		
Taxation payable at beginning of year	(29 719 913)	(31 423 233)
Income tax charge for the year	(23 614 160)	(7 571 867)
Taxation payable at end of year	40 977 190	29 719 913
	<u>(12 356 883)</u>	<u>(9 275 187)</u>
58.4 Dividends paid		
Dividends payable at beginning of year	(25 396 125)	(25 396 125)
Dividends declared during the year	(18 786 050)	(16 114 095)
Dividends payable at end of year	25 396 125	25 396 125
	<u>(18 786 050)</u>	<u>(16 114 095)</u>

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Company 2017 US\$	Company 2016 US\$
59 Notes to the company statement of cash flows		
59.1 Non-cash movements and adjustments to profit before tax		
Depreciation and amortisation	96 704	106 461
Impairment of investment in subsidiary	-	-
Profit on sale of equipment	-	(1,250)
Net fair value gains for the year included in profit before tax	(68 419 185)	(10 441 001)
Charges to provisions and post employment benefits obligation	43 725	(637 333)
Share-based payments charge	112 367	187 706
	<u>(68 166 389)</u>	<u>(10 785 417)</u>
59.2 Changes in working capital		
Insurance, other receivables and amounts due by group companies	(738 055)	1 734 880
Insurance, other payables and amounts due to group companies	11 973 625	374 395
	<u>11 235 570</u>	<u>2 109 275</u>
59.3 Taxation paid		
Taxation payable at beginning of year	(1 155 540)	(1 442 284)
Income tax charge for the year	(8 796 540)	(3 602 828)
Taxation payable at end of year	1 739 152	1 155 540
	<u>(8 212 928)</u>	<u>(3 889 572)</u>
59.4 Dividends paid		
Dividends payable at beginning of year	(25 396 125)	(25 396 125)
Dividends declared during the year	(18 860 286)	(16 457 408)
Dividends payable at end of year	25 396 125	25 396 125
	<u>(18 860 286)</u>	<u>(16 457 408)</u>

60 Going concern

The Directors have assessed the ability of the Group to continue operating as a going concern and believe that the preparation of these financial statements on a going concern basis is still appropriate.

61 Subsequent events

Movement of fair values of listed shares

During 2017, the value of the Zimbabwe Stock Exchange (ZSE) Industrial Index increased by 130%. This had a significant impact on the Group's profits given the level of investment in listed equities. Subsequent to year end the value of the ZSE Industrial Index has fallen by 11.55% as at 28 February 2018. This has resulted in the value of the group's listed equity investments falling by \$132,690,251 while profits have been negatively impacted by approximately \$42,339,380. A sensitivity analysis has been done and shown under note 41.

The Group's subsidiaries remain well capitalized and capital levels are well above prescribed minimums.

Commission of Inquiry

On 31 December 2016, a commission of inquiry established by the Government of Zimbabwe concluded its inquiry into the loss in value for certain policyholders and beneficiaries upon the conversion of pension and insurance benefits after the dollarisation of the economy in 2009. On 9 March 2018 the results of the Government's inquiry were made public.

This is however a non adjusting subsequent event and the Group disclosed a Contingent liability on note 34.2.

Notes to the annual financial statements (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group 2017 US\$	Group 2016 US\$
62. Assets held under fiduciary capacity		
Managed third party funds	552 585 776	385 005 906

Managed funds

The Group holds a custodianship responsibility in respect of assets owned by certain pension funds and private clients. Funds under management represent assets being managed on behalf of investors and these are kept off balance sheet. Total funds management (including Group funds) as at 31 December 2017 were US\$2,7 billion (2016: US\$1.8 billion).

Notice

Notice is hereby given that the 20th Annual General Meeting of members of Old Mutual Zimbabwe Limited (the 'Company') will be held at **Meikles Hotel, Mirabelle Room, Corner Jason Moyo and Third Street, Harare, Zimbabwe on Thursday, 26th April, 2018 at 1500hrs** for the purposes of transacting the following business:

AS ORDINARY BUSINESS

1. To receive, consider and adopt the Financial Statements of the Company and the respective reports of the Directors and of the Auditors for the financial year ended 31st December, 2017.
2. To approve the amounts appropriated by the Directors of the Company to meet the payment of dividends to members.
3. To consider the payment of a final dividend to members.
4. To approve the fees paid to Directors.
5. To elect Directors;
In terms of Article 106 of the Articles of Association, one third of the Directors shall retire from office and are eligible for re-election. Dr. L.L. Tumba and Messrs D. Benecke and I. Williamson retire by rotation and, being eligible, offer themselves for re-election.
6. To fix the remuneration for the past year's audit and to elect Auditors for the ensuing year.
7. To transact all such other business as may be transacted at the Annual General Meeting.

IMPORTANT NOTICE

In terms of section 129 of the Companies Act [Chapter 24:03] and Article 78 of the Articles of Association of the Company, a member entitled to attend and vote at a meeting is entitled to appoint a proxy to speak and, on a poll, vote in his stead.

A proxy need not be a member of the Company.

Article 80 of the Articles of Association of the Company requires that Forms of Proxy reach the Company's registered office or the office of the Transfer Secretaries, Corpserve Transfer Secretaries (Private) Limited, 2nd Floor, ZB Centre, Kwame Nkrumah Ave, P.O. Box 2208, Harare, Zimbabwe not less than 48 (forty eight) hours before the date set for the Meeting. Article 81 of the Articles of Association of the Company provides that an instrument appointing a proxy shall be executed in any usual or common form.

The Statutory Financial Statements of the Company, incorporating the report of the Directors, including disclosures of details of resolutions passed at extraordinary general meetings of the Company's subsidiary entities or companies since the last general meeting of the Company, and the report of the Auditors, as well as the Proxy Form shall be sent to registered members of the Company no later than Wednesday, 4th April, 2018.

By Order of the Board

Nqobile Munzara (Mrs)

COMPANY SECRETARY

Registered Office

Mutual Gardens
100 The Chase (West)
Emerald Hill
Harare
Zimbabwe

Wednesday, 4th April, 2018

Proxy form

We
 of
 being a member of the above Company and entitled to vote,
 hereby appoint
 of
 or failing him
 of
 or failing him the Chairman of the Meeting, as our Proxy to vote for us, on our behalf at the ANNUAL GENERAL MEETING
 of the Company to be held on **Thursday, 26th April 2018 at 15h00** and at any adjournment thereof :-

Signed this Day of 2018.

Signature of Member

NOTES

1. Unless otherwise instructed, the proxy will vote as he thinks fit.
2. This proxy form must be signed, dated and returned so as to reach the Company no later than forty-eight hours before the Meeting.

Your attention is drawn to Section 129(3) of the Companies Act (Chapter 24:03), which reads as follows:-

"A member entitled to attend and vote is entitled to appoint one or more proxies to act in the alternative and vote and speak instead of him, and that a proxy need not also be a member".



Do great things