



# **OLD MUTUAL ZIMBABWE LIMITED**

ABRIDGED FINANCIAL STATEMENTS

31 DECEMBER 2016

SAVINGS | INVESTMENTS | INSURANCE | BANKING



**OLDMUTUAL**

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### **Corporate website**

[www.oldmutual.co.zw](http://www.oldmutual.co.zw)

### **Responsible Business Report**

[www.oldmutual.co.zw](http://www.oldmutual.co.zw)





## CHAIRMAN'S STATEMENT

### Dear Shareholder

It is with pleasure that I present to you the consolidated abridged financial statements for Old Mutual Zimbabwe Limited, for the year ended 31 December 2016.

#### Environment

The operating environment remained difficult during the year, which was characterised by the high costs of doing business, foreign currency shortages, depressed aggregate demand and deteriorating investor confidence. Government revised downwards its projected GDP growth target for 2016 from 1.2% to 0.6%, due to the effects of the El-Nino induced drought, spilling over from the 2015/2016 rainy season. Growth is expected to rebound to 3.7% in 2017 driven by a recovery in agriculture. The above normal rainfall recently experienced, is likely to result in an increase in agricultural output in 2017.

During the year, cash shortages grew increasingly acute, leading to the Reserve Bank of Zimbabwe (RBZ) announcing cash withdrawal limits in May 2016. The RBZ also introduced bond notes, which are valued at par with the United States Dollar, as an export incentive. However, the early announcement of their introduction, prior to the actual coming of bond notes into the market, had a significant negative impact on business confidence. The effect was more pronounced on retail investors as some sought to withdraw their funds from monetary portfolios. As at 31 December 2016, bond note export incentives worth US\$72.9 million had been paid to exporters,

while the promotion of the use of plastic money, helped reduce demand for physical cash.

Despite weak corporate earnings registered by the majority of listed companies, the Zimbabwe Stock Exchange (ZSE)'s Industrial Index gained 25.8% in 2016. The significant recovery was on the back of portfolio shifts towards real assets as investors sought to protect themselves from the perceived negative impact of bond notes, on the value of monetary assets. Although we saw increased safe-haven interest in the fixed property asset class, property valuations remained under pressure due to compromised rental collections, investor liquidity constraints and increasing void levels. Lending activity was subdued during the year in light of the deteriorating credit quality of borrowers.

Although inflation closed the year at -0.93%, month-on-month inflation was positive for the last three months of the year. We see inflation emerging as a new economic challenge going forward.

The Commission of Inquiry on the conversion of pension and insurance values during the transition from the Zimbabwe dollar to the multi-currency system, which was set up by the President in 2015, completed its work

## CHAIRMAN'S STATEMENT (Continued)

towards the end of 2016. Old Mutual co-operated with the Commission of Enquiry through the submission of all information requested, as well as through the appearance before the Commission, of the Group Chief Executive Officer and the Chairman of Old Mutual Life Assurance Company. We now await the Commission's final report.

### Financial performance

Adjusted operating profit (AOP), which is comprised of operating profit plus a normalized investment return, was US\$76 million, which was the same result as in 2015, despite the deterioration in the business environment. The normalising of investment returns allows for easier year-on-year comparability of results by adjusting for short term volatility in investment markets. This is done in order to highlight the performance of the core business operations. The banking business recorded a net surplus growth of 38%, to US\$39.2 million, up from US\$28.4 million in 2015, driven by the maintenance of stable net interest margins despite the fall in lending rates, and reduced provisions due to better management of the loan book. Increased transaction fee income, due to the increased use of Point of Sale machines and other digital channels also drove profitability in 2016.

Both the life and short term insurance businesses registered growth in gross premiums, due to new business underwritten. Gross Written Premiums went up by 3% to US\$188.8 million in 2016 from US\$183.5 million in 2015. The life company's wholesale and employee benefits business remains strong, while the performance of the retail business was affected by the negative impact of the economy on our customers. Life company operating income fell by 27% in 2016 to US\$21.8 million due to actuarial assumption basis changes and the enhancement of policyholder reserves. The short term insurance business achieved a commendable underwriting margin of 18%, and adjusted operating profit grew by 10% from 2015.

For the asset management business, despite a rally in the ZSE resulting in Funds Under Management being 13% up on 2015, net fee income was 4% below prior year, due to fee reductions instituted in order to remain competitive and poor market performance during most of 2016. High volumes of retail withdrawals, influenced by macroeconomic uncertainty, negatively impacted the net client cash flow position.

Operating and administration expenses increased by 4% and this was mainly driven by IT spend. Impairment charges on the other hand, fell by 78% due to effective management of the loan book and recoveries from previously non-performing debtors.

IFRS Profit after tax grew by 590% from US\$13.3 million in 2015 to US\$91.8 million in 2016 driven by strong performances in the banking, life insurance and short term insurance businesses, as well as the recovery of the stock market towards the end of 2016.

Total assets increased by 9% to US\$2.16 billion from US\$1.98 billion mainly driven by growth in loans and advances; investments and securities; and cash and cash equivalents. Total liabilities grew by 9% which was largely attributable to the growth in policyholder liabilities, in line with the growth in matching assets.

### Operations

In 2016, the Group continued to focus on improving internal controls, operating efficiencies and service delivery to its customers by investing in IT systems, new products, delivery channels, as well as on internal process improvements.

Our Insurance businesses launched 2 new products during the year – Term Plan (flexible and affordable life insurance) and Ruzhowa (drought risk short term insurance product for farmers). These represent our ability to innovate in the insurance space and will help us retain our market leading position for both life and short term insurance.

## CHAIRMAN'S STATEMENT (Continued)

CABS investment in infrastructure to enhance the customer experience did not go unnoticed by industry observers. The following milestones were achieved in 2016;

- Voted the best Mobile Banking App, (Business Editors Awards) at the Mobile Money and Digital Payments Conference;
- Voted 2nd Best performing Bank in 2016 by the Zimbabwe Independent Newspaper in their Banks and Banking Survey;
- More point of sale terminals were deployed to facilitate use of plastic money.

The short-term insurance business was re-rated A+ by the Global Credit Rating (GCR) and was also re-certified to ISO 9001:2008 for the period 2016 to 2018.

In the wake of the gazetting of regulations by government allowing for the setting up of an Alternative Trading Platform (ATP) operated by Financial Securities Exchange (FINSEC), December 2016 saw the listing of the Old Mutual Zimbabwe Limited (OMZIL) share – the first counter to list on the ATP. The Group also registered a credit-only Microfinance business, the license for which was granted on 13 January 2017. This business will be key in driving the financial inclusion of previously economically marginalized groups, which is a key component of Old Mutual's strategy going forward.

### Responsible business

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. More information is provided in the Responsible Business Report for 2016, which is obtainable from our registered offices.

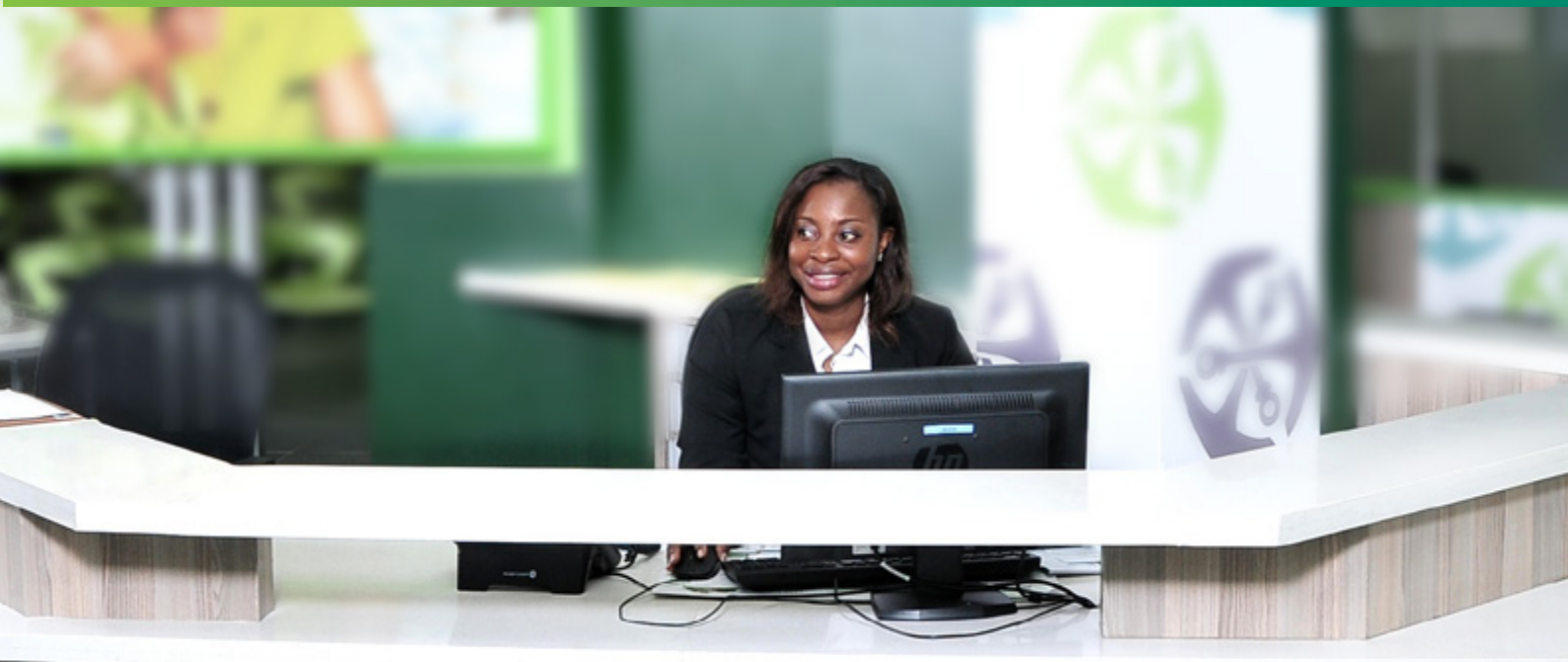
### Outlook

As the economy continues to face uncertainty in 2017, the focus of the Group will be to keep our business future fit and competitive whilst unlocking long-term value for our shareholders. This means responding positively and pro-actively to the business environment and remaining responsive to customer needs in the current dynamic environment. Old Mutual sees opportunities for growth in the economy and remains optimistic on Zimbabwe's long term prospects.



J!Gawaxab  
Chairman

**14 March 2017**



OLDMUTUAL



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## LET'S TALK **OLD MUTUAL GREEN ZONE CENTRES**

We believe that life should always be memorable and easy to get by. That's why we created the Old Mutual Green Zone, a hub that brings together comprehensive financial advice, investment and banking expertise of Old Mutual Zimbabwe Limited Companies under one roof.

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## Responsible to Communities

Providing sustainable, tailored and meaningful support to the communities in which we operate.

OUR  
TO

# Responsible

- Always treating customers fairly
- Ensuring strong capital and risk management capabilities



## Responsible Environmental Management

Helping to monitor, manage and reduce our direct and indirect environmental impacts.



## Responsible to Employees

Building a culture of excellence which our employees are proud to be part of.

# Responsible Business

APPROACH  
LEADING

## Business

- Adhering to strong ethical values and by leveraging the power of diversity



### Responsible to Customers

Putting the customer first in everything we do, aiming to be our customers' most trusted partner.



### Responsible Investment

Systematic incorporation of material environmental, social and governance criteria in our investment and ownership decision.



## DIRECTORS' REPORT

### Responsibility

The directors are responsible for the preparation and fair presentation of the Group annual financial statements, comprising the statement of financial position at 31 December 2016, 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 controls 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

The consolidated abridged 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 significant 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 there under, 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 Collective Investments Schemes Act (Chapter 24:19) and the Securities Act (Chapter 24:25).

### Compliance with IFRSs

These abridged 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 2015 profits and paid during the year;  
April 2016 US\$6 487 899
- II. Ordinary dividends declared out of 2015 profits and paid during the year;  
May 2016 US\$7 500 000
- III. Preference dividend declared out of 2016 profits and paid during the year;  
October 2016 US\$2 469 509
- IV. Final ordinary dividend declared out of 2016 profits US\$7 500 000 payable in  
April 2017

### Directors

Mr. J	IGawaxab	(Chairman)
Mr. J	Mushosho*	(Group Chief Executive Officer)
Mr. IT	Mashinya*	(Executive Director)
Mr. D	Benecke	
Mr. TM	Johnson	
Mr. TC	Madzinga	(resigned w.e.f. Sept 2016)
Mr. MP	Mahlangu	
Mr. K	Mandevani	
Dr. LL	Tsumba	
Mr. MR	Weston	(resigned w.e.f. Oct 2016)
Mr. I	Williamson	

\*Denotes Executive Director

Messrs. IT Mashinya, MP Mahlangu and Dr.K Mandevani 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 CABS as well as OMZIL, 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.

**14 March 2017**

## AUDITOR'S STATEMENT

These consolidated abridged financial statements should be read in conjunction with the complete set of financial statements for the year ended 31 December 2016, which have been audited by KPMG Chartered Accountants (Zimbabwe) and an unqualified opinion issued thereon. The auditor's report is available for inspection at the company's registered address.

KPMG Chartered Accountants (Zimbabwe)  
Harare, Zimbabwe

**14 March 2017**

## GROUP STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 Group US\$	2015 Group US\$
<b>Revenue</b>			
Gross earned premiums	4	188 796 808	183 524 027
Outward reinsurance		(10 820 108)	(12 242 042)
Net earned premiums		177 976 700	171 281 985
Investment income (non banking)	5	128 775 115	(126 188 175)
Banking interest and similar income	6	93 339 766	100 837 061
Fee income, commissions and income from service contracts	7	58 734 149	54 570 888
Other income		1 566 462	3 305 084
<b>Total revenue</b>		<b>460 392 192</b>	<b>203 806 843</b>
<b>Expenses</b>			
Claims and benefits (including change in insurance contract provisions)	8	(217 611 658)	(47 655 890)
Reinsurance recoveries		1 802 932	1 407 858
Net claims incurred		(215 808 726)	(46 248 032)
Change in provision for investment contract liabilities		(6 682 553)	8 865 189
Fees, commissions and other acquisition costs		(10 254 770)	(7 487 470)
Banking interest payable and similar expenses	6	(34 831 590)	(41 863 580)
Impairment charges		(3 531 106)	(16 400 463)
Other operating and administration expenses	9	(89 878 839)	(86 048 327)
<b>Total expenses</b>		<b>(360 987 584)</b>	<b>(189 182 683)</b>
<b>Profit before tax</b>		<b>99 404 608</b>	<b>14 624 160</b>
Income tax expense		(7 571 867)	(1 314 178)
<b>Profit for the year</b>		<b>91 832 741</b>	<b>13 309 982</b>
Attributable to non-controlling interests		3 155 851	981 932
Attributable to owners of parent company		88 676 890	12 328 050
		<b>91 832 741</b>	<b>13 309 982</b>

## GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 Group US\$	2015 Group US\$
<b>Profit for the year</b>		<b>91 832 741</b>	<b>13 309 982</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Property revaluation		(1 120 337)	(4 565 152)
Shadow accounting		( 700 327)	(250 328)
Regulatory impairment allowance		(5 984 345)	(8 095 014)
<b>Total comprehensive income for the year</b>		<b>84 027 732</b>	<b>399 488</b>
Total comprehensive income attributable to:			
Owners of parent company		80 871 881	(582 444)
Non-controlling interests		3 155 851	981 932
		<b>84 027 732</b>	<b>399 488</b>
<b>Earnings per share</b>			
Basic and diluted (US cents)	10	26.71	3.71

## GROUP STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Notes	2016 Group US\$	2015 Group US\$
<b>Assets</b>			
Investment property	11	392 554 780	408 390 833
Property and equipment		92 466 009	91 221 552
Deferred acquisition costs		893 405	897 850
Reinsurer contracts		1 949 657	1 791 636
Investments and securities	12	801 700 043	664 014 093
Deferred tax assets		1 030 934	790 006
Loans and advances	13	583 252 405	563 142 252
Other assets		128 839 053	109 865 913
Cash and cash equivalents		161 851 032	137 005 929
<b>Total assets</b>		<b>2 164 537 318</b>	<b>1 977 120 064</b>
<b>Liabilities</b>			
Insurance contract liabilities	14	900 788 677	785 793 472
Investment contract liabilities	15	76 330 845	71 381 199
Provisions		15 002 534	15 488 708
Deferred tax liabilities		30 298 182	31 478 765
Current tax payables		452 664	734 475
Amounts due to group companies		57 347 829	50 000 000
Amounts owed to bank depositors	16	624 587 251	598 646 228
Borrowed funds		28 654 056	39 247 353
Other liabilities		52 127 147	66 215 266
<b>Total liabilities</b>		<b>1 785 589 185</b>	<b>1 658 985 466</b>
<b>Net assets</b>		<b>378 948 133</b>	<b>318 134 598</b>
<b>Shareholders' equity</b>			
Share capital and premium		1 065	1 065
Non-distributable reserve		52 457 048	52 457 048
Revaluation reserve		18 456 249	20 276 913
Share option reserve		32 037 134	45 121 581
Regulatory provisions reserve		16 517 093	10 532 748
Retained earnings		247 192 464	179 231 048
		<b>366 661 053</b>	<b>307 620 403</b>
Non-controlling interests		12 287 080	10 514 195
<b>Total equity</b>		<b>378 948 133</b>	<b>318 134 598</b>

## GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital & premium US\$	Share capital & distributable reserve US\$	Revaluation reserve US\$	Share option reserve US\$	Regulatory provisions reserve US\$	Retained income US\$	Equity total US\$	Non-controlling interests US\$	Equity total US\$
<b>2016</b>									
<b>Shareholders' equity at beginning of year</b>	<b>1 065</b>	<b>52 457 048</b>	<b>20 276 913</b>	<b>45 121 581</b>	<b>10 532 748</b>	<b>179 231 048</b>	<b>307 620 403</b>	<b>10 514 195</b>	<b>318 134 598</b>
Profit for the financial year						88 676 890	88 676 890	3 155 851	91 832 741
Other comprehensive income									
Shadow accounting			(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)	-		-
<b>Total Comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(1 820 664)</b>	<b>-</b>	<b>5 984 345</b>	<b>82 692 545</b>	<b>86 856 226</b>	<b>3 155 851</b>	<b>90 012 077</b>
Treasury shares				(13 084 447)			(13 084 447)		(13 084 447)
Dividends paid						(14 731 129)	(14 731 129)	(1 382 966)	(16 114 095)
<b>Transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(13 084 447)</b>	<b>-</b>	<b>(14 731 129)</b>	<b>(27 815 576)</b>	<b>(1 382 966)</b>	<b>(29 198 542)</b>
<b>Shareholders' equity at end of year</b>	<b>1 065</b>	<b>52 457 048</b>	<b>18 456 249</b>	<b>32 037 134</b>	<b>16 517 093</b>	<b>247 192 464</b>	<b>366 661 053</b>	<b>12 287 080</b>	<b>378 948 133</b>
<b>2015</b>									
<b>Shareholders' equity at beginning of year</b>	<b>1 065</b>	<b>52 457 048</b>	<b>25 092 393</b>	<b>46 464 058</b>	<b>2 437 734</b>	<b>192 670 396</b>	<b>319 122 694</b>	<b>9 532 263</b>	<b>328 654 957</b>
Profit for the financial year						12 328 050	12 328 050	981 932	13 309 982
Other comprehensive income									
Shadow accounting			(250 328)				(250 328)		(250 328)
Revaluation of property			(4 565 152)				(4 565 152)		(4 565 152)
Transfer to reserve					8 095 014	(8 095 014)	-		-
<b>Total Comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(4 815 480)</b>	<b>-</b>	<b>8 095 014</b>	<b>4 233 036</b>	<b>7 512 570</b>	<b>981 932</b>	<b>8 494 502</b>
Vested shares paid out				(1 342 477)			(1 342 477)		(1 342 477)
Impairment loss									
Dividends paid						(17 672 384)	(17 672 384)	-	(17 672 384)
<b>Transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1 342 477)</b>	<b>-</b>	<b>(17 672 384)</b>	<b>(19 014 861)</b>	<b>-</b>	<b>(19 014 861)</b>
<b>Shareholders' equity at end of year</b>	<b>1 065</b>	<b>52 457 048</b>	<b>20 276 913</b>	<b>45 121 581</b>	<b>10 532 748</b>	<b>179 231 048</b>	<b>307 620 403</b>	<b>10 514 195</b>	<b>318 134 598</b>

## GROUP STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	<b>2016 Group US\$</b>	<b>2015 Group US\$</b>
<b>Cash flows from operating activities</b>		
Profit before tax	99 404 608	14 624 160
Non-cash movements and adjustments to profit before tax	33 116 013	121 430 280
Changes in working capital	(30 629 434)	21 201 972
Taxation paid	(9 275 187)	(5 761 933)
<b>Net cash from operating activities</b>	<b>92 616 000</b>	<b>151 494 479</b>
<b>Cash flows from investing activities</b>		
Acquisition of financial assets	(36 054 591)	(95 294 996)
Acquisition of investment properties	(4 585 996)	(6 281 768)
Acquisition of property and equipment	(10 881 926)	(10 917 376)
<b>Net cash used in investing activities</b>	<b>(51 522 513)</b>	<b>(112 494 140)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(16 114 095)	(17 672 384)
<b>Net cash used in financing activities</b>	<b>(16 114 095)</b>	<b>(17 672 384)</b>
<b>Net increase in cash and cash equivalents</b>	<b>24 979 392</b>	<b>21 327 955</b>
<b>Net foreign exchange differences on cash and cash equivalents</b>	<b>(134 289)</b>	<b>2 032 436</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>137 005 929</b>	<b>113 645 538</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>161 851 032</b>	<b>137 005 929</b>

# NOTES TO THE ABRIDGED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. General Information

Old Mutual Zimbabwe Limited (OMZIL) and its subsidiaries are incorporated in Zimbabwe. These consolidated abridged financial statements comprise the Company 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 formerly known as Three Anchor Investments (Private) Limited t/a Old Mutual Custodial Services (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).

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. Significant accounting policies

### 2.1 Basis of preparation

The consolidated abridged 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 property and equipment which are included at valuation, insurance contract provisions and provisions for investment contracts with discretionary participating features which are calculated on a Financial Soundness Valuation Basis. 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 basis of preparation of these abridged financial statements is the International Financial Reporting Standards (IFRS).

The Group financial statements have been prepared on the going concern basis which the directors believe to be appropriate.

### 2.2 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 judgements 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 and for investment properties and provisions. Insurance contract accounting and key assumptions made in determining insurance contract provisions are discussed in more detail in note 2.5.

The fair values of investment properties, financial assets and liabilities are classified and accounted for in accordance with the policies set out in section 2.6 and 2.7 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.

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

### 2. Significant accounting policies (continued)

#### 2.2 Critical accounting estimates and judgements (continued)

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. In assessing whether the Group has significant influence over such investees in which it has at least 20% shareholding, the Group considers numerous factors as prescribed by the standard. These factors are as follows;

- a) representation on the board of directors or equivalent governing body of investee;
- b) participation in policy-making processes, including participation in decisions about dividends or other distributions;
- c) material transactions between the entity and its investee;
- d) interchange of managerial personnel; or
- e) provision of essential technical information.

The Group has opted not to recognise certain investments in which it holds more than 20% shareholding as associates based on the evaluation criteria in IAS 28.

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 12.1 and are recorded at fair value with no impairment as both capital and interest continue to be settled on maturity date.

### 2.3 Scope of consolidation

#### 2.3.1 Subsidiary undertakings

Subsidiary undertakings are those enterprises 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 where the Group retains 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 fair 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.

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued)

### FOR THE YEAR ENDED 31 DECEMBER 2016

## 2. Significant accounting policies (continued)

### 2.3 Scope of consolidation (continued)

#### 2.3.1 Subsidiary undertakings (continued)

##### Loss of control

When the Group loses control over a subsidiary, it derecognises 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.

#### 2.4 Revenue

Revenue comprises premium income from insurance contracts and investment contracts with a discretionary participating feature, fee income from investment management contracts, commission income, interest 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 2.5 and 2.7 below.

### 2.5 Insurance and investment contracts

#### 2.5.1 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.

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 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.

#### 2.5.2 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 to investment contract liabilities.

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

### 2. Significant accounting policies (continued)

#### 2.5 Insurance and investment contracts (continued)

##### 2.5.3 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.

##### 2.5.4 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.

Claims outstanding comprise provisions 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.

##### 2.5.5 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

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

### 2. Significant accounting policies (continued)

#### 2.5 Insurance and investment contracts (continued)

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 equity.

#### 2.5.6 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.

#### 2.5.7 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.

#### 2.5.8 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.

### 2.6 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. 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.

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

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

### 2. Significant accounting policies (continued)

#### 2.6 Investment property (continued)

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.

#### 2.7 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.

##### 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 on which the Group's right to receive payment is established. 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

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

### 2. Significant accounting policies (continued)

#### 2.7 Financial instruments (continued)

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 are included separately in investment income.

#### 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 undertakings are measured at amortised cost using the effective interest rate less any impairment losses. Interest income is recognised as part of investment income.

#### Cash and cash equivalents

For the purposes of the cash flow statement, 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.

#### 2.8 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

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

### 2. Significant accounting policies (continued)

#### 2.8 Impairment of financial assets (continued)

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 net 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. Where the provision as per RBZ guidelines is higher than the IAS 39 impairment losses, the excess is treated as an appropriation of equity.

#### 2.9 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, the parent company and key management personnel. Transactions and balances are reflected in note 17.

#### 2.10 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 Life assurance (premium income), general insurance (premium income), Asset management (fee and commission income) and Banking (banking interest and fee income). 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 and the Statement of Financial Position in note 3.

#### 2.11 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 2016:

- Clarification of acceptable methods of depreciation and amortisation - Amendments to IAS 16 and IAS 38
- Annual improvements to IFRSs 2012 - 2014 cycle, and
- Disclosure initiative - amendments to IAS 1

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

#### 2.12 Forthcoming requirements

##### Future amendments not early adopted in the 2016 annual financial statements

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2016 reporting period 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:

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

### 2. Significant accounting policies (continued)

#### 2.12 Forthcoming requirements (continued)

##### **IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (effective for accounting periods beginning on or after 1 January 2017)**

The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised. Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this.

Guidance is provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type.

Management is currently assessing the impact of this standard on the Group.

##### **IAS 7 Disclosure Initiative (effective for accounting periods beginning on or after 1 January 2017)**

The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities.

Management will adopt the changes in 2017, however the changes are not expected to have a material impact on the financial statements as the amounts disclosed for financing activities will not change, except for the additional disclosures that will be required.

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

The IASB issued IFRS 16 'Leases' in January 2016. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). IFRS 16 replaces the previous leases standard, IAS 17 'Leases', and related Interpretations.

The Group as lessee:

IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

- (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- (b) depreciation of right-of-use assets separately from interest on lease liabilities in the income statement.

The Group as lessor:

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The most significant effect of the new requirements in IFRS 16 will be an increase in right-of-use assets and financial liabilities. The Group is in the process of quantifying the aforementioned increase in right-of-use assets and financial liabilities.

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

### 2. Significant accounting policies (continued)

#### 2.12 Forthcoming requirements (continued)

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

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers', which specifies how and when revenue is recognised, but does not impact income recognition related to financial instruments in the scope of IFRS 9 or IAS 39. IFRS 15 replaces several other IFRS standards and interpretations that currently govern revenue recognition under IFRS and provides a single, principles-based five-step model to be applied to all contracts with customers. The standard also requires entities to provide users of financial statements with more informative and relevant disclosures. [The implementation of the standard will primarily impact the Group's asset management business. The treatment of revenue relating to financial instruments and insurance contracts will be dealt with according to the specific standard.]

The impact on the financial statements has not yet been estimated.

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

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which replaces IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for how an entity should classify and measure financial assets, requires changes to the reporting of 'own credit' with respect to issued debt liabilities that are designated at fair value, replaces the current rules for impairment of financial assets and amends the requirements for hedge accounting.

##### **Classification and measurement of financial assets and liabilities:**

IFRS 9 requires that an entity's business model and a financial instrument's contractual cash flows will determine its classification and therefore its measurement in the financial statements. Upon assessment each financial asset will be classified as either fair value through profit or loss (FVTPL), amortised cost, or fair value through Other Comprehensive Income (FVOCI). As these requirements are different from the assessments under the existing IAS 39 rules, some differences to classification and measurement of financial assets are to be expected. The classification and measurement of financial liabilities remain largely unchanged under IFRS 9 from current requirements. However, where issued debt liabilities are designated at fair value, the fair value movements attributable to an entity's own credit risk will be recognised in Other Comprehensive Income rather than in the consolidated income statement under IFRS 9, unless there is an accounting mismatch in which case the entity's own credit risk is recognised in the consolidated income statement.

##### **Impairment of financial assets:**

The impairment rules under IFRS 9 will apply to debt instruments that are measured at amortised cost or FVOCI. Impairment will move from a model whereby credit losses are recognised when a 'trigger' event occurs under IAS 39 to a forward-looking 'expected credit loss' model.

##### **Hedge accounting:**

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. Generally, some restrictions under current rules have been removed and a greater variety of hedging instruments and hedged items become available for hedge accounting.

The impact on the financial statements has not yet been estimated.

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016

3	Segment information	Life Assurance US\$	General Insurance US\$	Banking US\$	Asset Management US\$	Holding Co & Other US\$	Consolidation Adjustments US\$	Total US\$
A	<b>Statement of profit or loss - segment information for the year ended 2016</b>							
	<b>Revenue</b>							
	Gross earned premiums	151 948 793	36 848 015	-	-	-	-	188 796 808
	Outward reinsurance	(2 316 362)	(8 503 746)	-	-	-	-	(10 820 108)
	Net earned premiums	149 632 431	28 344 269	-	-	-	-	177 976 700
	Investment income (non banking)	105 884 870	3 100 303	-	223 041	40 068 288	(20 501 387)	128 775 115
	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	265 774	1 566 462
	<b>Total revenue</b>	<b>262 570 425</b>	<b>33 753 810</b>	<b>138 559 775</b>	<b>16 655 374</b>	<b>54 339 741</b>	<b>(45 486 933)</b>	<b>460 392 192</b>
	<b>Expenses</b>							
	Claims and benefits (including change in insurance contract provisions)	(204 269 543)	(13 342 115)	-	-	-	-	(217 611 658)
	Reinsurance recoveries	1 802 932	-	-	-	-	-	1 802 932
	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)	-	(26 153)	-	2 307 936	(10 254 770)
	Banking interest payable and similar expenses	-	-	(34 831 590)	-	-	-	(34 831 590)
	Impairment charges	-	-	(3 531 106)	-	-	-	(3 531 106)
	Other operating and administration expenses	(15 640 312)	(6 743 086)	(60 969 094)	(10 080 726)	(18 073 453)	21 627 832	(89 878 839)
	<b>Total expenses</b>	<b>(231 638 593)</b>	<b>(25 772 637)</b>	<b>(99 331 790)</b>	<b>(10 106 879)</b>	<b>(18 073 453)</b>	<b>23 935 768</b>	<b>(360 987 584)</b>
	<b>Profit before tax</b>	<b>30 931 832</b>	<b>7 981 173</b>	<b>39 227 985</b>	<b>6 548 495</b>	<b>36 266 288</b>	<b>(21 551 165)</b>	<b>99 404 608</b>
	Income tax expense	690 516	(1 581 911)	-	(2 247 663)	(2 626 472)	(1 806 337)	(7 571 867)
	<b>Profit for the year</b>	<b>31 622 348</b>	<b>6 399 262</b>	<b>39 227 985</b>	<b>4 300 832</b>	<b>33 639 816</b>	<b>(23 357 502)</b>	<b>91 832 741</b>

# NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued)

## FOR THE YEAR ENDED 31 DECEMBER 2016

3	Segment information	Life Assurance US\$	General Insurance US\$	Banking US\$	Asset Management US\$	Holding Co & Other US\$	Consolidation Adjustments US\$	Total US\$
A	<b>Statement of profit or loss - segment information for the year ended 2015</b>							
	<b>Revenue</b>							
	Gross earned premiums	147 640 546	35 883 481	-	-	-	-	183 524 027
	Outward reinsurance	(2 398 534)	(9 843 508)	-	-	-	-	(12 242 042)
	Net earned premiums	145 242 012	26 039 973	-	-	-	-	171 281 985
	Investment income (non banking)	(109 826 979)	(628 582)	(265 453)	416 779	16 491 983	(32 375 923)	(126 188 175)
	Banking interest and similar income	-	-	100 837 061	-	-	-	100 837 061
	Fee income commissions and income from service contracts	8 333 643	2 621 219	36 823 049	16 763 739	13 688 038	(23 658 800)	54 570 888
	Other income	78 624	-	2 778 116	193 512	232 189	22 643	3 305 084
	<b>Total revenue</b>	<b>43 827 300</b>	<b>28 032 610</b>	<b>140 172 773</b>	<b>17 374 030</b>	<b>30 412 210</b>	<b>(56 012 080)</b>	<b>203 806 843</b>
	<b>Expenses</b>							
	Claims and benefits (including change in insurance contract provisions)	(34 749 967)	(12 905 923)	-	-	-	-	(47 655 890)
	Reinsurance recoveries	1 407 858	-	-	-	-	-	1 407 858
	Net claims incurred	(33 342 109)	(12 905 923)	-	-	-	-	(46 248 032)
	Change in provision for investment contract liabilities	8 865 189	-	-	-	-	-	8 865 189
	Fees, commissions and other acquisition costs	(7 085 152)	(5 171 570)	-	(32 799)	-	4 802 051	(7 487 470)
	Banking interest payable and similar expenses	-	-	(41 863 580)	-	-	-	(41 863 580)
	Credit loss and impairment charges	-	-	(15 302 593)	-	(1 097 870)	-	(16 400 463)
	Other operating and administration expenses	(15 950 924)	(6 224 397)	(54 633 108)	(10 173 499)	(20 041 270)	20 974 871	(86 048 327)
	<b>Total expenses</b>	<b>(47 512 996)</b>	<b>(24 301 890)</b>	<b>(111 799 281)</b>	<b>(10 206 298)</b>	<b>(21 139 140)</b>	<b>25 776 922</b>	<b>(189 182 683)</b>
	<b>Profit/(loss) before tax</b>	<b>(3 685 696)</b>	<b>3 730 720</b>	<b>28 373 492</b>	<b>7 167 732</b>	<b>9 273 070</b>	<b>(30 235 158)</b>	<b>14 624 160</b>
	Income tax expense	4 537 405	(1 740 183)	-	(2 134 824)	(1 545 057)	(431 519)	(1 314 178)
	<b>Profit for the year</b>	<b>851 709</b>	<b>1 990 537</b>	<b>28 373 492</b>	<b>5 032 908</b>	<b>7 728 013</b>	<b>(30 666 677)</b>	<b>13 309 982</b>

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016

3	Segment information	Life Assurance US\$	General Insurance US\$	Banking US\$	Asset Management US\$	Holding Co & Other US\$	Consolidation Adjustments US\$	Total US\$
<b>B</b>	<b>Statement of financial position - segment information at 31 December 2016</b>							
	<b>Assets</b>							
	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	-	892 203	-	-	-	1 202	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	1 598 514	15 351 048	121 851 499	1 497 790	7 165 547	-	161 851 032
	<b>Total assets</b>	<b>1 172 452 794</b>	<b>39 370 899</b>	<b>1 073 095 800</b>	<b>11 768 533</b>	<b>270 774 489</b>	<b>(402 925 197)</b>	<b>2 164 537 318</b>
	<b>Liabilities</b>							
	Insurance contract liabilities	888 345 414	12 443 263	-	-	-	-	900 788 677
	Investment contract liabilities	76 330 845	-	-	-	-	-	76 330 845
	Provisions	841 242	614 591	5 467 850	774 047	7 316 506	(11 702)	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	-	-	(220 459 958)	624 587 251
	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
	<b>Total liabilities</b>	<b>1 011 257 538</b>	<b>13 568 920</b>	<b>897 012 837</b>	<b>4 104 557</b>	<b>142 847 832</b>	<b>(283 202 499)</b>	<b>1 785 589 185</b>
	<b>Net assets</b>	<b>161 195 256</b>	<b>25 801 979</b>	<b>176 082 963</b>	<b>7 663 976</b>	<b>127 926 657</b>	<b>(119 722 698)</b>	<b>378 948 133</b>
	<b>Shareholders' equity</b>							
	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	-	9 119 402	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
	<b>Total equity</b>	<b>161 195 256</b>	<b>25 801 979</b>	<b>176 082 963</b>	<b>7 663 976</b>	<b>127 926 657</b>	<b>(119 722 698)</b>	<b>378 948 133</b>

# NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued)

## FOR THE YEAR ENDED 31 DECEMBER 2016

3	Segment information	Life Assurance US\$	General Insurance US\$	Banking US\$	Asset Management US\$	Holding Co & Other US\$	Consolidation Adjustments US\$	Total US\$
<b>B</b>	<b>Statement of financial position - segment information at 31 December 2015</b>							
	<b>Assets</b>							
	Investment property	384 582 680	346 000	22 982 153	-	480 000	-	408 390 833
	Property and equipment	26 658 178	496 208	60 669 736	1 131 886	2 265 544	-	91 221 552
	Deferred acquisition costs	-	897 850	-	-	-	-	897 850
	Reinsurer contracts	-	1 791 636	-	-	-	-	1 791 636
	Investments and securities	586 263 596	10 389 475	222 860 007	6 739 877	210 653 019	(372 891 881)	664 014 093
	Deferred tax assets	-	341 054	-	612 782	377 321	(541 151)	790 006
	Loans and advances	-	-	563 142 252	-	-	-	563 142 252
	Other assets	28 302 671	2 718 888	68 000 776	4 701 617	45 271 202	(39 129 240)	109 865 913
	Cash and cash equivalents	7 634 219	16 713 558	105 290 002	1 086 847	4 995 490	1 285 813	137 005 929
	<b>Total assets</b>	<b>1 033 441 344</b>	<b>33 694 669</b>	<b>1 042 944 926</b>	<b>14 273 009</b>	<b>264 042 577</b>	<b>(411 276 459)</b>	<b>1 977 120 064</b>
	<b>Liabilities</b>							
	Insurance contract liabilities	787 545 480	10 420 129	-	-	-	(12 172 137)	785 793 472
	Investment contract liabilities	71 381 199	-	-	-	-	-	71 381 199
	Provisions	1 683 711	56 919	5 118 896	1 816 110	6 813 072	-	15 488 708
	Deferred tax liabilities	30 244 434	-	-	-	4 154 617	(2 920 286)	31 478 765
	Current tax payables	-	384 078	-	7 545	357 880	(15 028)	734 475
	Amounts due to group companies	3 727 611	1 22 584	47 860	4 034 553	90 541 370	(48 473 978)	50 000 000
	Amounts owed to bank depositors	-	-	829 080 001	-	-	(230 433 773)	598 646 228
	Credit lines	-	-	39 247 353	-	-	-	39 247 353
	Other liabilities	15 106 127	619 474	16 289 682	1 596 809	59 068 973	(26 465 801)	66 215 266
	<b>Total liabilities</b>	<b>909 688 562</b>	<b>11 603 184</b>	<b>889 783 792</b>	<b>7 455 017</b>	<b>160 935 913</b>	<b>(320 481 002)</b>	<b>1 658 985 466</b>
	<b>Net assets</b>	<b>123 752 782</b>	<b>22 091 485</b>	<b>153 161 134</b>	<b>6 817 992</b>	<b>103 106 662</b>	<b>(90 795 457)</b>	<b>318 134 598</b>
	<b>Shareholders' equity</b>							
	Share capital and premium	30 121 844	9 405	35 000 000	2 900 202	1 001 327	(69 031 713)	1 065
	Non-distributable reserve	24 283 663	3 177 617	1 445 851	728 710	20 558 211	2 262 996	52 457 048
	Revaluation reserve	-	-	20 269 575	-	7 338	-	20 276 913
	Share option reserve	3 324 806	1 093 743	4 830 575	2 301 976	60 560 278	(26 989 797)	45 121 581
	Regulatory provisions reserve	-	-	2 437 735	-	-	8 095 013	10 532 748
	Retained earnings	66 022 469	7 296 525	89 177 398	887 104	20 979 508	(5 131 956)	179 231 048
		123 752 782	11 577 290	153 161 134	6 817 992	103 106 662	(90 795 457)	307 620 403
	Noncontrolling interests	-	10 514 195	-	-	-	-	10 514 195
	<b>Total equity</b>	<b>123 752 782</b>	<b>22 091 485</b>	<b>153 161 134</b>	<b>6 817 992</b>	<b>103 106 662</b>	<b>(90 795 457)</b>	<b>318 134 598</b>

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

	Group 2016 US\$	Group 2015 US\$
<b>4 Gross earned premiums</b>		
<b>Gross premiums</b>		
Single	1 613 086	3 143 362
Recurring	17 990 905	16 505 263
<b>Individual business</b>	<b>19 603 991</b>	<b>19 648 625</b>
Single	59 238 309	52 282 608
Recurring	73 106 493	75 709 313
<b>Group business</b>	<b>132 344 802</b>	<b>127 991 921</b>
<b>General insurance</b>	<b>36 848 015</b>	<b>35 883 481</b>
<b>Total gross premiums and investment contract deposits</b>	<b>188 796 808</b>	<b>183 524 027</b>
<b>Comprising</b>		
Insurance contracts	41 125 720	39 633 781
Investment contracts with discretionary participating features	110 823 073	108 006 765
General insurance	36 848 015	35 883 481
Total gross written premium	188 796 808	183 524 027
<b>5 Investment income (non banking)</b>		
<b>Dividend income</b>		
Financial assets at fair value through profit or loss	18 358 536	17 447 549
<b>Interest income</b>		
Cash and cash equivalents	22 061 428	23 786 438
<b>Net rental income</b>		
Investment property	12 477 448	10 367 117
<b>Realised gains and losses</b>		
Financial assets at fair value through profit or loss	(6 359 844)	5 160 334
<b>Unrealised gains and losses</b>		
Investment property	(19 393 812)	(29 930 707)
Financial assets at fair value through profit or loss	101 631 359	(153 018 906)
Total unrealised gains and losses	82 237 547	(182 949 613)
<b>Total investment returns included in income statement</b>	<b>128 775 115</b>	<b>(126 188 175)</b>

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

	<b>Group 2016 US\$</b>	<b>Group 2015 US\$</b>
<b>6 Banking interest and similar income</b>		
<b>Interest and similar income</b>		
<b>Loans and advances</b>		
Fixed Deposits	16 971 222	17 246 407
Loans and advances	76 368 544	83 590 654
<b>Total interest and similar income</b>	<b>93 339 766</b>	<b>100 837 061</b>
<b>Interest Expense:</b>		
Credit lines	(3 497 123)	(4 084 407)
Savings certificates deposits	(30 288 333)	(36 165 685)
Term deposits	(26 745)	(196 042)
Savings deposits	(1 019 389)	(1 417 446)
<b>Total interest expense</b>	<b>(34 831 590)</b>	<b>(41 863 580)</b>
<b>Net Interest Income</b>	<b>58 508 176</b>	<b>58 973 481</b>
<b>7 Fee income, commissions and income from service contracts</b>		
Banking operations:		
Commissions	6 357 804	2 713 430
Service fees	23 481 502	23 743 187
Administration fees	14 435 142	10 354 242
Total fee income and commission from banking operations:	44 274 448	36 810 859
Long term insurance business	7 187 634	8 333 645
Asset management business	7 272 067	9 426 384
	<b>58 734 149</b>	<b>54 570 888</b>

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

	<b>Group 2016 US\$</b>	<b>Group 2015 US\$</b>
<b>8 Claims and benefits</b>		
<b>Claims and benefits:</b>		
(including change in insurance contract provisions)		
Increase/(decrease) in insurance contracts provision	100 972 325	(68 278 040)
Gross claims expenses (refer note 8.1)	117 276 631	116 161 728
Shadow accounting to revaluation reserve	( 637 298)	( 227 798)
	<b>217 611 658</b>	<b>47 655 890</b>
<b>8.1 Analysis of claims and expenses</b>		
<b>Individual business</b>	<b>4 327 732</b>	<b>3 671 638</b>
Death and disability benefits	1 977 468	1 653 422
Maturity benefits	544 594	542 815
Surrenders	1 805 670	1 475 401
<b>Group business</b>	<b>99 606 784</b>	<b>99 584 167</b>
Death and disability benefits	14 578 854	11 714 746
Pension commutations, maturities and withdrawal benefits	57 824 461	58 326 169
Annuities	14 667 042	13 527 561
Surrenders	12 536 427	16 015 691
<b>General insurance</b>	<b>13 342 115</b>	<b>12 905 923</b>
<b>Total claims and benefits</b>	<b>117 276 631</b>	<b>116 161 728</b>
<b>Comprising:</b>		
Insurance contracts	17 662 749	14 614 324
Investment contracts with discretionary participating features	86 271 767	88 641 481
General insurance	13 342 115	12 905 923
Total claims and benefits payable and investment contract withdrawals	117 276 631	116 161 728

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

	<b>Group 2016 US\$</b>	<b>Group 2015 US\$</b>
<b>9 Other operating and administration expenses</b>		
Administrative expenses	34 848 903	32 370 610
Donations	1 285 420	972 152
Share based payments	1 499 475	2 544 414
Depreciation of property, plant and equipment	9 699 169	9 266 536
	<b>46 742 967</b>	<b>45 153 712</b>
<b>Auditors' remuneration</b>		
Statutory audit services - current year	588 278	515 313
<b>Staff costs</b>		
Wages and salaries	27 794 036	24 451 083
Retirement obligations	2 390 239	2 881 935
Social security costs	803 873	963 515
Bonus and incentive remuneration	2 084 591	5 730 932
Other staff costs	5 292 824	2 510 186
	<b>38 365 563</b>	<b>36 537 651</b>
Other	3 592 031	3 841 651
<b>Total other operating and administration expenses</b>	<b>89 878 839</b>	<b>86 048 327</b>

### 10 Earnings per share

The calculation of basic earnings per share at 31 December 2016 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:

<b>Basic and diluted (US cents)</b>	<b>26.71</b>	<b>3.71</b>
<b>Earnings</b>		
Basic and diluted earnings attributable to equity holders of the parent (US\$)	88 676 890	12 328 050
<b>Number of shares used in calculations</b>		
Basic and diluted earnings per share	332 046 874	332 046 874

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

	Group 2016 US\$	Group 2015 US\$
<b>11 Investment property</b>		
Carrying amount at beginning of year	408 390 833	439 881 551
Additions	4 585 996	6 281 768
Transfer to mortgage bonds	-	(15 924 174)
Transfer from/(to) Non current assets held for sale	-	8 000 000
Disposal	( 894 256)	-
(Loss) from fair value adjustments	(19 527 793)	(29 848 312)
<b>Carrying amount at end of year</b>	<b>392 554 780</b>	<b>408 390 833</b>

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. Fair values are determined by having regard to recent market transactions for similar properties in the same location as the Group's investment property. As at 31 December 2016 fair values were determined using yield rates of between 7% and 12% (2014: 7% and 12%) and rental rates of between US\$0.40 (2015: US\$0.50) per square metre and US\$25 (2014:US\$25) per square metre. 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.

As security for a credit line from PTA Bank, 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\$32.5million as at 31 December 2016 (both investment properties and owner occupied properties). OMZIL has guaranteed the Shelter Afrique loan for a full amount of US\$14.4 million. 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.

The fair value of the Group's properties are categorised into Level 3 of the fair value hierarchy through their use of unobservable inputs. 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 ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

	Group 2016 US\$	Group 2015 US\$
<b>12 Investments and securities</b>		
<b>12.1 Analysis of investments</b>		
Equity securities - listed	448 057 542	344 557 270
- unlisted	32 197 797	29 176 774
Total equities (refer note 12.2 below)	480 255 339	373 734 044
Unit trust investments	3 528 569	6 621 146
Public sector securities	123 081 268	81 221 722
Treasury bills	88 931 464	78 284 818
Deposits and money market securities	105 903 403	124 152 363
	<b>801 700 043</b>	<b>664 014 093</b>
<b>12.2 Spread of equity securities by sector</b>		
Commodities	56 693 245	43 756 373
Consumer	300 044 063	237 204 839
Financial	80 750 647	63 162 558
Property	11 675 521	10 865 477
Manufacturing	27 311 137	15 862 396
Mining	3 780 726	2 882 401
<b>Total equity securities</b>	<b>480 255 339</b>	<b>373 734 044</b>
<b>13 Loans and advances</b>		
<b>Concentration - gross and advances</b>		
Housing	194 022 218	182 470 535
Individuals	124 610 000	177 279 984
Commercial and industrial	284 067 312	225 584 933
<b>Gross loans and advances</b>	<b>602 699 530</b>	<b>585 335 452</b>
Less: Provision for impairment	(19 447 125)	(22 193 200)
<b>Net loans and advances</b>	<b>583 252 405</b>	<b>563 142 252</b>
<b>Maturity analysis - gross loans and advances</b>		
On demand to 3 months	62 680 000	84 842 004
3 months to 12 months	134 209 481	179 706 180
1 year to 5 years	209 277 011	217 512 557
Over 5 years	196 533 038	103 274 711
<b>Gross loans and advances</b>	<b>602 699 530</b>	<b>585 335 452</b>
Non performing loans	49 918 162	43 764 585
Past due but not impaired	25 030 691	34 386 651

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

	Group 2016 US\$	Group 2015 US\$
<b>13 Loans and advances (continued)</b>		
<b>Sectoral analysis of loans and advances</b>		
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:		
<b>Sector</b>		
Trade and services	31 870 000	26 982 866
Energy and minerals	8 997 508	10 018 133
Agriculture	69 224 200	34 753 084
Construction and property	240 484 101	216 110 475
Light and heavy industry	32 757 070	41 112 952
Physical persons	122 138 749	146 789 051
Transport and distribution	74 404 759	78 123 042
State and state enterprises	22 823 143	31 445 849
<b>Total gross loans and advances</b>	<b>602 699 530</b>	<b>585 335 452</b>
<b>14 Insurance contract liabilities</b>		
Outstanding claims	3 135 866	3 310 801
Future policyholders' benefits (see analysis of movement in provision below)	897 652 811	782 482 671
	<b>900 788 677</b>	<b>785 793 472</b>
<b>14.1 Future policyholders' benefits</b>		
<b>Movement in provision for insurance contracts</b>		
Balance at beginning of year	782 482 670	849 712 349
Inflows		
Premium income	177 976 700	145 242 011
Investment income	82 431 856	(63 451 595)
Fee and other income	8 358 619	8 333 641
Outflows		
Claims and policy benefits	(117 276 631)	(116 161 728)
Operating expenses	(22 489 650)	(22 626 133)
Other charges and other transfers	-	-
Taxation		
Current tax	(446 772)	(423 143)
Deferred tax	(71 356)	65 061
Transfer to operating profit	(13 312 625)	(18 207 793)
Balance at end of year	897 652 811	782 482 670

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

	Group 2016 US\$	Group 2015 US\$
<b>15 Investment contract liabilities</b>		
Liabilities at fair value through profit or loss	<b>76 330 845</b>	<b>71 381 199</b>
<b>Movement in liabilities fair valued through profit or loss</b>		
Balance at beginning of year	71 381 199	82 932 804
New contributions received	8 294 364	5 226 340
Withdrawals	(10 090 300)	(7 935 286)
Fair value movements	6 745 582	(8 842 659)
Balance at end of year	76 330 845	71 381 199
<b>16 Amounts owed to bank depositors</b>		
Savings certificates	422 060 774	350 148 269
Term deposits	714 748	3 236 979
Savings deposits	201 811 729	245 260 980
	<b>624 587 251</b>	<b>598 646 228</b>
<b>Maturity analysis</b>		
On demand to 3 months	457 197 868	353 413 612
3 months to 6 months	2 498 349	53 821 464
6 months to a year	52 465 329	41 554 821
1 year to 5 year	62 458 725	108 726 418
Over 5 years	49 966 980	41 129 913
	624 587 251	598 646 228

Concentration	2016 US\$	%	2015 US\$	%
Financial Institutions	336 351 604	53.85%	293 935 298	49.10%
Companies	221 575 619	35.48%	210 723 472	35.20%
Individuals	66 660 028	10.67%	93 987 458	15.70%
Total deposits	624 587 251	100.00%	598 646 228	100.00%

	Group 2016 US\$	Group 2015 US\$
<b>17 Related party disclosures</b>		
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		
Fellow subsidiaries		
<b>Old Mutual Life Assurance Company (South Africa) Limited</b>		
Amounts due to as at 31 December	2 004 079	-
<b>Old Mutual Zimbabwe Holdco Limited</b>		
Amounts due to as at 31 December	5 343 750	-
<b>Old Mutual Netherlands B.V</b>		
Amounts due to as at 31 December	50 000 000	50 000 000
<b>Directors' remuneration</b>		
For services as directors	591 861	530 949
Other remuneration	-	-

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

### 18. Risk Management

#### Overview

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 persistent 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 OMZIL Group management and reported to the Board on a regular basis.

#### Liability Risk

OMZIL assumes liability risk, sometimes referred to as insurance risk, by issuing insurance contracts under which it agrees to compensate the policyholder or beneficiary if a specified uncertain future event affecting the policyholder occurs. This risk includes mortality and morbidity risk, as well as non-life risk from events such as fire. Mortality and morbidity risk is the risk that death, critical illness and disability claims are different from expected levels. Higher than expected claim levels will reduce expected profits. The risk is managed through experience monitoring and investigation; product design and pricing; robust underwriting practices; and in some instances reinsurance.

#### 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. The OMZIL Group has put in place a robust market risk management framework that include 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 with approved limit structure and early warning triggers that ensures management is informed promptly of potential issues.

#### Credit and Counterparty Risk

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss to the OMZIL Group by failing to discharge an obligation to repay cash or deliver another financial asset. Credit risk arises from a number of activities of the Group, such as banking, lending, trading and investing. The Group has adopted a policy of dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the financial loss from defaults.

#### Liquidity Risk

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. Ultimate responsibility for liquidity risk management 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.

## NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

### 18. Risk Management (continued)

#### **Compliance and Regulatory Risk**

This is the risk that laws and regulations will be breached. This includes risk of regulatory intervention resulting in sanctions being imposed or temporary restriction on the OMZIL Group's ability to operate and /or additional regulatory capital charges. The OMZIL Group recognises its accountability and responsibilities to all stakeholders under the legal, regulatory and supervisory requirements applicable to its businesses. Compliance and Regulatory risk is managed through a Board approved Compliance Programme, internal policies and processes and maintaining an independent Compliance function for each business line.

#### **Operational Risk**

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 external events. Practices to minimise and mitigate operational risk are embedded across all business units, taking into account the cost versus the benefit of doing so. OMZIL Group Internal Audit provides independent assurance on the adequacy and effectiveness of the system of internal controls.

#### **Strategic Risk**

This is the risk that strategic decisions made may adversely affect future earnings and the sustainability of the business. To manage this risk, all new partnership opportunities are reviewed and evaluated according to strict investment criteria and appropriate governance processes. In addition, oversight committees at both executive and Board levels oversee strategic initiatives.

## NOTICE TO MEMBERS

Notice is hereby given that the 19<sup>th</sup> 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, 27<sup>th</sup> April, 2017 at 1500 hours 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 31<sup>st</sup> December, 2016.
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 dividend in respect of B class shares.
4. To approve the fees paid to Directors.
5. To elect Directors;
  - 5.1 To note that in terms of Article 106 of the Articles of Association, one third of the Directors shall retire from office and be eligible for re-election. Messrs Isiah Tendai Mashinya, Kennedy Mandevani and Mordecai Pilate Mahlangu retire by rotation, and being eligible, offer themselves for re-election.
  - 5.2 To note the resignation of Messrs Mark Ross Weston and Tavaziva Chadamoyo Madzinga from the Board of Directors of Old Mutual Zimbabwe Limited.
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.

### AS SPECIAL BUSINESS

8. Amendments to Articles of Association

To consider, and if deemed fit, pass with or without modification, the following resolutions as special resolutions:

- 8.1 That the directors of the Company be, and are, hereby authorised to amend the Articles of Association of the Company by insertion in Article 2, after the definition of "Secretary", of the following definition, "Securities Act" means the Securities and Exchange Act (Chapter 24:25).
- 8.2 That the directors of the Company be, and are, hereby authorised to amend the Articles of Association of the Company by the insertion after Article 14 of a new Article, Article 14.1 as follows: "Notwithstanding the preceding provisions of this Article, the directors shall be empowered to resolve that the Company shall issue shares in a dematerialised form, and convert certificated shares to dematerialised shares, all as envisaged by the Securities Act; provided that no certificated share shall be converted to dematerialised share without the consent of the current holder thereof."
- 8.3 That the directors of the Company be, and are, hereby authorised to amend the Articles of Association of the Company by the insertion of a new article, Article 60.1 as follows: "Any document required to be sent to members in terms of paragraph 60 above may be sent by electronic means to the electronic address last furnished by such members. Such documentation shall be forwarded to the members concerned within the same time frames prescribed by law."
- 8.4 That the directors of the Company be, and are, hereby authorised to amend the Articles of Association of the Company by the insertion after Article 142 of a new article, Article 142.1 as follows: "Electronic delivery of copies of the Report of Directors, Statements of Financial Position, Profit or Loss and Other Comprehensive Income, Statement of Changes in Shareholders' Equity and Cash Flows and all other documents required to be annexed thereto, publicised on the Company's website to every member shall be deemed to be sufficient delivery to members. Provided that should a member request a hard copy of the Report of Directors, Statements of Financial Position, Profit or Loss and Other Comprehensive Income, Statement of Changes in Shareholders' Equity and Cash Flows and all other documents required to be annexed thereto from the Company, the documents shall be provided to the member in hard copy format."
- 8.5 That the directors of the Company be, and are, hereby authorised to amend the Articles of Association of the Company by the insertion after Article 139 of a new article, Article 139.1 as follows: "Any dividend, interest or other monies payable in respect of the shares may also be paid through any and all approved national payment systems to the member's bank account or other electronic account using the last furnished banking or other account details or to any other person or address requested by him or in the case of joint holders to the one who is first named in the register in respect of such joint holdings. Any one of the two or more joint holders may give effectual receipts for any dividends, bonuses or other money payable in respect of the shares held by them as joint holders. The Company shall not be responsible for the loss in transmission of any electronic transfer. In addition, the Company shall not be responsible for loss or delays of electronic transfer due to incomplete and/or incorrect details furnished by a member."

## NOTICE TO MEMBERS (Continued)

### EXPLANATORY NOTES TO THE PROPOSED RESOLUTIONS

#### Dematerialisation of securities

The listing of the company's shares on the Alternative Trading Platform (ATP) operated by the Financial Securities Exchange (Private) Limited (FINSEC) has necessitated conversion of listed certified securities into their electronic form before any trading on the ATP can be effected. The Companies Act (Chapter 24:03) and the Company's Articles of Association recognise paper share certificates. However, the Securities and Exchange Act (Chapter 24:25) through provision of section 72 allows securities to be dematerialised. In order to comply with the requirements of the above, it is recommended that the Company passes the necessary resolution.

#### Electronic shareholder documents and notice

The technological developments in electronic communications that have happened over the years, have ushered in efficiencies while the cost associated with the preparation and delivery of physical copies of annual reports, shareholder notices and related documents has increased. The Company would want to be able to send electronic documents in place of physical documents to its members, unless the members specifically request otherwise.

#### Electronic Payments to members

The technological developments in national payment systems that have happened over the years have ushered in efficiencies associated with real time payments using latest technology. The company would like to use electronic payment methods in paying dividends for the convenience of its members going forward.

### 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 the 5<sup>th</sup> of April, 2017.

#### By Order of the Board

Onias Chigavazira  
GROUP COMPANY SECRETARY

#### Registered Office

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

**Tuesday, 14<sup>th</sup> March, 2017**

## 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, 27<sup>th</sup> April, 2017 at 15.00 hours** and at any adjournment thereof :-

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2017.

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".









