“Bringing Economic dignity to our customers”

# 2015 Annual Report

**FIRST MUTUAL**

HOLDINGS LIMITED

Go Beyond

LIFE | HEALTH | INSURANCE | REINSURANCE | SAVINGS | PROPERTY


# Vision | Mission | Values

## Vision

To be a leader in our chosen markets by providing superior returns to all our stakeholders, ensuring stability, security and growth.

## Mission

To be an investment and financial services group that provides accessible solutions which offer peace of mind and enrich the lives of all households, communities and businesses in our chosen markets by managing risk, creating and managing wealth.

## Values

**Sustainability** We believe in continuance and preservation of future generations.

**Integrity** We are true to self and true to others.

**Care** We show concern and seek the well-being of all our stakeholders.

**Accountability** We take responsibility for our actions.

**Professionalism** We display expert competence in the way we do business.

**Innovation** We strive for creativity and relevance in our market.


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UAL PARK

# Corporate Information

**REGISTERED OFFICE AND HEAD OFFICE**
First Mutual Park,
100 Borrowdale Road,
Borrowdale,
Harare,
Zimbabwe

**POSTAL ADDRESS**
P. O. Box BW 178,
Borrowdale,
Harare,
Zimbabwe,
Tel: +263 (4) 886 000-17,
Email: info@firstmutualholdings.com

**OTHER LINES**
Group Company Secretary : +263 (4) 886047
Group Marketing : +263 (4) 850325
Group Audit & Risk Management : +263 (4) 886046
Fax numbers : (Executive) +263 (4) 886 041
(General) +263 (4) 886 070
Website: www.firstmutualholdings.com

**INCORPORATION AND ACTIVITIES**
The company is incorporated in Zimbabwe, and is an investment holding company. First Mutual Holdings Limited (First Mutual) was established from the demutualisation of First Mutual Life Assurance Society, effective 1 July 2003.

**REPORTING PERIOD**
The current reporting period is for the calendar year from 1 January 2015 to 31 December 2015. The comparative report period is for the calendar year ended 31 December 2014. The reporting and functional currency is the United States dollar.

**BUSINESS**
The main business of the Group and its subsidiaries is that of provision of short-term insurance, health insurance, life and pensions, reinsurance, property management and development, actuarial consultancy services and wealth management.

**INDEPENDENT AUDITOR**
PricewaterhouseCoopers Chartered Accountants (Zimbabwe)
Building No. 4, Arundel Office Park,
Norfolk Road,
Mount Pleasant,
Harare

**TRANSFER SECRETARIES**
First Transfer Secretaries (Private) Limited, 1 Armagh Avenue, Eastlea, Harare.
Contact Details: +263 (4) 782869/72, +263 (4) 782869
Email: ftsgen@mercantileholdings.co.zw

**STATUTORY ACTUARY**
Giles Waugh, BW Deloitte, Building 17, The Woodlands, Western Service Road, Woodmead, Johannesburg, Republic of South Africa

**PRINCIPAL BANKERS**
Standard Chartered Bank Zimbabwe Limited
Stanbic Bank Zimbabwe Limited
Barclays Bank Zimbabwe Limited

**PRINCIPAL PROPERTY VALUERS**
Knight Frank Zimbabwe
P.O. Box 3526,
1 st Floor Finsure House
Harare
Zimbabwe

**PRINCIPAL LEGAL ADVISORS**
Scanlen & Holderness
CABS Centre
74 Jason Moyo
P.O. Box 188
Harare
Zimbabwe

# Directorate

**DIRECTORS**
**as at the reporting date:**

| | |
|---|---|
| Oliver Mtasa | (Chairman) |
| John Mafungei Chikura | (Resigned 31 December 2015) |
| Samuel Vengai Rushwaya | |
| Douglas Hoto* | (Group Chief Executive Officer) |
| Elisha Moyo | |
| Thembelihle Khumalo (Ms) | (Resigned 31 December 2015) |
| William Munyaradzi Marere* | (Group Finance Director) |
| John Sekeso | |
| Memory Mukondomi (Mrs) | |
| Thembinkosi Magwaliba | (Resigned 31 December 2015) |
| Robin Tendai Vela | |

* Executive

# Group Chairman's Statement To Shareholders

**ECONOMIC OVERVIEW**

The local operating environment remained challenging with the Gross Domestic Product ("GDP") growth rate for 2015 being revised downwards in the National Budget to 1.5% mainly due to under performance in key sectors like agriculture and mining. The annualised inflation rate stood at -2.5% in December 2015 compared to +0.8% recorded in December 2014, largely due to a weaker South African Rand and declining aggregate demand. This deflationary tendency also contributed to the low industry capacity utilisation and low uptake of insurance products. Despite the slowdown in GDP growth, the insurance sector recorded modest growth, with non-life insurance sector premiums for the nine months to 30 September 2015 remaining largely static at US$153 million while the premiums for the life insurance sector grew by 9% to US$244 million. The central bank reported that total banking sector deposits grew by 11.2% to US$5.6 billion in 2015 compared to US$5.1 billion in 2014. The loan to deposit ratio declined from 78.4% as at 31 December 2014 to 68.8% by the end of December 2015.

The Zimbabwe Stock Exchange Industrial Index closed the year down 29.5% to 114.80 points while the Mining Index declined by 66.9% to 23.70 points. Total value traded in 2015 amounted to US$228.6 million, 49.5% below the US$452.9 million achieved in 2014, reflecting the decline in the level of foreign investor interest on the market. Bond and prescribed assets returns remained high relative to money market, with most instruments near the 10% p.a. mark on average tenure of 2 years. Term deposit rates at first tier banks ranged from 0%-4% p.a. while second tier banks averaged 6% per annum. Property market returns were subdued owing to increasing voids and declining rental rates. Most property companies reluctantly accepted reduced rentals to enhance tenant sustainability leading to fair value losses on investment property.

# Group Chairman's Statement To Shareholders (continued)

The developments on the investment markets adversely affected the total assets in the life assurance sector which declined by 5% from US$1.64 billion as at 30 September 2014 to US$1.56 billion as at 30 September 2015. A combination of higher claims and losses from the equities and property markets impacted negatively on the performance of the insurance industry, with the non-life sector experiencing a steep 78% drop in profitability while the life sector was resilient, with a 32% rise in profitability.

**FINANCIAL RESULTS**

The financial highlights for the year ended 31 December 2015 are shown below:

| **INCOME STATEMENT HIGHLIGHTS** | **Audited 2015 US$000** | **Audited 2014 US$000** | **Change %** |
|---|---|---|---|
| **Total gross premium written ("GPW")** | **116 095** | **115 329** | **1%** |
| GPW - Health insurance | 52 481 | 50 192 | 5% |
| GPW - Life assurance and pensions | 35 792 | 36 191 | 1% |
| GPW - Property and casualty insurance and reinsurance | 27 822 | 28 946 | -4% |
| **Net premium earned** | **106 604** | **104 674** | **2%** |
| Technical result | 22 523 | 16 884 | 33% |
| Operating profit / (loss) | 3 069 | (4 447) | 169% |
| Loss before income tax | (3 718) | (3 733) | 0% |
| Profit / (loss) for the year | 131 | (5 067) | 103% |
| **Financial position highlights** | | | |
| Investment property | 122 027 | 127 797 | -5% |
| Held to maturity investments - prescribed assets | 14 730 | 7 473 | 97% |
| Financial assets at fair value through profit or loss | 11 483 | 18 992 | -40% |
| Total assets | 209 019 | 213 339 | -2% |
| Insurance contract liabilities | 90 743 | 88 172 | 3% |
| **Statement of cash flows highlights** | | | |
| Cash generated from operating activities | 12 837 | 14 834 | -13% |
| Cash and balances with banks | 28 140 | 22 903 | 23% |

**FINANCIAL PERFORMANCE**

**Statement of comprehensive income**

Gross premium written ("GPW") for the year ended 31 December 2015 at US$116.1 million was 1% above the prior year figure of US$115.3 million on the back of improved performance from the health insurance business.

Rental income decreased by 3% from US$7.5 million in 2014 to US$7.3 million in 2015, reflecting the current challenges faced by tenants and the resultant decline in occupancy levels and rentals per square metre. The average rental per square metre decreased from US$7.86 in 2014 to US$7.58 in 2015. The occupancy rate for the period was 79% compared to 80% in the prior year.

The operating profit, before the outturn on the investment portfolio, improved from a loss of US$4.4 million in prior year to a profit of US$3.1 million largely due to the US$1.8 million increase in net premium earned, the US$2.3 million reduction in net claims incurred and the US$2.3 million reduction in staff rationalisation expenses. Claims at US$67.7 million declined by US$2.3 million from prior year mainly due to reduced retrenchments in the life and pensions segment and lower claims incurred for the health insurance business.

The Group incurred investment losses of US$4.7 million in 2015 compared to investment losses of US$3.8 million in 2014 in line with the downward movement in the stock market in general. Investment property was independently revalued as at 31 December 2015 resulting in fair value losses of US$6.6 million. The impairment of the investment in Rainbow Tourism Group Limited ("RTG") by US$2.6 million also contributed to the negative investment outturn.

The Group achieved an overall profit of US$0.1 million for the year compared to a loss for the year of US$5.1 million in the previous year. The total comprehensive profit attributable to the equity holders of the parent company for the year was US$0.2 million (loss of US$6.5 million for 2014).

**Statement of financial position**

The Group's total assets declined by 2% from US$213.3 million at 31 December 2014 to US$209.0 million at 31 December 2015. The decline was mainly attributable to the fair value loss on investment property of US$6.6 million, fair value losses of US$7.3 million on the listed equity investments portfolio and the US$2.6 million impairment of the investment in RTG. The decline in total assets was, however, mitigated by net new cash inflows as reflected in the increase in money market and held to maturity investments.

**Investment in associate - RTG**

In line with its focus on the core insurance business, the Group reclassified its 20% interest in RTG from an investment in

# Group Chairman's Statement To Shareholders (continued)

associate to a non-current assets held for sale. The carrying value of this asset was realigned to stock market prices resulting in an impairment of the asset by US$2.6 million.

**FIRST MUTUAL IN THE COMMUNITY**

The First Mutual Foundation continues to provide children with multiple vulnerabilities (e.g. abandoned children, orphaned children, and child headed families) with educational support and necessary ancillary services to reintegrate them into formal school. To date the foundation assists 110 primary and secondary school children and further assists three university students studying medicine, risk insurance and commerce respectively. Schools attended by the First Mutual Foundation scholars are located throughout the country.

The Group is also involved in conducting free health checks and wellness programmes primarily to corporate clients to promote healthier lifestyles.

**DIRECTORATE**

There were some changes to the Boards and Committees of the First Mutual Holdings Group following the re-constitution of the Board of the major shareholder and as part of a Group-wide initiative to manage costs. Mr Misheck Manyumwa, Mr James Matiza and Mr Israel Ndlovu resigned as Non-Executive Directors of the Board during the course of the year. Mrs Memory Mukondomi, Mr Robin Vela, Advocate Thembinkosi Magwaliba and Mr John Sekeso were appointed as Non-Executive Directors. Subsequent to year-end, Ms Thembelihle Khumalo, Mr John Chikura and Advocate Thembinkosi Magwaliba resigned from the Board and Ms Evlyn Mkondo was appointed as a Non-Executive Director of the Board. I would like to extend my sincere thanks to the outgoing Directors for their invaluable contribution to the Group and to welcome the new members.

**DIVIDEND**

In view of the need to conserve cash, the Directors recommend that no dividend be declared for the year ended 31 December 2015.

**OUTLOOK**

While the operating environment is expected to remain challenging, the Board is confident that business process efficiencies being implemented coupled with prudent cost containment measures will position the Group to deliver value to its stakeholders. Enhanced enterprise risk management initiatives and strict adherence to the actuarial control cycle remain key in mitigating against risks in the operating environment.

Continuous effort will be channelled towards improving business processes, working capital management and developing innovative and sustainable products relevant to our environment.

The insurance sector is expected to deliver modest growth driven by sustained demand for retail products while the employee benefits segment is likely to shrink further due to limited growth in the formal employment sector. The Group will maintain a prudent approach in respect of its investments. Investment returns are projected to improve driven by the positive performance of fixed income securities and the resilience of the property sector while bearish conditions on the Zimbabwe Stock Exchange (ZSE) will continue to dampen the performance of equities.

**APPRECIATION**

On behalf of the Board of Directors, I would like to convey my profound gratitude to our clients, management and staff, the regulatory authorities and other stakeholders for their continued support and confidence in us to deliver sustainable value.

**Oliver Mtasa**
**Chairman**

**16 March 2016**


Giving you
the tools to
shape your future.
A measure of a person's success can be seen in their financial independence and liberty. Through our strategic business units, we assure policyholders economic dignity through provision of risk management, wealth creation and wealth management.

# Group Chief Executive Officer's Review Of Operations

Management remains committed to the ethos of finding solutions that add tangible, sustainable value to all stakeholders through the Group's strategic pillars of Risk Management, Wealth Creation and Wealth Management. Our brand remains the financial ally that plays an integral role in the preparation of a better tomorrow for individuals and institutions by availing the economic dignity of being prepared for life time obligations through our subsidiaries. Our professional and client centric team is solution driven and cares enough to go beyond and provide straight forward tools that create sustainable value for our customers. By optimising the value proposition of our products and services, we leverage on this to retain existing clients and attract new business.

During the year under review, the Group achieved improved financial performance, moving from a loss position of US$5.1 million to a profit for the year of US$0.1 million as a result of increased revenue mainly in the health and reinsurance businesses, efficient claims management and cost containment strategies, including the staff rationalisation exercise carried out in 2014.

The Group disposed of its entire shareholding in African Actuarial Consultants Private Limited ("AAC") to Frankmash Enterprises (Private) Limited effective 1 January 2016. AAC will maintain the same brand name and will continue to provide comprehensive actuarial services to the First Mutual Group and other clients with no disruption to services expected during the transition period and beyond.

**Systems and processes**

Efficient systems remain a key imperative in customer service delivery. We will continue to automate processes where applicable and enhance access through mobile and digital platforms

# Group Chief Executive Officer's Review Of Operations (continued)

for improved convenience to our customers. In addition, an independent business process and man-loading analysis was conducted on key retail facing segments during 2015. First Mutual Health acquired a new information technology system in line with this strategy and system reviews are underway for TristarInsurance and First Mutual Life.

## OPERATIONS REVIEW

Except where indicated, the commentary below refers to unconsolidated figures.

## HEALTH INSURANCE

### First Mutual Health Company (Private) Limited

The GPW for First Mutual Health Company (Private) Limited grew by 6% to US$52.5 million (2014: US$50.2 million) on the back of increased contribution rates per member due to new clients joining higher plans and the increase in premium rates for direct paying members of 30% effected in June 2015. Valid membership at 31 December 2015 was 112,122 compared to 113,969 members in the prior year. The average monthly premium per member for the period of US$38.70 was higher than the prior period average monthly premium of US$38.04. The total claims incurred during the year decreased by 2% from US$44.9 million to US$43.9 million, resulting in the claims ratio decreasing to 84% (2014: 91%).

The company will continue to seek new business through providing quality service, demonstrated claims paying ability, wellness campaigns, innovative products and competitive pricing to its members.

## LIFE AND PENSIONS BUSINESS

### First Mutual Life Assurance Company (Private) Limited

The business achieved GPW of US$32.6 million which was a decline of 2% relative to the previous year. The shareholder risk business GPW, comprising Group Life Assurance and Individual Life Assurance products, was unchanged at US$13.9 million compared to the prior year. The policyholder business achieved GPW of US$18.7 million, a decline of 3% from the prior year figure of US$19.3 million. The policyholder gross premium decreased from prior year due to lower recurring premium following significant retrenchments in 2014 and 2015 and the non-payment of pension contributions by some companies due to financial constraints. Claims and withdrawals at US$13.7 million reduced by 10% from prior year mainly due to a reduction in retrenchment claims and withdrawals. Negative investment returns on quoted equity investments persisted throughout the year leading to investment losses of US$6.7 million after taking into account interest income.

### FMRE Life and Health (Private) Limited

GPW decreased by 15% to US$3.6 million (2014:US$4.3 million) with health insurance contributing 60% (2014:78%) of the gross premium written whilst life premium contributed 33% (2014:17%) and individual life business contributed 7% (2014:5%). The decrease in the gross premium was being driven by a realignment of the portfolio towards life assurance business which has more predictable claims ratios.

## PROPERTY AND CASUALTY INSURANCE

### FMRE Property and Casualty (Private) Limited (Zimbabwe)

The GPW maintained the same levels as prior year at US$19.8 million despite a shrinking domestic market. Claims and expenses were contained within expectations resulting in an underwriting profit for the period. Regional business grew by 48% and contributed 18% of the total GPW compared to 12% in 2014. The business continues to focus on the regional market to ensure the premium levels are sustained and grown.

### FMRE Property and Casualty (Proprietary) Limited (Botswana)

The GPW for the year at US$4.03 million (BWP40.8 million) was 1% above the prior year figure of US$3.99 million (BWP35.5 million) in spite of the depreciation of the Botswana Pula. The Botswana market contributed the bulk of the premium at 58% with the balance coming from the regional market. The increased support from the local market is attributable to greater confidence in the company by the local cedants. Claims and expenses were contained within expectations leading to a significantly improved operating profit for the period.

### TristarInsurance Company (Private) Limited

The GPW decreased by 27% to US$4.6 million (2014: US$6.3million). The dominant classes continue to be motor and fire, in terms of contributions to GPW at 54% and 30% respectively. A capital injection of US$2 million was made into the company to ensure that it exceeded regulatory capital requirements.

## PROPERTY

### Pearl Properties (2006) Limited

In 2015, revenue declined by 3.5% to US$8.5million (2014: US$8.8 million) due to rental income declining by 4.1% to US$8.3 million (2014: US$8.7 million), driven by a decline in the occupancy level and reduced turnover based rentals in retail properties. The occupancy level declined to 78.5% (2014: 79.9%) with voids largely within properties in the Central Business District. Tenant arrears were flat at US$2.4 million (2014: US$2.4 million) with the business providing for all doubtful debts. The downward pressure on current and near term rental income led to a 4.1% impairment on investment property values to US$135.0 million (2014: 140.8 million).

# Group Chief Executive Officer's Review Of Operations (continued)

**HUMAN CAPITAL DEVELOPMENT**

Following the conclusion of the culture and engagement survey in 2015 as part of the First Mutual Way, employee engagement strategy streams were formulated, including updated Human Resources Policies, new Performance Management system, re-launch of the employee assisted housing scheme, the Customer Service Charter and a more formal Innovation Policy Framework. Various executive leadership development programmes were undertaken by some Group executives as part of an ongoing programme to enhance the capacity of the Group.

**LOOKING AHEAD**

The Group achieved an overall improved performance with a 2% growth in net premium earned from prior year and attained an overall profit for the year of US$0.1 million from a loss position of US$5.1 million. Little change is expected in the economic environment and this will demand greater resilience from the Group and focus on customer service excellence, system efficiencies, cost containment and a prudent investment philosophy.

**Douglas Hoto**
**Group Chief Executive Officer**

**16 March 2016**

# Board Of Directors

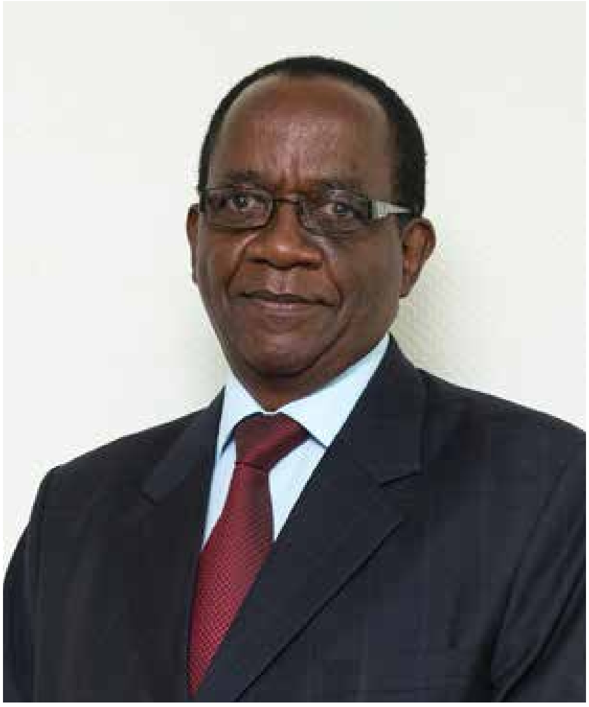
Oliver Mtasa
(Chairman)

Douglas Hoto
(Group Chief Executive Officer)

William Munyaradzi Marere
(Group Finance Director)

Elisha Moyo

# Board Of Directors (continued)



**John Sekeso**

**Samuel Vengai Rushwaya**

**Memory Mukondomi (Mrs)**

**Robin Tendai Vela**

**Thembinkosi Magwaliba**
(Resigned 31 December 2015)

**John Mafungei Chikura**
(Resigned 31 December 2015)

**Thembelihle Khumalo (Ms)**
(Resigned 31 December 2015)

# Boards Of Directors Of Subsidiary Companies - as at 31 December 2015

*denotes Executive Director

**1. FIRST MUTUAL LIFE ASSURANCE COMPANY (PRIVATE) LIMITED**

S V Rushwaya - Chairman
D Hoto
Ms R B Ncube* - Managing Director
I P Z Ndlovu
V Nkomo
W M Marere
A R T Manzai
G Baines

**2. FMRE LIFE & HEALTH (PRIVATE) LIMITED**

P A Kadzere - Chairman
I C Tavonesa* - Managing Director
D Hoto
J M Chikura
M S Manyumwa
C Chiswo
M J R Dube
Mrs M M Mukonoweshuro

**3. TRISTARINSURANCE COMPANY LIMITED**

O Mtasa - Chairman
D Hoto
Mrs C Chetsanga
E K Moyo
E F Muzvondiwa
P P Shoniwa

**4. FMRE PROPERTY AND CASUALTY (PRIVATE) LIMITED**

P A Kadzere - Chairman
I C Tavonesa* - Managing Director
D Hoto
J M Chikura
M S Manyumwa
C Chiswo
M J R Dube
Mrs M M Mukonoweshuro

**5. FMRE PROPERTY AND CASUALTY (PROPRIETARY) LIMITED**

D Hoto - Chairman
I C Tavonesa
Mrs C Lestedi-Letegele
S Tumelo
I Chagonda

**6. FIRST MUTUAL HEALTH COMPANY (PRIVATE) LIMITED**

Dr T A Makoni - Chairman
D Hoto
Mrs V S Chitimbire
Ms T Khumalo
Mrs N Dube
R Mandima
C M Stuart

**7. PEARL PROPERTIES (2006) LIMITED**

E K Moyo - Chairman
D Hoto
Ms R B Ncube
J P Travlos
F Nyambiri* - Managing Director
M J R Dube
W M Marere
Ms E Mkondo
Dr S Jogi
J S Mutizwa

**8. AFRICAN ACTUARIAL CONSULTANTS (PRIVATE) LIMITED**

I P Z Ndlovu - Chairman
S V Rushwaya
D Hoto

**9. FIRST MUTUAL WEALTH MANAGEMENT (PRIVATE) LIMITED**

R T Vela - Chairman
O Mtasa
A R T Manzai
D Hoto
W M Marere

# Directors' Report

First Mutual Holdings Limited (First Mutual) is the parent company which operates in four principal operating segments, according to the nature of products and services offered. It provides life insurance, non-life insurance (comprising general insurance, reinsurance, healthcare and funeral assurance), property management and asset management services through its subsidiaries listed below:

**Subsidiary and services**

1 First Mutual Life Assurance Company (Private) Limited
*Life assurance, funeral assurance, employee benefits*

2 FMRE Life and Health (Private) Limited
*Life and health reinsurance*

3 TristarInsurance Company Limited
*Short-term insurance*

4 FMRE Property and Casualty (Private) Limited
*Short-term general reinsurance based in Zimbabwe*

5 FMRE Property and Casualty (Proprietary) Limited
*Short-term general reinsurance based in Botswana*

6 First Mutual Health Company (Private) Limited
*Medical insurance*

7 Pearl Properties (2006) Limited
*Property ownership, management and development*

8 African Actuarial Consultants (Private) Limited*
*Actuarial services*

9 First Mutual Wealth Management (Private) Limited
*Fund management*

The Group holds 19.97% of the issued shares of Rainbow Tourism Group Limited ("RTG") at 31 December 2015. RTG is a hospitality and tourism group with business interests in hotels and other related tourism ventures in Southern Africa.

*With effect from 1 January 2016, First Mutual Holdings Limited disposed of its entire shareholding in African Actuarial Consultants (Private) Limited, a company which provides actuarial services.

**Share capital**

As at 31 December 2015, the authorised and issued share capital of the Company is as follows:

- Authorised - 1,000,000,000 ordinary shares with a nominal value of US$0.001 each
- Issued and fully paid - 380,200,758 ordinary shares with a nominal value of US$0.001 each

**Group results**

The consolidated financial statements of the Group for the year are set out on pages 32 to 105.

**Directors**

In accordance with Article 106 of the Company's Articles of Association, Mr O Mtasa, Mr E K Moyo and Mr S V Rushwaya retire as directors of the Company and, being eligible, offer themselves for re-election.

Mr R T Vela, Mr J Sekeso and Mrs M Mukondomi were appointed as Non-Executive Directors of the Board on 4 September 2015, and Ms E Mkondo was appointed on 16 March 2016. These directors also retire and, being eligible, offer themselves for re-election in terms of Article 113.

**Capital commitments**

Details of the Group's capital commitments are set out in note 31.1.2 of the financial statements.

**Dividend**

Having taken due regard for the Group's cash flow requirements and the loss incurred for the year, the Board of Directors recommended that no dividend be paid from the results of the Group for the year ended 31 December 2015.

# Directors' Report (continued)

| Director's shareholding in the Company | Direct interest | Indirect interest | Share options |
|---|---|---|---|
| O Mtasa (Chairman) | - | - | - |
| J M Chikura | 1 198 | - | - |
| S V Rushwaya | 10 100 | - | - |
| D Hoto (Group Chief Executive Officer) | - | - | 2 325 195 |
| E K Moyo | 924 | - | - |
| Ms T Khumalo | - | - | - |
| W M Marere (Group Finance Director) | - | - | 1 627 406 |
| J Sekeso | - | - | - |
| Mrs M Mukondomi | - | - | - |
| Adv. T Magwaliba | - | - | - |
| R T Vela | - | * | - |

* Mr R T Vela is Non-Executive Chairman of the National Social Security Authority ("NSSA") which owns approximately 51% and, through Capital Bank Limited, under liquidation, controls a further 20% of the issued share capital of First Mutual.

- Non-Executive Directors' remuneration is subject to shareholder approval.

**Auditors**

At the forthcoming Annual General Meeting, shareholders will be asked to appoint auditors of the financial statements of the Group for the ensuring year and to fix their remuneration.

**By Order Of The Board**

**Mr O Mtasa**
**Group Chairman**
**Harare**

**Mrs S F Lorimer**
**Group Company Secretary**
**Harare**

**16 March 2016**



# Corporate Governance

The Group is committed to the principles of good corporate governance based on best global practice. The directors recognise the need to conduct business of the Group with integrity and in accordance with generally accepted corporate practices in order to safeguard stakeholders' interests.

## CODE OF CORPORATE PRACTICES AND CONDUCT

The Group is committed to promoting the highest standards of ethical behaviour amongst all its employees. All employees are required to maintain the highest ethical standards in ensuring that the Group's business practices are conducted in a manner which in all reasonable circumstances is above reproach. Furthermore, all employees are required to observe the Group's Code of Ethics. The Group is a subscriber to an independently managed fraud hotline system.

In line with the Zimbabwe Stock Exchange Listing Requirements, the Group operates a "closed period" prior to publication of its interim and year-end financial results during which period Directors and staff of the Group are not authorised to deal in the shares of the Group.

## BOARD COMPOSITION AND APPOINTMENT

The Board of Directors is chaired by an independent non-executive director and comprises several other non-executive and two executive directors. The Board enjoys a strong mix of skills and experience. The Board is the primary governance organ. The role of the Board is to determine overall policies, plans and strategies of the Group and to ensure that these are implemented in an ethical and professional manner.

The Board meets regularly, at least four times a year, and guides corporate strategy, risk management practices, annual budgets and business plans. Special Board meetings may be convened on an ad-hoc basis when necessary to consider issues requiring urgent attention or decision. The Company Secretary maintains an attendance register of Directors for all scheduled meetings during the year through which Directors can assess their devotion of sufficient time to the Group.

The Board has overall responsibility for ensuring the integrity of the Group's accounting and financial reporting systems including the independent audit, and that appropriate systems of control, risk management and compliance with laws are in place. To ensure effectiveness, Board members have unfettered access to information regarding the Group's operations which is available through Board meetings, Board and Management Committees as well as Strategic Planning workshops organised by the Group. Directors may, at the Group's expense, seek independent professional advice concerning the Group's affairs.

The Board appointments are made to ensure a variety of skills and expertise on the Board. A third of the Directors are required to retire on a rotational basis each year along with any Directors appointed to the Board during the year. Executive directors are employed under performance driven service contracts setting out responsibilities of their particular office.

# Corporate Governance (continued)

First Mutual Holdings Limited Board members' attendance during the year:

| | Number of meetings | Number of meetings attended |
|---|---|---|
| Oliver Mtasa (Chairman) | 6 | 6 |
| Misheck Sukutai Manyumwa (Resigned 07 September 2015) | 3 | 3 |
| James Mwaiyapo Matiza (Resigned 19 August 2015) | 2 | 1 |
| John Mafungei Chikura (Resigned 31 December 2015) | 6 | 3 |
| Israel Paul Zaba Ndlovu (Resigned 04 September 2015) | 3 | 3 |
| Douglas Hoto (Group Chief Executive Officer) | 6 | 6 |
| Samuel Vengai Rushwaya | 6 | 6 |
| Elisha Moyo | 6 | 5 |
| Thembelihle Khumalo (Ms) (Resigned 31 December 2015) | 6 | 2 |
| William Munyaradzi Marere (Group Finance Director) | 6 | 6 |
| Robin Tendai Vela (Appointed 04 September 2015) | 3 | 3 |
| John Sekeso (Appointed 04 September 2015 | 3 | 3 |
| Memory Mukondomi (Mrs) (Appointed 04 September 2015 | 3 | 3 |
| Thembinkosi Magwaliba (Adv.) (Resigned 31 December 2015) | 3 | 3 |

## BOARD ACCOUNTABILITY AND DELEGATED FUNCTIONS

The Board is supported by various Committees in executing its responsibilities. The main Committees meet at least quarterly to review performance and provide guidance to management on both operational and policy issues.

Each Committee acts within written terms of reference under which certain functions of the Board are delegated with clearly defined purposes. The Board monitors the effectiveness of controls through reviews by the Combined Audit and Actuarial Committee and independent assessment by the external auditors. The Group from time to time reviews the number of Committees as necessitated by the prevailing environment.

## FIRST MUTUAL HOLDINGS LIMITED BOARD COMMITTEES

In order to more effectively discharge its duties and responsibilities, standing committees are placed to deal with specific issues.

### I. COMBINED AUDIT AND ACTUARIAL COMMITTEE

C Chetsanga (Mrs) (Acting Chairperson), J Chikura, M Mukondomi (Mrs) and E F Muzvondiwa.

The Combined Audit and Actuarial Committee comprises four (4) non-executive directors, one of whom is the Chairperson. The Group Chief Executive Officer and Group Finance Director attend these meetings in ex-officio capacities. The Combined Audit and Actuarial Committee has written terms of reference and is tasked with ensuring financial discipline within the Group, sound corporate values and financial procedures. This Committee is further tasked with reviewing and approving the interim and annual financial statements of the Group and considering any accounting practice changes. The Committee also recommends the appointment and reviews the fees of the external auditors. The Group's Audit and Risk Management Executive and the external auditors are invited to attend all meetings and have unrestricted access to this Committee to ensure their independence and objectivity.

In respect of actuarial work, the Committee is tasked with protecting policyholders' interests by:
- Ensuring separate accounting for the assets of policyholders and shareholders of the insurance companies in the Group;
- Devising and ensuring adherence to profit participation rules; and
- Reviewing actuarial valuation reports and monitoring implementation of actuarial recommendations.

The actuary of the Group is invited to attend all the Committee meetings.

# CORPORATE GOVERNANCE (CONTINUED)

Combined Audit and Actuarial Committee members' attendance during the year:

| | Number of meetings | Number of meetings attended |
|---|---|---|
| I P Z Ndlovu | 3 | 3 |
| C Chetsanga (Mrs) | 4 | 2 |
| J Chikura | 2 | 2 |
| M Mukondomi (Mrs) | 1 | 1 |
| E F Muzvondiwa | 4 | 4 |

### II. HUMAN RESOURCES DEVELOPMENT, REMUNERATION AND NOMINATIONS COMMITTEE

S V Rushwaya (Chairperson), J Sekeso, O Mtasa and E Moyo

This Committee comprises four (4) Non-Executive Directors of the First Mutual Group, one of whom is the Chairperson. This Committee is mandated to deal with staff development and formulate remuneration policies as well as approve remuneration packages for executive directors and senior executives. The Committee is responsible for reviewing the supporting organisational structure in line with the Strategy and makes recommendations to the Board. The Committee reviews recruitment procedures and strives to ensure that remuneration packages remain competitive. The Committee acts as a Nominations Committee for Directors to Group Boards.  From 1 January 2016 onwards, the Group Human Resources, Remuneration and Nominations Committee will also consider corporate governance issues.

The remuneration policy is designed to reward performance and to attract, motivate and retain high calibre individuals who will contribute fully to the success of each of the businesses in which First Mutual operates. Accordingly, a performance related profit share is offered in addition to a basic salary package whilst a discretionary share purchase scheme was in place up to the end of 2012 for staff members who met certain performance ratings. The Committee draws on local and regional market survey data from independent advisors to ensure that the remuneration policy is appropriate and relevant to the prevailing times.

Group Human Resources Development and Remuneration Committee members' attendance during the year:

| | Number of meetings | Number of meetings attended |
|---|---|---|
| M S Manyumwa | 5 | 5 |
| S V Rushwaya | 7 | 7 |
| J M Matiza | 3 | 3 |
| O Mtasa | 7 | 7 |
| J Sekeso | 2 | 2 |
| E Moyo | 2 | 2 |

### III. INVESTMENTS COMMITTEE

R T Vela (Chairperson), O Mtasa and A R T Manzai

This Committee comprises three (3) non-executive directors (one of whom is the Chairperson). The Group Chief Executive Officer and Group Finance Director attend in an ex officio capacities. The Committee formulates investments strategy and policy, reviews the performance of investments within the Group and recommends new investments for approval by the First Mutual Board. The Committee assists the Board in implementation of its investment policies and ensures that portfolio management is conducted in accordance with the Group's policies.

# Corporate Governance (continued)

Investments Committee members' attendance during the year:

| | Number of meetings | Number of meetings attended |
|---|---|---|
| J M Matiza | 3 | 2 |
| R T Vela | 1 | 1 |
| A R T Manzai | 2 | 2 |
| O Mtasa | 4 | 4 |
| J M Chikura | 4 | 4 |

## IV. GROUP CORPORATE GOVERNANCE COMMITTEE

A Group Corporate Governance Committee was established in 2013 to take a leadership role in shaping the corporate governance of the Group. This was an ad-hoc Committee of the Board comprising six (6) non-executive directors, one of whom was the Chairperson. The Group Corporate Governance Committee assumed the responsibilities of the Related Party Transactions Committee. The Committee was responsible for all corporate governance issues across the First Mutual Group. However, from 1 January 2016 onwards, this mandate has been assumed by the Group Human Resources, Remuneration and Nominations Committee.

## WORKS COUNCIL

The Group holds Works Council Meetings every quarter. The Council provides a forum for employees to participate in the decision making process and discuss employees' concerns with management.

## GROUP INTERNAL AUDIT

The Group Internal Audit Department is headed by the Group Audit and Risk Management Executive. Its main activities are to address the following issues at each of the business units of the Group:

- Appraising of systems, procedures and management controls and providing recommendations for improvements;
- Evaluating the integrity of management and financial information;
- Assessing controls over the Group assets; and
- Reviewing compliance with applicable legislation, regulations, Group policies and procedures.

The Group Internal Audit Department reports to the subsidiary company audit committees and to the Combined Audit and Actuarial Committee and has unrestricted access to these Committees. Each company within the Group is audited regularly by the internal auditors based on the annual work plan and close communication is maintained between internal and external audit.

## FINANCIAL CONTROL

The Group's internal financial controls are set out in the relevant procedures manuals which also set the required standards and key control activities. Adequate segregation of duties is in place to enhance the effectiveness of these controls. The accounting policies are reviewed periodically by the Combined Audit and Actuarial Committee as well as the external auditors.

## RISK MANAGEMENT

Risk Management is practised within the Group in order to protect assets and earnings against exceptional financial losses and legal liabilities. Operational risks are managed through formalised procedures and controls, well trained personnel and where necessary back-up facilities. The Group manages risk of all forms including operational, market, reputational, liquidity and credit risks. These risks are identified and monitored through various channels and mechanisms. The Group Internal Audit and Risk Management Department is responsible for the assessment of the overall risk profile which is managed by the Managing Directors and General Managers on an on-going basis. Emphasis is placed on continuous improvement of systems and ways of working through business process re-engineering as well as internal and external audits.

# Corporate Governance (continued)

In 2015 a decision was made to separate the internal audit and risk management functions and a new Risk Management Policy was adopted. Internal Risk Management Committees were established within the subsidiaries, and in due course it is intended to create a separate Risk Management Committee at Board level. Meanwhile, the Combined Audit and Actuarial Committee ensures that risk is minimised and assesses the adequacy of the internal controls and makes the necessary recommendations to the Board.

**Mr O Mtasa**
**Group Chairman**

**16 March 2016**

# The Directors' Statement Of Responsibility

The Group's external auditors, PricewaterhouseCoopers Chartered Accountants (Zimbabwe), have audited the financial statements and their report is set out on page 31.

The Directors of the Company are responsible for maintaining adequate accounting records and for the preparation of financial statements that present fair and accurate information.

In discharging this responsibility, the Group maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that transactions are executed and recorded in accordance with Group policies.

The Directors have satisfied themselves that all the subsidiary companies in the Group are in a sound financial position and have adequate resources to continue in operational existence for the foreseeable future.

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

**Mr O Mtasa**
**Group Chairman**

**16 March 2016**

# Certificate of Compliance by Group Company Secretary

In my capacity as Group Company Secretary of First Mutual Holdings Limited and its Subsidiary Companies, I confirm that, in terms of the Companies Act (Chapter 24:03), the company lodged with the Registrar of Companies all such returns as are required of a public quoted company in terms of this Act, and that all such returns are true, correct and up to date.

S Lorimer

**S F Lorimer (Mrs)**
**Group Company Secretary**

**16 March 2016**

FIRST MUTUAL
HOLDINGS LIMITED
Go Beyond

# Our Behaviours

We are honest, transparent and ethical in all our dealings.

We are responsive to the needs of our customers, stakeholders and fellow employees.

We display expertise and competence in the way we do our work.

We are dynamic and we always strive for continuous improvement.

We take responsibility for our actions and outcomes of those actions.

We create and preserve wealth for future generations.

**INDEPENDENT AUDITOR'S REPORT**

to the shareholders of

**FIRST MUTUAL HOLDINGS LIMITED**

**Report on the financial statements**
We have audited the consolidated financial statements of First Mutual Holdings Limited (the "Company") and its subsidiaries (together the "Group") and the separate statement of financial position of the Company, ("the financial statements") which comprise the consolidated and separate statements of financial position as at 31 December 2015 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes set out on pages 32 to 105.

**Directors' responsibility for the financial statements**
The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Zimbabwe Companies Act (Chapter 24:03) and the Insurance Act (Chapter 24:07) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
In our opinion, the financial statements present fairly, in all material respects the consolidated and separate financial position of the Group and Company as at 31 December 2015, and the Group's consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Zimbabwe Companies Act (Chapter 24:03).

Pricewaterhouse Coopers

**PricewaterhouseCoopers**
**Chartered Accountants (Zimbabwe)**

**Harare** **6 May 2016**

**PricewaterhouseCoopers, Building No. 4, Arundel Office Park, Norfolk Road, Mount Pleasant**
**P O Box 453, Harare, Zimbabwe**
**T: +263 (4) 338362-8, F: +263 (4) 338395, www.pwc.com**

**T I Rwodzi – Senior Partner**
The Partnership's principal place of business is at Arundel Office Park, Norfolk Road, Mount Pleasant, Harare, Zimbabwe where a list of the Partners' names is available for inspection.

# Consolidated and Company Statements of Financial Position

**AS AT 31 DECEMBER 2015**

| ASSETS | Note | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|---|
| Property, plant and equipment | 6 | 9 749 481 | 11 256 014 | 316 424 | 651 865 |
| Investment property | 7 | 122 027 001 | 127 797 001 | - | - |
| Intangible assets | 8 | 84 693 | 268 051 | - | - |
| Investment in subsidiaries | 9 | - | - | 12 998 288 | 16 169 464 |
| Investment in associate | 10 | - | 7 081 684 | - | - |
| Financial assets: | | | | | |
| - Equity securities at fair value through profit or loss | 11.2 | 11 483 355 | 18 991 887 | 92 596 | 327 181 |
| - Debt securities held to maturity investments | 11.3 | 14 729 561 | 7 472 667 | - | - |
| Deferred acquisition costs | 12 | 1 134 059 | 1 111 471 | - | - |
| Income tax asset | 22.2 | 558 462 | 620 636 | - | - |
| Inventory | 13 | 3 081 962 | 2 952 089 | 27 577 | 29 068 |
| Loans and receivables including insurance receivables | 14 | 13 431 060 | 12 884 368 | 449 586 | 381 860 |
| Non-current assets classified as held for sale | 15 | 4 600 379 | - | 340 000 | - |
| Cash and balances with banks | 16 | 28 139 670 | 22 902 731 | 111 315 | 115 707 |
| **TOTAL ASSETS** | | **209 019 683** | **213 338 599** | **14 335 786** | **17 675 145** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity attributable to equity holders of the parent** | | | | | |
| Share capital | 17 | 380 201 | 380 201 | 380 201 | 380 201 |
| Share premium | | 7 957 918 | 7 957 918 | 7 957 918 | 7 957 918 |
| Non-distributable reserves | 17.5 | 2 094 601 | 2 107 863 | 291 047 | 291 047 |
| Retained profits / (accumulated losses) | | 3 515 562 | 3 291 153 | (3 037 166) | 1 899 312 |
| **Total equity attributable to equity holders of the parent** | | **13 948 282** | **13 737 135** | **5 592 000** | **10 528 478** |
| **Non-controlling interests** | | **53 411 033** | **53 919 384** | **-** | **-** |
| **Total equity** | | **67 359 315** | **67 656 519** | **5 592 000** | **10 528 478** |
| **Liabilities** | | | | | |
| Life insurance contracts liabilities with DPF | 18.3 | 15 569 895 | 14 769 684 | - | - |
| Life insurance contracts liabilities without DPF | 18.3 | 19 477 385 | 16 152 456 | - | - |
| Investment contract liabilities: | | | | | |
| - With DPF | 18.2 | 55 695 844 | 57 249 854 | - | - |
| - Without DPF | 18.2 | 5 661 964 | 7 316 953 | - | - |
| Borrowings | 19.1 | 5 548 232 | 5 002 838 | 2 156 565 | 378 829 |
| Non-life insurance liabilities | 20 | 25 006 572 | 24 749 477 | - | - |
| Trade and other payables | 21 | 3 865 728 | 5 261 539 | 6 587 221 | 5 825 327 |
| Deferred income tax | 22.1 | 10 597 031 | 15 080 544 | - | 942 511 |
| Current income tax liabilities | 22.2 | 16 843 | 98 735 | - | - |
| Liabilities associated with assets classified as held for sale | 15.2 | 220 874 | - | - | - |
| **Total liabilities** | | **141 660 368** | **145 682 080** | **8 743 786** | **7 146 667** |
| **TOTAL EQUITY AND LIABILITIES** | | **209 019 683** | **213 338 599** | **14 335 786** | **17 675 145** |

These financial statements were approved by the Board of Directors on 16 March 2016 and signed on behalf of the Directors

**O Mtasa**
**Chairman**

**D Hoto**
**Chief Executive Officer**

# Consolidated Statement of Comprehensive Income

**FOR THE YEAR ENDED 31 DECEMBER 2015**

| **INCOME** | | **2015 US$** | **2014 US$** |
|---|---|---|---|
| Gross premium written | 23 | 116 095 335 | 115 328 655 |
| Reinsurance | 23 | (9 802 210) | (9 785 473) |
| **Net premium written** | **23** | **106 293 125** | **105 543 182** |
| Unearned premium reserve | | 310 982 | (869 246) |
| **Net premium earned** | | **106 604 107** | **104 673 936** |
| Rental income | 24 | 7 328 845 | 7 541 667 |
| Fair value adjustments - investment property | 7 | (6 609 492) | 1 120 630 |
| Investment loss | 25 | (4 717 224) | (3 770 725) |
| Fee income | | | |
| -Insurance contracts | 26.1 | 1 159 846 | 742 432 |
| -Investment contracts | 26.2 | 2 896 361 | 3 009 436 |
| Other income | 26.3 | 1 126 049 | 1 692 082 |
| **Total income** | | **107 788 492** | **115 009 458** |
| | | | |
| **EXPENDITURE** | | | |
| Insurance benefits | 27 | (15 820 951) | (17 835 871) |
| Insurance claims and loss adjustment expenses | 27 | (52 357 258) | (53 232 814) |
| Insurance claims and loss adjustment expenses recovered from reinsurers | 27 | 490 870 | 1 039 270 |
| **Net insurance benefits and claims** | **27** | **(67 687 339)** | **(70 029 415)** |
| Movement in insurance liabilities | 18.3 | (6 627 337) | (8 664 967) |
| Investment loss on investment contract liabilities | 18.4 | 2 316 447 | 2 325 295 |
| Acquisition of insurance and investment contracts expenses | 28 | (8 490 678) | (8 960 738) |
| Administration expenses | 29 | (25 747 858) | (28 473 607) |
| Impairment allowances | 29.3 | (4 795 522) | (3 968 922) |
| Finance cost on borrowings | | ( 467 440) | (699 928) |
| **Total expenditure** | | **(111 499 727)** | **(118 472 282)** |
| **Loss before share of loss of associate** | | **(3 711 235)** | **(3 462 824)** |
| Share of loss of associate | 10 | (5 852) | ( 270 371) |
| **Loss before income tax** | | **(3 717 087)** | **(3 733 195)** |
| Income tax credit / (expense) | 22.3 | 3 848 027 | (1 333 995) |
| **Profit/(loss) for the year** | | **130 940** | **(5 067 190)** |
| | | | |
| **Other comprehensive income** | | | |
| **Other comprehensive income to be reclassified to statement of comprehensive income in subsequent periods** | | | |
| Available for sale reserve reclassified to statement of comprehensive income | | - | (144 164) |
| Exchange differences on translating foreign operations | | (87 919) | (95 707) |
| Share of associate's other comprehensive income | | (67 816) | 338 008 |
| | | | |
| **Other comprehensive (loss)/income to be reclassified to statement of comprehensive income in subsequent periods** | | **(155 735)** | **98 137** |
| | | | |
| **Total comprehensive loss for the year** | | **(24 795)** | **(4 969 053)** |
| | | | |
| **(Loss)/profit attributable to:** | | | |
| Non-controlling interest | | (209 285) | 1 532 662 |
| Equity holders of the parent | | 340 225 | (6 599 852) |
| | | | |
| **Profit/(loss) for the year** | | **130 940** | **(5 067 190)** |
| Comprehensive income / (loss) attributable to: | | | |
| Non-controlling interest | | (209 285) | 1 532 662 |
| Equity holders of the parent | | 184 490 | (6 501 715) |
| | | | |
| **Total comprehensive loss for the year** | | **(24 795)** | **(4 969 053)** |
| | | | |
| Basic (loss) / profit per share (US cents) | 30.2 | 0.09 | (1.74) |
| Diluted (loss) / profit per share (US cents) | 30.2 | 0.09 | (1.74) |

# Consolidated Statement Of Changes In Equity

**FOR THE YEAR ENDED 31 DECEMBER 2015**

| | Share capital US$ | Share premium US$ | Non distributable reserve (note 17.5) US$ | Retained profits US$ | Total equity for parent US$ | Non-controlling Interest US$ | Total equity US$ |
|---|---|---|---|---|---|---|---|
| **As at 1 January 2014** | **380 201** | **7 957 918** | **2 323 240** | **9 247 268** | **19 908 627** | **53 377 757** | **73 286 384** |
| (Loss)/profit for the year | - | - | - | (6 599 852) | (6 599 852) | 1 532 662 | (5 067 190) |
| Other comprehensive (loss)/income | - | - | (239 871) | 338 008 | 98 137 | - | 98 137 |
| **Total comprehensive income** | **-** | **-** | **(239 871)** | **(6 261 844)** | **(6 501 715)** | **1 532 662** | **(4 969 053)** |
| **Transactions with shareholders in their capacity as owners:** | | | | | | | |
| Transfer to solvency reserve | - | - | - | - | - | - | - |
| Share based payments | - | - | 24 494 | - | 24 494 | - | 24 494 |
| Acquisition of non-controlling interest (note 17.6) | - | - | - | 685 930 | 685 930 | (991 035) | (305 105) |
| Dividend declared and paid | - | - | - | (380 201) | (380 201) | - | (380 201) |
| **As at 31 December 2014** | **380 201** | **7 957 918** | **2 107 863** | **3 291 153** | **13 737 135** | **53 919 384** | **67 656 519** |
| Profit/(loss) for the year | - | - | - | 340 225 | 340 225 | (209 285) | 130 940 |
| Other comprehensive (loss)/income | - | - | (87 919) | (67 816) | (155 735) | - | (155 735) |
| **Total comprehensive income** | **-** | **-** | **(87 919)** | **272 409** | **184 490** | **(209 285)** | **(24 795)** |
| **Transactions with shareholders in their capacity as owners:** | | | | | | | |
| Transfer to solvency reserve | - | - | 50 163 | (50 163) | - | - | - |
| Share based payments | - | - | 24 494 | - | 24 494 | - | 24 494 |
| Policyholder gain on acquisition of Pearl shares (note 17.6) | - | - | - | 2 163 | 2 163 | (2 962) | (799) |
| Dividend declared and paid | - | - | - | - | - | (296 104) | (296 104) |
| **As at 31 December 2015** | **380 201** | **7 957 918** | **2 094 601** | **3 515 562** | **13 948 282** | **53 411 033** | **67 359 315** |

# Consolidated Statement of Cash Flows

**FOR THE YEAR ENDED 31 DECEMBER 2015**

| | Note | 2015 US$ | 2014 US$ |
|---|---|---|---|
| **Loss before income tax** | | **(3 717 087)** | **(3 733 195)** |
| **Adjustments for non-cash items:** | | | |
| Depreciation | 6 | 1 318 116 | 1 292 091 |
| Amortisation of intangible assets | 8 | 183 358 | 192 682 |
| Fair value loss on unquoted equities | 11.2 | - | 772 145 |
| Fair value loss on quoted equities | 11.2 | 7 279 250 | 5 330 772 |
| Fair value adjustments on investment properties | 7 | 6 609 492 | (1 120 630) |
| Gain on disposal of investments | 25 | 151 009 | (30 262) |
| Profit on disposal of equipment | 26.3 | (241) | (56 463) |
| Effects of exchange rate changes on cash and cash equivalents | | (91 656) | (37 223) |
| Allowance for credit losses | 29.3 | 2 161 417 | 2 089 354 |
| Movement in insurance contract liabilities | 18.3 | 2 571 130 | 4 913 098 |
| Movement in investment contract liabilities | 18.4 | (2 316 447) | 2 325 295) |
| Movement in IBNR provisions | 20 | 548 795 | - |
| Impairment of investment in associates | 10 | 2 634 105 | - |
| Unearned premium reserve movement | 20.2 | (487 362) | 869 246 |
| Share of losses of associate | 10 | 5 852 | 270 371 |
| Deferred acquisition costs | 12 | 22 588 | 325 149 |
| **Adjustments for separately disclosed items:** | | | |
| Finance costs | | 467 440 | 699 928 |
| Dividend received | 25 | (412 491) | (412 885) |
| Interest received | 25 | (2 300 545) | (1 889 045) |
| **Total non-cash and separately disclosed items** | | **18 343 810** | **10 883 033** |
| **Operating cash flows before working capital changes** | | **14 626 723** | **7 149 838** |
| **Working capital changes** | | | |
| (Increase) / decrease in other receivables | | (1 033 821) | 6 481 000 |
| Increase in rental receivables | | (70 472) | (1 297 059) |
| Decrease / (increase) in insurance receivables | | 2 450 811 | (921 812) |
| Increase in inventory | | (129 873) | (1 457 277) |
| (Decrease) / increase in trade and other payables | | (908 449) | 489 233 |
| (Decrease) / increase in insurance payables | | (291 700) | 4 512 316 |
| **Working capital changes** | | **16 496** | **7 806 401** |
| **Cash flows from operations** | | **14 643 219** | **14 956 239** |
| Finance costs on borrowings | | (467 440) | (699 928) |
| Interest received | 25 | 2 300 545 | 1 889 045 |
| Income tax paid | 22.2 | (655 204) | (1 348 889) |
| **Net cash flows from operating activities** | | **15 821 119** | **14 796 467** |
| **Investing activities** | | | |
| Dividends received | 25 | 412 491 | 412 885 |
| Purchase of property, plant and equipment | 6 | ( 287 548) | ( 620 972) |
| Additions to investment property | 7 | ( 311 247) | ( 11 449 370) |
| Disposal of investment property | | - | 335 000 |
| Proceeds from disposals of property, plant and equipment | | 475 724 | 188 295 |
| Purchase of investments | | ( 25 047 608) | ( 16 328 944) |
| Proceeds from sale of investments | | 6 209 117 | 6 344 312 |
| **Cash utilised in investing activities** | | **(18 549 071)** | **(21 118 794)** |
| **Financing activities** | | | |
| Loan received | 19.1 | 1 985 000 | 5 700 000 |
| Loan repayment | 19.1 | (1 439 606) | (1 235 938) |
| Dividends paid | | (296 104) | (380 201) |
| Acquisition of non-controlling interest | | - | (305 105) |
| **Cash flows from financing activities** | | **249 290** | **3 778 756** |
| **Net increase in cash and cash equivalents** | | **(2 478 661)** | **(2 543 571)** |
| Cash and cash equivalents at the beginning of the year | 16 | 15 853 332 | 18 359 680 |
| Effects of exchange rate changes on cash and cash equivalents | | 91 654 | 37 223 |
| **Cash and cash equivalents at the end of the year** | **16** | **13 466 325** | **15 853 332** |

# Notes to the Consolidated Financial Statements

## 1 GENERAL INFORMATION

The main business of First Mutual Holdings Limited ("the Company") and its subsidiaries (together the "Group") is that of provision of short-term insurance, life and funeral assurance, reinsurance, property management and development, actuarial consultancy services and wealth management. First Mutual Holdings Limited is a public company, incorporated and domiciled in Zimbabwe whose shares are publicly traded on the Zimbabwe Stock Exchange.

The ultimate parent of the Company is National Social Security Authority ("NSSA") which own 51% (2014: 51%) directly and an additional 20% (2014: 20%) indirectly through Capital Bank Limited (under liquidation). NSSA owns 84% (2014: 84%) of Capital Bank Limited.

The registered office is located at Second Floor, First Mutual Park, 100 Borrowdale Road, Borrowdale, Harare, Zimbabwe.

The consolidated historical financial statements of the Company and the Group for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Directors' at a meeting held on 16 March 2015.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation and presentation

### 2.1.1 Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards, ("IFRS") as issued by the International Accounting Standards Board ("IASB"), International Financial Reporting Committee Interpretations ("IFRIC") as issued by the International Financial Reporting Interpretations Committee ("IFRS IC") and in a manner required by the Zimbabwe Companies Act (Chapter 24:03) and the Zimbabwe Insurance Act (Chapter 24:07). The financial statements are based on statutory records that are maintained under the historical cost convention except for investment properties and those financial assets and financial liabilities that have been measured at fair value or on a discounted cash flow basis.

### 2.1.2 Foreign currency translation

**(a) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in the United States of America dollar ("US$"), which is the Company's and the Group's functional and presentation currency.

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions or valuation where items are re-measured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment repaid, the associated exchange differences are reclassified to statement of comprehensive income, as part of the gain or loss on sale.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in statement of comprehensive income as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale are included in other comprehensive income.

Transactions in currencies other than US$ are initially recorded at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in currencies other than US$ are re-translated at the functional currency spot rate of exchange ruling at the reporting date.

All differences arising from settlement or translation of monetary items are taken to statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1.3 Changes in accounting policy and disclosures

**a) New standards, amendments and interpretations effective for the first time for 31 December 2015 year ends that are relevant to the Group**

There were no new standards, amendments and interpretations effective for the first time in 31 December year ends that are relevant to the Group.

**b) New standards, amendments and interpretations effective for the first time for 31 December 2015 year ends that are not relevant to the Group (although they may affect accounting for future transactions)**

| Standard/interpretation | Effective date | Executive summary |
|---|---|---|
| Amendments to IAS 19 Employee benefits', regarding defined benefit plans | 1 July 2014 | These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage salary. |

**c) New standards, amendments and interpretations issued but not effective for 31 December 2015 year ends that are relevant to the Group but have not been early adopted**

| Standard/interpretation | Effective date | Executive summary |
|---|---|---|
| Amendments to IAS 1,'Presentation of financial statements' disclosure initiative | 1 January 2016 | In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of sub-totals, the structure of financial statements and the disclosure of accounting policies. |
| Amendment to IAS 7 – Cash flow statements | 1 January 2017 | In January 2016, the IASB issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.<br><br>The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. |
| Amendment to IAS 12 – Income taxes | 1 January 2017 | The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base<br><br>The amendments clarify the existing guidance under IAS 12. They do not change the underlying principles for the recognition of deferred tax assets. |
| Amendment to IAS 16, 'Property, plant and equipment' and IAS 38,'Intangible assets', on depreciation and amortisation. | 1 January 2016 | In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. |
| Amendments to IAS 27, Separate financial statements' on equity accounting | 1 January 2016 | In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. |
| IFRS 9 – Financial Instruments (2009 and 2010)<br>· Financial liabilities<br>· Derecognition of financial instruments<br>· Financial assets<br>· General hedge accounting | 1 January 2018 | This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value.<br><br>The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss. |

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1.3 Changes in accounting policy and disclosures (continued)

#### c) New standards, amendments and interpretations issued but not effective for 31 December 2015 year ends that are relevant to the Group but have not been early adopted (continued)

| Standard/interpretation | Effective date | Executive summary |
|---|---|---|
| Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28,'Investments in associates and joint ventures' on applying the consolidation exemption | 1 January 2016 | In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.<br><br>The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. |
| IFRS 15 – Revenue from contracts with customers. | 1 January 2018 | The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer. |
| IFRS 16 – Leases | 1 January 2019 | FASB and IASB decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements.<br><br>A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortized.<br><br>One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).<br><br>IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an arrangement contains a lease', SIC 15, 'Operating leases - incentives' and SIC 27, 'Evaluating the substance of transactions involving the legal form of a lease'. |

#### d) New standards, amendments and interpretations issued but not effective for 31 December 2015 year ends that are not relevant to the Group

| Standard/interpretation | Effective date | Executive summary |
|---|---|---|
| Amendments to IAS 16, Property, plant and equipment' and IAS 41, Agriculture' on bearer plants | 1 January 2016 | In this amendment to IAS 16 the IASB has scoped in bearer plants, but not the produce on bearer plants and explained that a bearer plant not yet in the location and condition necessary to bear produce is treated as a self-constructed asset. In this amendment to IAS 41, the IASB has adjusted the definition of a bearer plant include non-bearer plants and removed current examples of bearer plants from IAS 41. |
| Amendment to IFRS 9 - Financial instruments', on general hedge accounting | 1 January 2018 | The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39.<br><br>- The own credit risk requirements for financial liabilities<br>- Classification and measurement ("C&M") requirements for financial assets<br>- C&M requirements for financial assets and financial liabilities<br>- The full current version of IFRS 9 (that is, C&M requirements for financial assets and financial liabilities and hedge accounting).<br><br>The transitional provisions described above are likely to change once the IASB completes all phases of IFRS 9. |
| Amendments to IFRS 10, "Consolidated financial statements and IAS 28, "Investments in associates and joint ventures' on sale or contribution of assets | 1 January 2016 | The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. |
| The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. | Postponed (initially to 1 January 2016) | The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures'. Those changes affect how an entity should determine<br><br>The reason for making the decision to postpone the effective date is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. |

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1.3 Changes in accounting policy and disclosures (continued)

**d) New standards, amendments and interpretations issued but not effective for 31 December 2015 year ends that are not relevant to the Group (continued)**

| Standard/interpretation | Effective date | Executive summary |
|---|---|---|
| Amendment to IFRS 11, Joint arrangements' on acquisition of an interest in a joint operation | 1 January 2016 | The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. |
| IFRS 14 - Regulatory deferral accounts | 1 January 2016 | The IASB has issued IFRS14, 'Regulatory deferral accounts' specific to first time adopters ('IFRS 14'), an interim standard on the accounting for certain balances that arise from rate-regulated activities ("regulatory deferral accounts"). Rate regulation is a framework where the price that an equity charges to its customers for goods and services is subject to oversight and/or approval by an authorised body. |

**e) Improvements to IFRS**

**Annual improvements 2012, issued December 2013**

The IASB has published the final standard for the 2010-12 cycle of the annual improvements project, with amendments that affected seven standards issued, and are effective for the first time for 31 December 2015 year ends;

| Annual Improvements | Effective date | IFRS |
|---|---|---|
| Annual improvements 2012 | 1 July 2014 | • IFRS 2, 'Share-based payment';<br>• IFRS 3, 'Business combinations';<br>• IFRS 8, 'Operating segments';<br>• IFRS 13, 'Fair value measurement';<br>• IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets'; and<br>• IAS 24, 'Related party disclosures' |

**Annual improvements 2013, issued December 2013**

The IASB published final standard for the 2011 - 2013 cycle of the annual improvements with amendments that affected four standards issued, and are effective for the first time for 31 December 2015 year ends;

| Annual Improvements | Effective date | IFRS |
|---|---|---|
| Annual improvements 2013 | 1 July 2014 | • IFRS 1, 'First time adoption of International Financial Reporting Standards';<br>• IFRS 3, 'Business combinations';<br>• IFRS 13, 'Fair value measurement'; and<br>• IAS 40, 'Investment property' |

**Annual improvements 2014, issued September 2014**

The IASB issued annual improvements to IFRS 2012 - 2014 cycle, which contains five amendments to four standards, excluding consequential amendments. The amendments are effective for annual periods beginning on or after 1 January 2016;

| Annual Improvements | Effective date | IFRS |
|---|---|---|
| Annual improvements 2014 | 1 July 2016 | • IFRS 5, 'Non-current assets held for sale and discontinued operations';<br>• IFRS 7, 'Financial instruments: Disclosures';<br>• IAS 19, 'Employee benefits'; and<br>• IAS 34, 'Interim financial reporting' |

There are no other standards, amendments and interpretations that are not yet effective that are likely to have a material impact on the Group.

### 2.1.4 Going concern assumption

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

### 2.2 Basis of consolidation

**Group**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (together the "Group") as at 31 December 2015.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Basis of consolidation (continued)

**(a) Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income and statement of financial position from the date the Group gains control until the date the Group ceases to control the subsidiary.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in statement of comprehensive income.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39, Financial instruments : recognition and measurement' either in statement of comprehensive income or as a change too the comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition- date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

# Notes to the Consolidated Financial Statements (continued)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Basis of consolidation (continued)**

**(a) Subsidiaries (continued)**

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

All subsidiaries in the Group are 100% owned, except for Pearl Properties which is 57% owned, have 31 December year ends and are consolidated in the presented financial statements.

**(b) Loss of control**

If the Group loses control over a subsidiary, it;

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative transaction differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the statement of comprehensive income; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to statement of comprehensive income or retained earnings, as appropriate.

**Changes in ownership interests in subsidiaries without change of control**

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

**(c) Separate financial statements of the Company**

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less accumulated allowance for impairment.

**(d) Associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. If the holding is less than 20%, the Group will be presumed not to have significant influence unless such influence can be clearly demonstrated. The existence of significant influence by the Group is usually evidenced in one or more of the following ways:

- representation on the board of directors or equivalent governing body of the investee.
- participation in the policy-making process.
- material transactions between the investor and the investee.
- interchange of managerial personnel.
- provision of essential technical information.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of profit or loss of the investee and movements in other reserves after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

When the investment, or portion of an investment, meets the criteria to be classified as held for sale, the portion so classified is accounted for in accordance with IFRS 5, 'Non-current assets held for sale and discontinued operations'. Any remaining portion is accounted for using the equity method until the time of disposal, at which time the retained investment is accounted under IAS 39, Financial instruments : recognition and measurement', unless the retained interest continues to be an associate.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to statement of comprehensive income where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the statement of comprehensive income and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Basis of consolidation (continued)

**(d) Associates (continued)**

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting polices of associates have been changed where necessary to ensure consistency with the polices adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the statement of comprehensive income.

### 2.3 Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is allocated to an appropriate cash-generating unit that is expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the "group executive committee" which is made up of Group Chief Executive Officer, Group Finance Director and Managing Directors of the subsidiaries.

### 2.5 Property, plant and equipment

Property, plant and equipment are initially measured at cost. Subsequently they are measured at initial cost less accumulated depreciation and impairment losses recognised. Repairs and maintenance costs are recognised in statement of comprehensive income as incurred.

Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

| | |
|---|---|
| • Vehicles and equipment | 5 years |
| • Furniture | 10 years |
| • Property | 50 years |

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition is included in statement of comprehensive income in the year the asset is de-recognised.

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Property, plant and equipment (continued)

The asset's residual values, useful lives and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively if appropriate. Changes in the asset's depreciation method, residual value or useful life are treated as a change in accounting estimates in accordance with IAS 8, 'Accounting policies, changes in accounting estimates and errors.

Owner occupied properties comprises property which is owned by the Group but is significantly occupied by group companies, regardless of the leasing of the property being at market related rentals and terms. Significant occupation by a group company is considered as 25% of the space of the property occupied or above. Such owner occupied properties are classified under property, plant and equipment and depreciated in line with the Group policies.

### 2.6 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in statement of comprehensive income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in statement of comprehensive income when the asset is derecognised.

### 2.7 Investment property

Investment property comprises land and buildings that are either held for capital appreciation or to earn rentals or both. Buildings under construction to be used for rental to others or for capital appreciation or both are also classified as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property is included in statement of comprehensive income in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual evaluation performed by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment property is derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in statement of comprehensive income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. An investment property is deemed to be owner occupied if Group companies occupy at least 25% of the lettable space. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The difference between the cost based measurement and fair value is treated as a revaluation adjustment. The revaluation reserve is realised on disposal of the property.

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 Inventory

Inventory comprises property acquired or being constructed for sale in the ordinary course of business, consumables and other stocks.

Principally, this is residential property that the Group is developing and intends to sell before or on completion of construction. Cost includes;

- Amounts paid to contractors for construction,
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.
- Consumables and other stocks

Consumables and other stocks are valued on the basis of weighted average cost and at the lower of cost or estimated net realisable value ("NRV"), inventory is valued at the lower of cost or estimated NRV, but is based on the specific identification of the property. NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and less costs to completion and the estimated costs of sale. NRV for completed inventory property is assessed with reference to market conditions and prices existing at the reporting date, and is determined by the Group in light of recent market transactions.

### 2.9 Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of the asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in statement of comprehensive income.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified; an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in statement of comprehensive income.

### 2.10 Fair value

The Group measures financial assets such as quoted and unquoted investments and non-financial assets such as investment property at fair value at reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.10 Fair value (continued)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole;

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### 2.11 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

### 2.12 Non-current assets (disposal group) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of the carrying amount and fair value less costs to sell.

### 2.13 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### 2.13.1 Financial assets

Financial assets within the scope of IAS 39, Financial instruments : recognition and measurement are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available for-sale financial assets as appropriate. Financial assets are recognised initially at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. Fair value gains / (losses) on financial assets at fair value through profit or loss are recognised in statement of comprehensive income. The Group determines the classification of its financial assets on initial recognition and where allowed and appropriate, re-evaluates the designation at each financial year-end.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.13 Financial instruments (continued)

### 2.13.1 Financial assets (continued)

**Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows;

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition at fair value through profit or loss. The Group designates a financial assets or financial liability as at fair value through profit or loss where designation significantly reduces a measurement inconsistency which may arise where a financial asset and a liability are measured using different methods. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with gains or losses recognised in statement of comprehensive income.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the profit or loss statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

**Held-to-maturity investments**

These are non-derivative financial assets with fixed or determinable payments and maturities of which the Group has the positive intention and ability to hold until maturity. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method. Gains and losses are recognised in statement of comprehensive income when the investments are de-recognised or impaired, as well as through the amortisation process.

**Available-for-sale financial investments**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised in other comprehensive income and accumulated in an available-for-sale reserve (a separate component of equity) until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in the available-for- sale reserve is reclassified out of other comprehensive income into statement of comprehensive income.

**Share capital and reserves**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of income tax from the proceeds.

Where any Group company purchases the Company's equity share capital ("treasury shares"), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects is included in equity attributable to the Company's equity holders.

**Cash and balances with banks**

Cash and balances with banks comprise cash and balances with banks. Balances with banks are short-term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in fair value.

**Cash and cash equivalents**

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.13 Financial instruments (continued)

### 2.13.2 Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of a financial asset or a group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 there is objective evidence that an impairment loss 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 future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the statement of comprehensive income. Financial assets at amortised cost together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write off is later recovered, the recovery is credited to statement of comprehensive income.

### 2.13.3 De-recognition of financial assets

A financial asset is de-recognised when the right to receive cash flows from the asset has expired or the Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either, has transferred substantially all the risks and rewards of the asset to another party, or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

### 2.13.4 Financial liabilities

Financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, less directly attributable transaction costs. The Group's financial liabilities include other payables.

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.13 Financial instruments (continued)

#### 2.13.4 Financial liabilities (continued)

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, at amortised cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

The Group's financial liabilities include trade and other payables, bank borrowings, policyholder liabilities, and investment contracts.

All the Group's financial liabilities are classified as other financial liabilities at amortised costs.

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method ("EIR") amortisation process.

#### 2.13.5 De-recognition of financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in statement of comprehensive income.

#### 2.13.6 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

#### 2.13.7 Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

### 2.14 Leases

The Group has numerous leasing contracts as the lessor of investment property. The leases are operating leases, which are those leases where the Group retains a significant portion of risks and rewards of ownership. Contractual rental income is recognised on a straight-line basis over the period of the lease term.

### 2.15 Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding any discounts and rebates, and other value added taxes or duty. The following specific recognition criteria must be met before the revenue is recognised:

#### 2.15.1 Premium income

Premium income is accounted for gross of reinsurance and accounted for as follows:

| | |
|---|---|
| Pensions | - when due |
| Life | - when paid |
| Property and casualty insurance (short-term insurance) | - when due |
| Health insurance | - when paid only |

In the short-term business, premium income is accounted for as and when the premiums are agreed and risks accepted. Refer to note 2.19.6 for the Group's accounting policy for unearned premium.

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.15 Revenue recognition (continued)

#### 2.15.2 Rental income

The Group is the lessor in operating leases.

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature, except for contingent rental income which is recognised when it arises. Services and management charges are recognised in the accounting period in which they are incurred.

Tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the directors are reasonably certain that the tenant will exercise that option.

Amounts received from tenants to terminate leases or to compensate for dilapidations as well as recovery of fixed operating costs are recognised in statement of comprehensive income when the right to receive them arises.

#### 2.15.3 Property services income

Property services income comprises income received from property-related services to other parties. The income is recognised when the related services have been provided. Property services income will be generated from the following services:

- Project management;
- Property management;
- Property purchases;
- Property sales; and
- Property valuations.

#### 2.15.4 Sale of completed property

A property is regarded as sold when the significant risks and returns have been transferred to the buyer, which is normally on transfer of property. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.

#### 2.15.5 Sale of property under development

Where property is under development and agreement has been reached to sell such property when construction is complete, the directors consider whether the contract comprises:

- A contract to construct a property, or
- A contract for the sale of a completed property.

Where a contract is judged to be for the construction of a property, revenue is recognised using the percentage-of-completion method as construction progresses.

Where the contract is judged to be for the sale of a completed property, revenue is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer. If, however, the legal terms of the contract are such that the construction represents the continuous transfer of work in progress to the purchaser, the percentage-of-completion method of revenue recognition is applied and revenue is recognised as work progresses. Continuous transfer of work in progress is applied when:

- The buyer controls the work in progress, typically when the land on which the development takes place is owned by the final customer; and
- All significant risks and rewards of ownership of the work in progress in its present state are transferred to the buyer as construction progresses, typically, when buyer cannot put the incomplete property back to the Group.

In such situations, the percentage of work completed is measured based on the cost incurred to date.

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.15 Revenue recognition (continued)

#### 2.15.6 Dividend income

Dividend income is recognised when the Group's right to receive the payment is established, when the investee`s Board of Directors has declared the dividend.

#### 2.15.7 Interest income

Interest earned on cash invested with financial institutions is recognised on an accrual basis using the effective interest rate ("EIR"), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in the statement of comprehensive income.

#### 2.15.8 Fee income

Insurance contract policyholders are charged for policy administration services, surrenders and other contract fees. These fees and charges are recognised as revenue over the period in which the related services are performed. Actuarial and consultancy fee income is recognised on an accrual basis, based on the values of the services provided and disclosed under other income.

#### 2.15.9 Commission income

Commission income received or receivable under reinsurance contracts for non life insurance contracts is recognised as revenue proportionally over the period of the insurance contract.

#### 2.15.10 Realised gains and losses

Realised gains and losses recorded in statement of comprehensive income on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

### 2.16 Claims

#### 2.16.1 Life insurance

Insurance benefits and claims relating to group life insurance contracts are recognised in profit or loss based on the estimated liability for compensation owed to the contract holder. Death, disability and severe illness and surrender claims are accounted for when notified. These claims include outstanding claims and claims incurred but not reported ("IBNR"). The IBNR estimate is determined taking into account the likelihood of the claim being valid and the expected severity of the claim given that the claim is valid. The proportion to be included is estimated separately for each benefit type. An estimate of the expected claim amount is charged to profit or loss and included in liabilities under insurance contracts. Maturity and income disability are recorded as incurred. Liabilities are held to reflect IBNR claims. The IBNR is modified to reflect actual current operating conditions. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recoveries from reinsurers.

#### 2.16.2 Non-life insurance

Benefits payable under health insurance contracts are accounted for as incurred. Liabilities are held to reflect IBNR claims. The IBNR calculation is performed using the chain ladder approach. This allows for the historic patterns of claims payment in determining the likely future emergence of claims. The IBNR is further modified to reflect current operational conditions or known events.

Claims are accounted for as incurred and consist of claims paid, movement in the provision for outstanding claims and relate claims handling expenses. The provision for outstanding claims is based on estimates of the cost of settling all claims incurred but unpaid at the reporting date, whether reported or not. Related anticipated reinsurance recoveries are disclosed separately as assets in the statement of financial position and are included in recoveries from reinsurers in profit or loss.

### 2.17 Reinsurance recoveries

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18 Acquisition costs and insurance contracts

Acquisition costs and insurance contracts comprises commission and other acquisition costs over the life of the insurance contract.

**Commission**

Commission is recognised as an expense in statement of comprehensive income when the premium is received through an intermediary or agent. The period over which commission is paid and the commission rate differ per product depending on the product design structure.

**Other acquisition costs**

Acquisition costs are costs incurred for running the Group's branch network for the insurance businesses. Branches are set up to acquire business across the country and the costs are charged to statement of comprehensive income in the period in which they are incurred. The costs include costs of supporting the agents, including medical aid and pension for the agents. Staff expenses for employees working in the branches are included as acquisition costs together with all other costs for maintaining the branches functional.

### 2.19 Insurance contract liabilities

**Policyholder insurance and investment contracts**

Policyholder contracts are classified into four categories, namely, insurance contracts with discretionary participation features, insurance contracts without discretionary participation features, investment contracts with discretionary participation features and investment contracts without discretionary participation features.

### 2.19.1 Insurance contract

An insurance contract is one 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. Such contracts may also transfer financial risk. The group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of the insured event that are significantly more than the benefits payable if the insured event did not occur.

### 2.19.2 Investment contracts

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variables.

### 2.19.3 Discretionary participation features ("DPF")

A number of insurance contracts and investment contracts contain a discretionary participation feature. This feature entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

i) that are likely to be a significant portion of the total contractual benefits;
ii) whose amount or timing is contractually at the discretion of the Group; and
iii) that are contractually based on:

- the performance of a specified pool of contracts or a specified type of contract; and / or
- realised and / or unrealised investment returns on a specified pool of assets held by the group.

All component of the DPFs are included in the policyholder liabilities.

### 2.19.4 Determination of liabilities

The liabilities are determined on the basis derived by the Group's actuary as detailed in note 3.1.2. Actuarial valuation reports for each year are done annually and signed-off by the statutory actuary.

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 Insurance contract liabilities (continued)

#### 2.19.4.1 Insurance contract liabilities and investment contract liabilities with DPF

The liability for life insurance contracts and investment contracts with DPF are measured using the Financial Soundness Valuation ("FSV") method as set out in the guidelines issued by the Actuarial Society of South Africa in Professional Guidance Note ("SAP") Under this guideline, provisions are valued using realistic expectations of future experience, with compulsory margins for prudence and deferral of profit emergence. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group bases mortality on historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences.

Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates. The liability in respect of some of the investment contracts with DPF is taken as the investment value. The main example is the Deposit Administration business where the reserve is the face value of the accounts together with the bonus smoothing reserve. Although it could be argued that FML expects the contracts to be profitable, it would not be advisable to account for such profits in advance of them arising. Surplus allocated to policyholders under investment contract liabilities with DPF but not yet distributed (i.e. bonus smoothing reserves) is included in the carrying value of liabilities.

#### 2.19.4.2 Investment contracts without DPF

Investment contracts without DPF are determined by applying deposit accounting where the contributions, claims and benefits paid investment income and related expenses are not accounted through profit or loss but are accounted as direct increases or decreases to the investment contract liability and the corresponding assets.

#### 2.19.5 Life assurance liabilities

Life assurance liabilities comprise the policyholder funds and the shareholder risk reserves. These are determined on the basis derived by the Group's actuary as detailed in note 5.2.3. Actuarial valuation reports for each year are done annually and signed-off by the statutory actuaries.

The liability for life insurance contracts is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group bases mortality and morbidity on historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements as well as wide ranging changes to life style that could result in significant changes to the expected future mortality exposure.

Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure.

#### 2.19.6 Non-life insurance contract liabilities (which comprises general insurance and health care)

These include the outstanding claims provision and the incurred but not reported reserve ("IBNR") (disclosed as insurance payable) and the provision for unearned premium.

**Outstanding claims**

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected salvage and other recoveries.

Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim project techniques, based on empirical data and current assumptions that include a margin for adverse variation. The liability is not discounted for the time value of money. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 Insurance contract liabilities (continued)

#### 2.19.6 Non-life insurance contract liabilities (which comprises general insurance and health care) (continued)

**Incurred but not reported - ("IBNR")**

The provision for incurred but not reported claims ("IBNR") represents all claims incurred before the reporting date but only reported subsequent to year-end. The IBNR is actuarially determined.

**Unearned premium reserves - ("UPR")**

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

### 2.20 Deferred acquisition costs

Deferred acquisition costs, relate to commission, are deferred over a period in which the related premiums are earned. The deferred portion is calculated by applying the actual commission rate on the unearned premium reserve balance.

### 2.21 Reinsurance

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies, for the primary insurers and balances due to retrocession companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and he event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in profit or loss.

Gains or losses on buying reinsurance are recognised in statement of comprehensive income immediately at the date of purchase and are not amortised. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance assets represent balances due to the Group. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position.

### 2.22 Current income and deferred taxes

#### 2.22.1 Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to the tax authorities. The tax rates and laws used to compute the amounts are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised in other comprehensive income or equity is also recognised in other comprehensive income or equity and not in statement of comprehensive income.

Taxable income for the life assurance subsidiary company is calculated in accordance with the insurance formula as laid down in the Eighth Schedule to the Income Tax Act (Chapter 23:06).

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.22 Current income and deferred taxes (continued)

#### 2.22.2 Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except;

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint arrangements, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only were there is an agreement in place that gives the group the ability to control the reversal of the temporary difference not recognised.

  Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and carry forward of unused tax credits and unused tax losses can be utilised except;

- When the deferred tax asset relating to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

  The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

  Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

  Deferred tax relating to items recognised in other comprehensive income or equity is also recognised in other comprehensive income or equity and not in statement of comprehensive income.

  Deferred tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### 2.22.3 Value added tax ("VAT")

Expenses and assets are recognised net of the amount of VAT, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case, the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable

- When receivables and payables are stated with the amount of VAT included

  The net amount of VAT recoverable from, or payable to, the tax authority is included as part of receivables or payables in the statement of financial position.

  The policy relates to all companies that are VAT registered, with the exception of FMRE Life & Health (Private) Limited and First Mutual Health Company (Private) Limited that are VAT exempt.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.23 Employee benefits

The Group operates two defined contribution plans, the assets of which are held in separate trustee administered funds. The pension plans are funded by payments from employees and the relevant group companies. The Group's contributions to the defined contribution pension plans are charged to statement of comprehensive income in the period in which the contributions relate. Retirement benefits are also provided for the Group's employees through the National Social Security Authority ("NSSA") Scheme. The cost of retirement benefits applicable to the NSSA Scheme is determined by the systematic recognition of legislated contributions.

### 2.24 Shared-based payments: share option

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments ("options") of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specific period of time).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

### 2.25 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in statement of comprehensive income net of any reimbursement.

Restructuring provisions are recognised only when the recognition criteria for provisions are fulfilled. The Group has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected have been notified of the plan's main features.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### 2.26 Retrenchment accounting policy

The Group recognises termination as a liability and expense when there is a demonstrable commitment to either terminate the employment of an employee or group of employees before normal retirement date or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

# Notes to the Consolidated Financial Statements (continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.26 Retrenchment accounting policy (continued)

The Group will recognise such termination benefits when and only when, there is a detailed formal plan for the termination and there is no realistic possibility for withdrawal for such plans. The detailed formal plan will include the location, function and approximate number of employees whose services are to be terminated, the termination benefits for each job classification or function and the time at which the plan will be implemented

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparation of the Group's financial statements, management is required to make judgements, estimates and assumptions that affect reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

### 3.1 Judgements other than estimates

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

### 3.1.1 Classification of property

The Group determines whether a property is classified as investment property or as owner occupied property or inventory:

Investment property comprises land and buildings (principally office, industrial and retail property) on which the Group occupies insignificant portion for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but is held primarily to earn rental income or capital appreciation or both. Inventory comprises property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction. As at year end a property valued US$2.9 million (2014: US$2.7 million) met the criteria to be recognised as inventory. The distinction between investment property and inventory is not always clear and management will make judgement on the classification of the property as investment property or inventory.

Owner occupied property comprise property which is owned by the Group but is significantly occupied by group companies, regardless of the leasing of the property being at market related rentals and terms. Significant occupation by group companies is considered as 25% of the total lettable space of the property occupied or above. Such owner occupied properties are classified under property, plant and equipment and depreciated in line with the Group accounting policies.

### 3.1.2 Insurance contracts and investment contracts

The Group classifies contracts entered into between investment contracts and insurance contracts on the basis of whether the contract is mostly a life assurance contract or a deposit contract. In the event of both elements existing in the contract, judgement is applied in determining which of the two elements makes up a more significant portion of the contract, in which case it is classified as such.

### 3.1.3 Taxes

The Group is subject to income and capital gains taxes in Botswana and Zimbabwe. Significant judgement is required to determine the total liability for current income and deferred taxes.

There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain. In particular, when calculating deferred tax, the effective tax rate applicable on the temporary differences on investment property depends on the method by which the carrying amount of investment property will be realised

Management has rebutted the presumption that the companies amount of investment property measured at fair value will be recovered through sale. Management has rebutted the presumption as the objective of its business model is to consume substantially all of the economic benefits embodied in the investment property over time rather than through sale. As a result the Group will continue to apply the income tax rate of 25.75% for the purpose of recognising deferred tax for its investment properties with the exception of land. The Group will recover the carrying amount of land recognised as investment property through sale and in that respect, the capital gains tax rate is used to determine deferred tax.

# Notes to the Consolidated Financial Statements (continued)

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

### 3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

### 3.2.1 Incurred but not reported ("IBNR")

The provision for incurred but not reported claims ("IBNR") represents all claims incurred before the reporting date but only reported subsequent to year end. The IBNR is actuarially determined as at the reporting date.

### 3.2.2 Insurance contract liabilities (policyholders' funds) and actuarial assumptions.

The life policyholder funds, under un-matured policies, are computed at the reporting date by the Group's independent actuary, in accordance with prevailing legislation, guidelines issued by the Actuarial Society of South Africa ("SAP104"). Under this method, the insurance contract liabilities are valued using realistic expectations of future experience with prescribed margins for prudence. The insurance contract liabilities reflected in the statement of financial position represent the increase or decrease in actuarial liabilities, calculated using the Financial Soundness Valuation method.

The main assumptions used relate to mortality, longevity, investment returns, expenses, lapses, surrender rates and discount rates. Estimates are also made as to future investment income arising from the assets backing the life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. Assumptions on future expenses are based on current expense levels adjusted for expected expense inflation adjustments if necessary. Lapse and surrender rates depend on product features, policy duration and external circumstances such as sales trends. Discount rates are based on current expense levels adjusted for expected inflation adjustments if appropriate. Refer to note 18 and 19 for the carrying amount of policyholder funds and insurance risk reserve and the assumptions used to determine the carrying amounts.

### 3.2.3 Fair value of investment property

The Group carries its investment property at fair value, with changes in fair value being recognised in statement of comprehensive income. The yield method converts anticipated future cash flow benefits in the form of rental income into present value. This approach requires careful estimation of future benefits and the application of investor yield or return requirements. One approach to value property on this basis is to capitalise net rental income on the basis of an initial yield, generally referred to as the "All Risks Yield" approach or "Net Initial Yield" approach.

The determined fair value of the investment properties is most sensitive to the estimated yield as well as the long-term void rate.

The property valuations have been undertaken in an environment of poor liquidity conditions and limited transaction evidence. In undertaking the valuations for commercial, industrial and retail properties, reliance has been placed on rental market evidence, void rates and arrears currently applying to the individual properties in the portfolio. The achieved rentals for the portfolio are generally in line and in some instances higher than the rental rates being achieved in the market. With regards to the residential properties, various properties were identified that were sold or which are on sale and situated in comparable residential suburbs. In analysing the comparable properties, the main space equivalent ("MSE") principle was applied. The total MSE of the comparable property was then used to determine a value per square metre of MSE. The objective is to arrive at a common basis of comparison. After adjustments for quality, location and size, the rates per MSE reflected by the comparable were then applied to the subject residential properties. The yields, have been obtained from the limited concluded transactions and have also been assessed taking into account asking prices and offers that may have been received for properties currently on the market, formally or otherwise, although the transactions may not have been concluded. Refer to note 7 for the carrying amount of investment properties and more information on the estimates and assumptions used to determine the fair, value of investment properties.

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

### 3.2 Estimates and assumptions (continued)

#### 3.2.4 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Where indicators of impairment have been identified the Group determines the recoverable amount based on the fair value of the assets. Impairment losses of continuing operations, including impairment on inventory, are recognised in statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for a property previously revalued when the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

#### 3.2.5 Useful lives and residual values of property, plant and equipment

The Group assesses the useful lives and residual values of vehicles and equipment each year taking to consideration past experience, technology changes and the local operating environment. No changes to the useful lives and residual values have been considered necessary during the year. Refer to note 6 for the carrying amount of property, vehicles and computer equipment and accounting policy note 4.3 for the useful lives of property, vehicles and equipment.

#### 3.2.6 Allowances for credit losses

In determining whether an impairment loss should be recorded in statement of comprehensive income, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset. The impairment for insurance receivables is calculated on a specific basis, based on historical loss ratios, adjusted for national and industry specific economic conditions and other indicators present at the reporting date that correlate with defaults on each debtor.

## 4 GROUP FINANCIAL RISK MANAGEMENT

The Group is exposed to financial risk through its financial assets and liabilities, insurance and reinsurance assets and liabilities. The most important components of financial risk are investment risk, equity price risk, interest rate risk, liquidity risk, currency risk, and credit risk.

### 4.1 Investment risk

The Group's investment risk management system operates through a hierarchy of investment limit approvals. Individual fund managers have authority to trade within certain limits. Investments in excess of the specified limits require the approval of the Group Investment Committee. In addition, the Group Investment Committee makes all decisions regarding property investments and unquoted company's share transactions.

### 4.2 Equity price risk

Equity price risk is the potential loss arising from changes in the market price of a financial instrument as a result of fluctuations in the market price. A substantial part of the equity portfolio comprises listed counters. Unquoted counters are subjected to periodic financial analysis and review. The Group's equity price risk policy is to manage such risks by setting and monitoring objectives on investments, diversification of portfolios and setting limits on investment in each sector.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 4 GROUP FINANCIAL RISK MANAGEMENT (continued)

### 4.2 Equity price risk (continued)

| | 2015 Impact on profit before tax US$ | 2014 Impact on profit before tax US$ | 2015 Impact on equity US$ | 2014 Impact on equity US$ | 2015 Effect on life policyholder liabilities US$ | 2014 Effect on life policyholder liabilities US$ |
|---|---|---|---|---|---|---|
| **Commodity** | | | | | | |
| 10 | 23 405 | 36 963 | 17 378 | 27 445 | 140 897 | 172 886 |
| -10 | (23 405) | (36 963) | (17 378) | (27 445) | (140 897) | (172 886) |
| **Consumer** | | | | | | |
| 10 | 25 816 | 75 148 | 19 168 | 55 797 | 428 217 | 683 653 |
| -10 | (25 816) | (75 148) | (19 168) | (55 797) | (428 217) | (683 653) |
| **Financial** | | | | | | |
| 10 | 27 732 | 36 328 | 20 591 | 26 974 | 139 472 | 238 203 |
| -10 | (27 732) | (36 328) | (20 591) | (26 974) | (139 472) | (238 203) |
| **Manufacturing** | | | | | | |
| 10 | 18 597 | 23 282 | 13 809 | 17 287 | 90 025 | 117 147 |
| -10 | (18 597) | (23 282) | (13 809) | (17 287) | (90 025) | (117 147) |
| **Property** | | | | | | |
| 10 | 133 239 | 178 424 | 98 930 | 132 480 | 30 636 | 38 410 |
| -10 | (133 239) | (178 424) | (98 930) | (132 480) | (30 636) | (38 410) |
| **Retail** | | | | | | |
| 10 | 6 975 | - | 5 179 | - | - | - |
| -10 | (6 975) | - | (5 179) | - | - | - |
| **Tourism** | | | | | | |
| 10 | 285 520 | 376 401 | 211 999 | 279 478 | 132 860 | 377 783 |
| -10 | (285 520) | (376 401) | (211 999) | (279 478) | (132 860) | (377 783) |
| **Telecommunication** | | | | | | |
| 10 | 37 521 | 110 847 | 27 859 | 82 304 | 162, 244 | 216 130 |
| -10 | (37 521) | (110 847) | (27 859) | (82 304) | (162 244) | (216 130) |
| **Total** | | | | | | |
| 10 | 558 805 | 837 393 | 414 913 | 621 765 | 1 124 351 | 1 844 212 |
| -10 | (558 805) | (837 393) | (414 913) | (621 765) | (1 124 351) | (1 844 212) |

At the reporting date, the total exposure to listed equity securities at fair value through profit or loss was US$11 483 000, US$9 995 256 relating to policyholder and US$1 487 744 to shareholder (2014: US$18 991 887, split between policyholders US$18 294 612 and shareholders US$697 275) and to unlisted equities classified as available-for-sale was US$nil (2014: US$nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 4 GROUP FINANCIAL RISK MANAGEMENT (continued)

### 4.3 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The following policies and procedures are in place to mitigate the Group's exposure to credit risk:

- The Group has a credit policy that establishes counterparty trading limits for each banking institution that we trade with. These counter party limits are reviewed at least semi-annually and submitted to the Group Investments Committee for approval. In this process the financial results of the banking institutions which are published semi-annually, are reviewed and together with other qualitative factors. The limits worked out are proposed to the Group Investment Committee for approval.

- The Group only trades with and receives service from banking institutions that meet regulatory requirements that include capital.

- Key considerations in the review of limits and security requirements include:-
  - Compliance with minimum capital requirements as set by the Reserve Bank of Zimbabwe ("RBZ"),
  - Conformance with the minimum rating as set out in the RBZ periodic CAMELS ratings,
  - Total shareholder funds,
  - Total assets,
  - Ratios such as loan to deposit ratios and non-performing loans ("NPLs"),
  - Overall profitability and cash generation,
  - Historical performance and outlook,
  - Ability of the bank to provide collateral security.

- The approved collateral security instruments are as follows:
  - Treasury bills and aftrades
  - ZSE top ten listed equities
  - Bankers acceptances
  - Property bonds for long term placements

- The Group uses the following parameters in determining the trading limits:-
  - 10% of entity's average shareholders' funds,
  - 1.5% of average total deposits, and
  - Discounts can be further applied to the established limit based on other qualitative factors covered under the CAMELS rating system of the RBZ.
  - Qualitative factors include additional opinion formed through market intelligence on the financial institution, shareholder profile, management and segment of market being served.

The banks are classified into three internal categories as set out below:

**Tier 1 banks -** Banks that are considered to have well above the regulatory capital, stable and have a proven performance record. No security is required from these counterparties. The counterparty limit for Tier 1 Banks is set as 40% of any fund's money market investment or for the Group total money market investments.

**Tier 2 banks -** Banks that are required to be significantly stable but have lower performance and shareholder ratings than Tier 1 Banks. Security is required for investments with these banks. The counterparty limit for Tier 2 Banks is set as 20% of any fund's money market investment or for the Group total money market investments.

**Tier 3 banks -** Banks that are evaluated as currently not suitable to be classified as a trading counterparty

- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the Board of Directors and are subject to regular reviews. At each reporting date, the Boards of the Company and subsidiaries and management perform an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowances for impairment.

- The credit risk in respect of customer balances incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

- Maximum exposure to credit risk for the Group is equal to the carrying amount of the financial assets as disclosed in the statement of financial position.

# Notes to the Consolidated Financial Statements (continued)

## 4 GROUP FINANCIAL RISK MANAGEMENT (continued)

### 4.3 Credit risk (continued)

- For the property business, tenants are assessed according to Group criteria prior to entering into lease arrangements. Credit risk is managed by requiring tenants to pay rentals in advance. The credit quality of the tenant is assessed based on an extensive credit rating criteria at the time of entering into a lease agreement. At inception of the lease tenants are classified into good, acceptable and watch list categories. Outstanding tenants' receivables are regularly monitored and all tenants that accrue arrears are classified in watch list category as rental obligations are payable in advance. An impairment analysis is performed at each reporting date on an individual basis for major tenants. The maximum exposure to credit risk at the reporting date is the carrying value of these receivables.

- held to maturity investments consist of treasury bills and other bonds such as agro bills and power generation bills, which are considered to be low risk investments as these are government guaranteed and those that have matured to date have all been honoured. These form part of prescribed assets which are bonds / securities issued by the central government, local government, quasi government organisations or any other bonds / securities that may be accorded the prescribed asset status by the Minister.

As at 31 December 2015 the analysis of financial assets that were past due but not impaired is set out below:

| | Neither past due nor impaired 30 days | Past due but not impaired | | Past due net of impairment | |
|---|---|---|---|---|---|
| **31 December 2015** | **days US$** | **60 days US$** | **90 days US$** | **120 days US$** | **Total US$** |
| Insurance receivables | 4 528 409 | 643 183 | 1 191 198 | 1 400 554 | 7 763 344 |
| Rental receivables | 105 183 | 82 516 | 48 456 | 590 921 | 827 076 |
| Other receivables excluding prepayments | 2 901 512 | 578 288 | 770 802 | 590 037 | 4 840 639 |
| **Total** | **7 535 104** | **1 303 987** | **2 010 456** | **2 581 512** | **13 431 059** |
| **31 December 2014** | | | | | |
| Insurance receivables | 2 440 397 | 1 010 760 | 2 287 965 | 3 276 835 | 9 015 957 |
| Rental receivables | 132 342 | 133 981 | 114 370 | 938 242 | 1 318 935 |
| Other receivables excluding prepayments | 616 495 | 428 288 | 536 124 | 968 569 | 2 549 476 |
| **Total** | **3 189 234** | **1 573 029** | **2 938 459** | **5 183 646** | **12 884 368** |

The Group holds cash accounts with financial institutions with sound financial and capital cover. The financial institutions holding the cash and cash equivalents of the Group have the following internal credit ratings.

| | 2015 US$ | 2014 US$ |
|---|---|---|
| Tier 1 banks | 9 524 613 | 13 300 448 |
| Tier 2 banks | 3 941 712 | 2 552 884 |
| Tier 3 banks | - | - |
| **Total** | **13 466 325** | **15 853 332** |

### 4.4 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligation which carry fixed interest rates. As a result of the fixed nature of interest rates, no interest rate sensitivity analysis has been presented.

At 31 December 2015, if the interest rate on the long-term borrowings at the date had been 1% higher / lower with all other variables held constant, the recalculated post-tax profit for the year would have been US$45 299 (2014: US$38 775) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings.

# Notes to the Consolidated Financial Statements (continued)

## 4 GROUP FINANCIAL RISK MANAGEMENT (continued)

### 4.5 Operating lease commitments with the Group as lessor

The Group has entered into commercial property leases on its investment property. The Group has determined, based on an evaluation of the terms and conditions of the lease arrangements, that it retains all the significant risks and rewards of ownership of the property and so accounts for the contracts as operating leases. This involves the analysis of likelihood of exercising extension options, lease term analysis, etc. The lease rental in most of the lease arrears are revised on an annual basis.

### 4.6 Liquidity risk

It is the Group's policy to ensure that cash resources are available at all times to meet commitments as they arise. Cash outflows arise from the payment of intimated claims and benefits falling due, purchase of investments and other operating commitments. Such outflows are adequately matched by inflows from premium income, maturing investments and investment income. The Group maintains and monitors comprehensive cash flow forecasts and budgets.

The Group has limited liquidity risk as premiums and rentals are received in advance and claims are paid when incurred for over the period of cover. Where pension funds withdraw and / or transfer assets to other pension administrators the period of transferring the assets is per the agreement between the Fund and the insurer as specified in the policy document and that period spans up to three years allowing for restructuring of assets to meet the cash flow requirements as permitted by the Pensions and Provident Funds Act Chapter 24:09.

The table below summarises the maturity profile of the Group's financial assets and financial liabilities based on contractual and undiscounted payments.

| **Assets**<br>**31 December 2015** | **M<1 month**<br>**US$** | **1 month<M< 3 months**<br>**US$** | **3 months < M <1 year**<br>**US$** | **1 year < M < 5 years**<br>**US$** | **Total**<br>**US$** |
|---|---|---|---|---|---|
| **Financial assets:** | | | | | |
| Equity securities at fair value through profit or loss | - | 11 483 355 | - | - | 11 483 355 |
| Debt securities held to maturity investments | 2 182 483 | 29 252 | 5 174 199 | 7 343 627 | 14 729 561 |
| Loans and receivables including insurance receivables | 827 077 | 12 603 983 | - | - | 13 431 060 |
| Non-current assets classified as held for sale | 226 468 | - | 4 373 911 | - | 4 600 379 |
| Cash and balances with banks | 13 466 325 | - | 14 673 345 | - | 28 139 670 |
| **Total assets** | **16 702 353** | **24 116 590** | **24 221 455** | **7 343 627** | **72 384 025** |
| **Liabilities** | | | | | |
| Non-life insurance liabilities | - | 20 447 541 | - | 4 559 031 | 25 006 572 |
| Investment contract liabilities: | | | | | |
| With DPF | - | - | 1 649 | 55 694 195 | 55 695 844 |
| Without DPF | - | - | - | 5 661 964 | 5 661 964 |
| Borrowings | 56 398 | 425 877 | 3 095 060 | 2 610 777 | 6 188 112 |
| Trade and other payables | 3 377 751 | 120 113 | 367 864 | - | 3 865 728 |
| **Total liabilities** | **3 434 149** | **20 993 531** | **3 464 573** | **68 525 967** | **96 418 220** |
| **Liquidity gap** | **13 268 204** | **3 123 059** | **20 756 882** | **(61 182 340)** | **(24 034 195)** |
| **Cumulative liquidity gap** | **13 268 204** | **16 391 263** | **37 148 145** | **(24 034 195)** | **-** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 4 GROUP FINANCIAL RISK MANAGEMENT (continued)

### 4.6 Liquidity risk (continued)

| Assets<br>31 December 2014 | M<1 month<br>US$ | 1 month<M< 3 months<br>US$ | 3 months < M <1 year<br>US$ | 1 year < M < 5 years<br>US$ | Total<br>US$ |
|---|---|---|---|---|---|
| **Financial assets:** | | | | | |
| Equity securities at fair value through profit or loss | - | 18 991 887 | - | - | 18 991 887 |
| Debt securities held to maturity investments | 15 108 | 30 216 | 434 762 | 6 992 580 | 7 472 666 |
| Loans and receivables including insurance receivables | 1 318 935 | 11 565 433 | - | - | 12 884 368 |
| Cash and balances with banks | 15 853 332 | - | 7 049 399 | - | 22 902 731 |
| **Total assets** | **17 187 375** | **30 587 536** | **7 484 161** | **6 992 580** | **62 251 652** |
| **Liabilities** | | | | | |
| Non-life insurance liabilities | - | 20 520 135 | - | 4 229 342 | 24 749 477 |
| Investment contract liabilities: | | | | | |
| With DPF | - | - | 943 139 | 56 306 715 | 57 249 854 |
| Without DPF | - | - | - | 7 316 953 | 7 316 953 |
| Borrowings | - | 475 639 | 1 385 667 | 3 141 532 | 5 002 838 |
| Trade and other payables | 5 185 762 | 60 008 | 15 769 | - | 5 261 539 |
| **Total liabilities** | **5 185 762** | **21 055 782** | **2 344 575** | **70 994 542** | **99 580 661** |
| **Liquidity gap** | **12 001 613** | **9 531 754** | **5 139 586** | **(64 001 962)** | **(37 329 009)** |
| **Cumulative liquidity gap** | **12 001 613** | **21 533 367** | **26 672 953** | **(37 329 009)** | **-** |

### 4.7 Foreign exchange risk

The risk that the fair value of the cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Currency risks arise from recognised monetary financial assets and liabilities and future commercial transactions, that are not denominated in the functional currency of the Group.

The Group operates regionally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US$. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The following table details the Group's sensitivity to a 10% increase or decrease in the US$ against the relevant foreign currencies with all other variables held constant. 10% represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and is calculated by adjusting the translation of foreign currency amounts at the period end for a 10% change in foreign currency rates.

#### Consolidated foreign exchange gap analysis as at 31 December 2015

| Base Currency | ZAR<br>US$ equivalent | GBP<br>US$ equivalent | EUR<br>US$ equivalent | BWP<br>US$ equivalent | KES<br>US$ equivalent | ZMK<br>US$ equivalent | MWK<br>US$ equivalent | TOTAL<br>US$ equivalent |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Balances with other banks and cash | 156 038 | 273 | - | 802 843 | - | - | 53 276 | 1 012 430 |
| Trade and other receivables | 225 319 | | - | 414 940 | 1 676 | 23 196 | 49 570 | 714 701 |
| **Total assets** | **381 357** | **273** | **-** | **1 217 783** | **1 676** | **23 196** | **102 846** | **1 727 131** |
| **Liabilities** | | | | | | | | |
| Trade and other payables | 10 498 | | 6 189 | | | - | | 16 687 |
| **Total liabilities** | **10 498** | **-** | **6 189** | **-** | **-** | **-** | **-** | **16 687** |
| **Net currency position** | **370 859** | **273** | **(6 189)** | **1 217 783** | **1 676** | **23 196** | **102 846** | **1 710 444** |

# Notes to the Consolidated Financial Statements (continued)

## 4 GROUP FINANCIAL RISK MANAGEMENT (continued)

### 4.7 Foreign exchange risk (continued)

**Consolidated foreign exchange gap analysis as at 31 December 2014**

| Base Currency | ZAR | GBP | EUR | BWP | KES | ZMK | MWK | TOTAL |
|---|---|---|---|---|---|---|---|---|
| | US$ equivalent | US$ equivalent | US$ equivalent | US$ equivalent | US$ equivalent | US$ equivalent | US$ equivalent | US$ equivalent |
| **Assets** | | | | | | | | |
| Balances with other banks and cash | 123 062 | 529 | - | 1 162 736 | - | - | 42 429 | 1 328 756 |
| Trade and other receivables | 130 223 | 56 | 269 | | 114 213 | 361 456 | 49 968 | 656 185 |
| **Total assets** | **253 285** | **585** | **269** | **1 162 736** | **114 213** | **361 456** | **92 397** | **1 984 941** |
| **Liabilities** | | | | | | | | |
| Trade and other payables | 95 486 | - | 3 774 | | | | | 99 260 |
| **Total liabilities** | **95 486** | **-** | **3 774** | **-** | **-** | **-** | **-** | **99 260** |
| **Net currency position** | **157 799** | **585** | **(3 505)** | **1 162 736** | **114 213** | **361 456** | **92 397** | **1 885 681** |

**Below are major cross rates to the US$ used by the group as at 31 December**

| | 2015 | 2014 |
|---|---|---|
| **Currency** | **Cross rate** | **Cross rate** |
| SA Rand ("ZAR") | 15.480 | 11.620 |
| Great Britain ("GBP") | 1.482 | 1.553 |
| Euro ("EUR") | 1.0934 | 1.217 |
| Pula ("BPW") | 11.070 | 9.420 |
| Kenyan Shilling ("KES") | 100.170 | 90.600 |
| Zambian Kwacha ("ZMK") | 10.510 | 6.400 |
| Malawian Kwacha ("MWK") | 651.176 | 480.612 |

**Impact of 10% increase in exchange rates**

| | ZAR | GBP | EUR | BWP | KES | ZMK | MWK | TOTAL |
|---|---|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ | US$ | US$ |
| **For the year ended 31 December 2015** | | | | | | | | |
| Assets | 38 136 | 27 | - | 121 778 | 168 | 2 320 | 10 285 | 172 714 |
| Liabilities | 1 050 | - | 619 | - | - | - | - | 1 669 |
| **Net Position** | **37 086** | **27** | **(619)** | **121 778** | **168** | **2 320** | **10 285** | **171 045** |
| **For the year ended 31 December 2014** | | | | | | | | |
| Assets | 25 328 | 58 | 27 | 116 274 | 11 421 | 36 146 | 9 240 | 198 494 |
| Liabilities | 9 549 | - | 377 | - | - | - | - | 9 926 |
| **Net Position** | **15 779** | **58** | **(350)** | **116 274** | **11 421** | **36 146** | **9 240** | **188 568** |

| | | 31 December 2015 | | | 31 December 2014 | |
|---|---|---|---|---|---|---|
| **Currency** | **Change in variables US$** | **Impact on profit before tax US$** | **Impact on equity US$** | **Change in variables US$** | **Impact on profit before tax US$** | **Impact on equity US$** |
| South African Rand ("ZAR") | +10% | 36 750 | 27 287 | +10% | 18 871 | 14 012 |
| Malawi Kwacha ("MWK") | +10% | 14 097 | 10 467 | +10% | 4 243 | 3 150 |
| South African Rand ("ZAR") | -10% | (36 750) | (27 287) | -10% | (18 871) | (14 012) |
| Malawi Kwacha ("MWK") | -10% | (14 097) | (10 467) | -10% | (4 243) | (3 150) |

This method used for deriving sensitivity information and significant variables did not change from the previous period.

# Notes to the Consolidated Financial Statements (continued)

**4 GROUP FINANCIAL RISK MANAGEMENT (continued)**

## 4.8 Insurance risk

The Group is exposed to insurance risk arising from its insurance contracts with policyholders and other beneficiaries. The main risk that the Group faces is that the actual claims and benefits payments or the timing thereof differ from expectations. The above risk exposure is mitigated by the use of careful selection procedures and implementation of underwriting procedures, use of actuarial models which calculate premiums and monitor claims patterns, as well as the use of reinsurance arrangements.

### 4.8.1 Life insurance risks

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Valuation of insurance contract liabilities; and
(b) Life insurance contract liabilities

The liability for life insurance contracts is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation.

The main assumptions used relate to mortality, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group bases mortality on historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements as well as wide ranging changes to life style that could result in significant changes to the expected future mortality exposure.

Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders.

Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure.

The main risks that the Group is exposed to are as follows:

- Mortality risk – risk of loss arising due to policyholder death experience being different than expected
- Longevity risk – risk of loss arising due to the annuitant living longer than expected
- Investment return risk – risk of loss arising from actual returns being different than expected
- Expense risk – risk of loss arising from expense experience being different than expected
- Policyholder decision risk – risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected

These risks do not vary significantly in relation to the location of the risk insured by the Group, type of risk insured or by industry.

Life insurance contract sensitivity analysis

| At 31 December 2015 | Change in assumptions | Impact on liabilities | Impact on net liabilities | Impact on profit before income tax | Impact on equity |
|---|---|---|---|---|---|
| **Base** | | | | | |
| Mortality | +10% | 1 829 764 | 1 829 764 | (1 829 764) | (1 358 600) |
| Mortality | -10% | (1 877 740) | (1 877 740) | 1 877 740 | 1 394 222 |
| Investment return | +1% | (1 193 266) | (1 193 266) | 1 193 266 | 886 000 |
| Expense | +10% | 1 426 039 | 1 426 039 | (1 426 039) | (1 058 834) |
| Lapse and surrenders rate | +10% | (660 964) | (660 964) | 660 964 | 490 766 |
| **At 31 December 2014** | | | | | |
| **Base** | | | | | |
| Mortality | +10% | (1 096 464) | (1 096 464) | (1 096 464) | (814 125) |
| Mortality | -10% | 1 129 410 | 1 129 410 | 1 129 410 | (838 587) |
| Investment return | +1% | 1 126 819 | 1 126 819 | 1 126 819 | 836 663 |
| Expense | +10% | (958 251) | (958 251) | (958 251) | (711 501) |
| Lapse and surrenders rate | +10% | 659 427 | 659 427 | 659 427 | 489 625 |

# Notes to the Consolidated Financial Statements (continued)

## 4 GROUP FINANCIAL RISK MANAGEMENT (continued)

### 4.8 Insurance risk (continued)

### 4.8.1 Life insurance risks (continued)

**Concentration risk**

The Group's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography and number of contracts written per product type. The following tables show the concentration of life insurance liabilities and investment contract liabilities by type of contract.

| | Investment contract liabilities with DPF US$ | Investment contract liabilities without DPF US$ | Insurance contract liabilities with DPF US$ | Insurance contract liabilities without DPF US$ | Total Insurance and investment contract liabilities US$ |
|---|---|---|---|---|---|
| 31 December 2015 | | | | | |
| Pensions | 52 415 450 | 5 661 964 | 14 678 252 | 7 832 581 | 80 588 247 |
| Individual life | 3 283 545 | - | 894 793 | 11 873 448 | 16 051 786 |
| Group life | - | - | - | 291 666 | 291 666 |
| **Total** | **55 698 995** | **5 661 964** | **15 573 045** | **19 997 695** | **96 931 699** |
| 31 December 2014 | | | | | |
| Pensions | 54 318 304 | 7 316 951 | 13 145 654 | 6 174 440 | 80 955 349 |
| Individual life | 2 959 469 | - | 1 624 030 | 8 864 397 | 13 447 896 |
| Group life | - | - | - | 1 113 619 | 1 113 619 |
| **Total** | **57 277 773** | **7 316 951** | **14 769 684** | **16 152 456** | **95 516 864** |

**Property and casualty claims development table**

| Accident year | 2009 US$ | 2010 US$ | 2011 US$ | 2012 US$ | 2013 US$ | 2014 US$ | 2015 US$ | Total US$ |
|---|---|---|---|---|---|---|---|---|
| **At end of accident year** | **2 543 765** | **3 035 840** | **4 161 427** | **4 763 396** | **5 886 869** | **7 509 327** | **8 012 449** | |
| One year later | 2 543 765 | 3 035 840 | 4 161 427 | 4 763 396 | 5 886 869 | 7 509 327 | - | |
| Two years later | 2 543 765 | 3 035 840 | 4 161 427 | 4 763 396 | 5 886 869 | - | - | |
| Three years later | 2 543 765 | 3 035 840 | 4 161 427 | 4 763 396 | - | - | - | |
| Four years later | 2 543 765 | 3 035 840 | 4 161 427 | - | - | - | - | |
| Five years later | 2 543 765 | 3 035 840 | - | - | - | - | - | |
| Six years later | 2 543 765 | | | | | | | |
| **Current estimate of cumulative claims incurred** | **2 543 765** | **3 035 840** | **4 161 427** | **4 763 396** | **5 886 869** | **7 509 327** | **8 012 449** | **35 913 073** |
| **At end of accident year** | **(1 990 783)** | **(2 519 994)** | **(3 425 966)** | **(3 884 467)** | **(4 622 837)** | **(6 126 186)** | **(6 157 847)** | |
| One year later | (2 864 680) | (3 012 778) | (4 257 805) | (4 361 538) | (5 514 895) | (7 533 835) | - | |
| Two years later | (3 049 935) | (3 206 847) | (4 553 008) | (4 555 007) | (6 104 663) | - | - | |
| Three years later | (3 066 372) | (3 261 468) | (4 748 748) | (4 906 828) | - | - | - | |
| Four years later | (3 118 173) | (3 303 900) | (5 026 938) | - | - | - | - | |
| Five years later | (3 257 974) | (3 448 111) | - | - | - | - | - | |
| Six years later | (3 257 974) | - | - | - | - | - | - | |
| **Cumulative payments to date** | **(3 257 974)** | **(3 448 111)** | **(5 026 938)** | **(4 906 828)** | **(6 104 663)** | **(7 533 835)** | **(6 157 847)** | **(36 436 196)** |
| **Cumulative claims incurred less payments to date** | **(714 209)** | **(412 271)** | **(865 511)** | **(143 432)** | **(217 794)** | **(24 508)** | **1 854 602** | **(523 123)** |

# Notes to the Consolidated Financial Statements (continued)

## 4 GROUP FINANCIAL RISK MANAGEMENT (continued)

### 4.8 Insurance risk (continued)

### 4.8.1 Life insurance risks (continued)

*There was no claims development table for FMRE Property and Casualty (Proprietary) Limited which is domiciled in Botswana because of the absence of sufficient historical information.

**Health insurance claims development table**

| Treatment year | Before First half 2013 US$ | First half 2013 US$ | Second half 2013 US$ | First half 2014 US$ | Second half 2014 US$ | First half 2015 US$ | Second half 2015 US$ |
|---|---|---|---|---|---|---|---|
| **At end of treatment half** | **13 449 859** | **17 031 993** | **18 868 178** | **26 429 855** | **28 102 546** | **28 763 335** | **25 480 383** |
| One half later | 13 449 859 | 17 031 993 | 18 868 178 | 26 429 855 | 28 102 546 | 28 763 335 | - |
| Two halves later | 13 449 859 | 17 031 993 | 18 868 178 | 26 429 855 | 28 102 546 | - | - |
| Three halves later | 13 449 859 | 17 031 993 | 18 868 178 | 26 429 855 | - | - | - |
| Four halves later | 13 449 859 | 17 031 993 | 18 868 178 | - | - | - | - |
| Five halves later | 13 449 859 | 17 031 993 | - | - | - | - | - |
| Six halves later | 13 449 859 | - | - | - | - | - | - |
| **Current estimate of cumulative claims incurred** | **13 449 859** | **17 031 993** | **18 868 178** | **26 429 855** | **28 102 546** | **28 763 335** | **25 480 383** |
| | | | | | | | |
| **At end of treatment half** | **13 039 107** | **16 951 279** | **18 566 088** | **25 141 135** | **25 592 676** | **26 253 464** | **20 721 301** |
| One half later | 13 042 696 | 18 240 487 | 19 553 564 | 26 824 988 | 29 498 814 | 29 594 929 | - |
| Two halves later | 13 046 772 | 18 258 689 | 19 559 022 | 26 871 360 | 29 714 421 | - | - |
| Three halves later | 13 057 454 | 18 258 849 | 19 587 285 | 26 878 120 | - | - | - |
| Four halves later | 13 057 454 | 18 272 770 | 19 589 078 | - | - | - | - |
| Five halves later | 13 065 229 | 18 277 074 | - | - | - | - | - |
| Six halves later | 13 070 223 | - | - | - | - | - | - |
| **Cumulative payments to date** | **13 070 223** | **18 277 074** | **19 589 078** | **26 878 120** | **29 714 421** | **29 594 929** | **20 721 301** |
| | | | | | | | |
| Outstanding claims as at 31 December 2015 | 379 636 | (1 245 081) | (720 900) | ( 448 265) | (1 611 875) | (831 594) | 4 759 082 |
| Less IBNR 31 December 2015 | - | - | - | - | - | - | 2 526 776 |
| **Outstanding claims 31 December 2015** | **-** | **-** | **-** | **-** | **-** | **-** | **2 232 306** |

### 4.8.2 Non-life insurance risk

The principal risk the Group faces under insurance contracts is that the actual claims and payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims and actual payments made. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities. The risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting guidelines, as well as the use of reinsurance arrangements. The Group purchases reinsurance as part of its risks transfer programme. Reinsurance ceded is placed on both a proportional and non–proportional basis. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract.

The Group principally issues the following types of general insurance contracts: fire, engineering, motor, guarantee, marine, miscellaneous accident, liability, aviation and agriculture. Risks usually cover twelve months duration. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Risk management is very vital starting from pre-risk acceptance where some large risks or business perceived risky is surveyed and improvement recommendations passed before cover commences. Selected running risks are also surveyed for risk improvement and mitigating chances and severity of losses. Risk management is thus filtered into the whole underwriting process to manage the portfolio. Furthermore, firm claim management policies to assess all new and on-going claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Group. The Group further enforces a policy of actively managing and promptly pursuing

# Notes to the Consolidated Financial Statements (continued)

**4 GROUP FINANCIAL RISK MANAGEMENT (continued)**

**4.8 Insurance risk (continued)**

**4.8.2 Non-life insurance risk (continued)**

claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. The Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Group's risk appetite as decided by management.

**Underwriting strategy**

The variability of risks is also improved by careful selection and implementation of underwriting strategies, as well as the use of reinsurance arrangements. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Commissions are payable on retroceded business in a manner consistent with retrocession costs as per the retrocession agreements.

Concentration of insurance risk and policies mitigating the concentrations

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group's resources. The Group monitors the concentration risk by class of business and geographical spread.

**Types of contracts**

Fire: Provide indemnity for loss or damage to property caused by perils such as fire, lightning, explosion, earthquakes, floods and malicious damage.

Accident: Provide indemnity for third party bodily injury, property damage, professional indemnity, group personal accident and legal expenses.
Motor: Provide indemnity for loss or damage to the insured motor vehicle.
Engineering: Provide indemnity for losses sustained through use of machinery and equipment or erection of buildings or structures.
Marine: Provide indemnity for cargo, hull and third party bodily injury or property damage classes of business.
Agriculture: Provide indemnity for loss of income or crop damage due to damage due hail, floods, pests and fire.
Aviation: Provide indemnity for cargo, hull and third party bodily injury or property damage classes of business.

**Key assumptions**

The principal assumption underlying the liability estimates is that the Group's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example: once–off occurrence; changes in market factors such as public attitude to claiming: economic conditions: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

**Sensitivities**

The insurance claim liabilities are sensitive to the certain assumptions. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The analysis below is performed for reasonably possible movements in key assumption with all other assumptions held constant, showing the impact on net liabilities, profit before tax and equity of the movement in incurred but not reported ("IBNR") claims. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

| **Assumption** | **Change in assumption** | **Reported value** | **Change in profit before income tax** | **Change in equity** |
|---|---|---|---|---|
| **December 2015** | | **US$** | **US$** | **US$** |
| Increase in IBNR | 15% | 1 381 774 | (207 266) | (153 895) |
| Decrease in IBNR | 15% | 1 381 774 | 207 266 | 153 895 |
| **December 2014** | | | | |
| Increase in IBNR | 15% | 1 383 141 | (207 471) | (155 603) |
| Decrease in IBNR | 15% | 1 383 141 | 207 471 | 155 603 |

# Notes to the Consolidated Financial Statements (continued)

## 4 GROUP FINANCIAL RISK MANAGEMENT (continued)

## 4.8 Insurance risk (continued)

### 4.8.2 Non-life insurance risk (continued)

**Exposure relating to catastrophe events**

The Group sets out the total aggregate exposure that it is prepared to accept in Zimbabwe and Botswana to a range of events such as natural catastrophes. The aggregate position is reviewed annually. The Group's policies for mitigating catastrophe risk exposure include the use of both proportional and excess of loss reinsurance. In the event of major catastrophe the net retained loss is US$300,000. This is based on the Group's risk appetite as determined by the level of capital. The Group has a retrocession program in place with various reinsurers to cushion it in the event of a catastrophe.

**Claims development**

The Group is liable for all insured events that occur during the term of the contract, even if the loss is discovered after the end of the contract term, subject to predetermined time scales dependent on the nature of the insurance contract. The Group is therefore exposed to the risk that claims reserves will not be adequate to fund the historical claims ("run off risk"). To manage run off risk the Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures and adopts sound reserving practices. The reserves created over time proved to be sufficient to fund the actual claims paid. Further the Group does not participate on any policies with unlimited liability. The Group is liable for all insured events in terms of the contract. All underlying policies have reporting conditions that restrict the timeline within which a claim should reasonably be made. Delays however sometimes occur between the time insurers process claims and recover from reinsurers. Reserves are maintained for this contingency.

The majority of the Group's insurance contracts are classified as short term, meaning that any claim is settled within a year after the loss date.

In terms of IFRS 4, 'Insurance contracts', an insurer need only disclose claims run off information where uncertainty exists about the amount and timing of claim payments not resolved within one year.

The table below indicates the claims development of the Group for a period of 5 years.

**IBNR development**

| Accident year | 2009 US$ | 2010 US$ | 2011 US$ | 2012 US$ | 2013 US$ | 2014 US$ | 2015 US$ | Total US$ |
|---|---|---|---|---|---|---|---|---|
| **At end of accident year** | **552 982** | **515 846** | **735 461** | **878 928** | **1 264 032** | **1 383 141** | **1 381 772** | **-** |
| One year later | 552 982 | 515 846 | 735 461 | 878 928 | 1 264 032 | 1 383 141 | - | - |
| Two years later | 552 982 | 515 846 | 735 461 | 878 928 | 1 264 032 | - | - | - |
| Three years later | 552 982 | 515 846 | 735 461 | 878 928 | - | - | - | - |
| Four years later | 552 982 | 515 846 | - | - | - | - | - | - |
| Five years later | 552 982 | 515 846 | - | - | - | - | - | - |
| Six years later | 552 982 | - | - | - | - | - | - | - |
| **Current estimate of cumulative claims incurred** | **552 982** | **515 846** | **735 461** | **878 928** | **1 264 032** | **1 383 141** | **1 381 772** | **6 712 162** |
| One year later | (873 898) | (492 785) | (831 839) | (477 071) | (892 058) | (1 238 068) | - | - |
| Two years later | (1 059 153) | (686 854) | (1 127 041) | (670 540) | (1 087 639) | - | - | - |
| Three years later | (1 075 589) | (741 474) | (1 322 781) | (695 718) | - | - | - | - |
| Four years later | (1 127 390) | (783 906) | (1 352 648) | - | - | - | - | - |
| Five years later | (1 159 966) | (786 946) | - | - | - | - | - | - |
| Six years later | (1 159 966) | - | - | - | - | - | - | - |
| Non-proportional Treaty IBNR | (107 226) | (141 172) | (248 323) | (326 643) | (394 187) | (169 581) | - | - |
| **Cumulative payments to date** | **(1 267 191)** | **(928 118)** | **(1 600 971)** | **(1 022 361)** | **(1 481 826)** | **(1 407 649)** | **-** | **(7 708 116)** |
| **Cumulative claims incurred less payments to date** | **(714 209)** | **(412 272)** | **(865 510)** | **(143 433)** | **(217 794)** | **(24 508)** | **1 381 772** | **(995 954)** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 4 GROUP FINANCIAL RISK MANAGEMENT (continued)

## 4.8 Insurance risk (continued)

### 4.8.2 Non-life insurance risk (continued)

**Claims development**

| | 2009 US$ | 2010 US$ | 2011 US$ | 2012 US$ | 2013 US$ | 2014 US$ | 2015 US$ | Total US$ |
|---|---|---|---|---|---|---|---|---|
| **At end of accident year** | **2 543 765** | **3 035 840** | **4 161 427** | **4 763 396** | **5 886 869** | **7 509 327** | **8 012 449** | **-** |
| One year later | 2 543 765 | 3 035 840 | 4 161 427 | 4 763 396 | 5 886 869 | 7 509 327 | - | - |
| Two years later | 2 543 765 | 3 035 840 | 4 161 427 | 4 763 396 | 5 886 869 | - | - | - |
| Three years later | 2 543 765 | 3 035 840 | 4 161 427 | 4 763 396 | - | - | - | - |
| Four years later | 2 543 765 | 3 035 840 | 4 161 427 | - | - | - | - | - |
| Five years later | 2 543 765 | 3 035 840 | - | - | - | - | - | - |
| Six years later | 2 543 765 | - | - | - | - | - | - | - |
| **Cumulative claims incurred to date** | **2 543 765** | **3 035 840** | **4 161 427** | **4 763 396** | **5 886 869** | **7 509 327** | **8 012 449** | **35 913 073** |
| **At end of accident year** | **(1 990 783)** | **(2 519 994)** | **(3 425 966)** | **(3 884 467)** | **(4 622 837)** | **(6 126 186)** | **(6 157 847)** | |
| One year later | (2 864 680) | (3 012 778) | (4 257 805) | (4 361 538) | (5 514 895) | (7 364 254) | - | |
| Two years later | (3 049 935) | (3 206 847) | (4 553 008) | (4 555 007) | (5 710 476) | - | - | |
| Three years later | (3 066 372) | (3 261 468) | (4 748 748) | (4 580 185) | - | - | - | |
| Four years later | (3 118 173) | (3 303 900) | (4 778 615) | - | - | - | - | |
| Five years later | (3 150 748) | (3 306 939) | - | - | - | - | - | |
| Six years later | (3 150 748) | - | - | - | - | - | - | |
| Non-proportional Treaty IBNR | (107 226) | (141 172) | (248 323) | (326 643) | (394 187) | (169 581) | - | |
| **Current estimate of cumulative claims paid** | **(3 257 974)** | **(3 448 111)** | **(5 026 938)** | **(4 906 828)** | **(6 104 663)** | **(7 533 835)** | **(6 157 847)** | **(36 436 196)** |
| **Cumulative claims incurred less payments to date** | **(714 209)** | **(412 271)** | **(865 511)** | **(143 432)** | **(217 794)** | **(24 508)** | **1 854 602** | **(523 123)** |

## 4.9 Capital management policies

The Group's capital comprises equity and retained earnings. It is the Group's objective to retain a capital position that supports the development of the business. The Group manages its capital structure and makes adjustments to it, in light of changes in the economic conditions. Where necessary, capital is redeployed to subsidiaries from the Holding Company through dividends received or its own capital resident at the holding company.

There were no changes made to the objectives, processes, or policies during the year ended 31 December 2015.

As at 31 December 2015, all the Group's affected subsidiaries except FMRE Life and Health (Private) Limited were compliant with the minimum capital requirements. The subsidiaries were capitalised as follows:

| **31 December 2015** **Company** | **Capital employed US$** | **Regulatory Capital US$** |
|---|---|---|
| FMRE Life and Health (Private) Limited | 730 900 | 1 500 000 |
| FMRE Property and Casualty Zimbabwe (Private) Limited | 6 670 704 | 1 500 000 |
| FMRE Property and Casualty (Proprietary) Limited | 2 681 473 | 1 500 000 |
| TristarInsurance Company Limited | 2 549 383 | 1 500 000 |
| First Mutual Life Assurance Company (Private) Limited | 7 513 981 | 3 000 000 |

There Group has obtained a licence from the Minister to merge the operations of the two reinsurance businesses i.e. FMRE Property and Casualty (Private) Limited and FMRE Life and Health (Private) Limited. This will result in the latter meeting the minimum capital requirement as the combined capital of the two businesses will be more than the required US$3 million.

**31 December 2014**

| **Company** | | |
|---|---|---|
| FMRE Life and Health (Private) Limited | 1 111 104 | 1 500 000 |
| FMRE Property and Casualty (Private) Limited Zimbabwe | 6 189 077 | 1 500 000 |
| FMRE Property and Casualty (Proprietary) Limited Botswana | 2 434 720 | 1 500 000 |
| TristarInsurance Company Limited | 1 533 629 | 1 500 000 |
| First Mutual Life Assurance Company (Private) Limited | 7 503 419 | 2 000 000 |

# Notes to the Consolidated Financial Statements (continued)

## 5 SEGMENT INFORMATION

Segment information is presented in respect of the Group's operating segments. The Group's businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The business segments are based on the Group management and internal reporting structure. The individual businesses are aggregated into segments with similar economic characteristics. The directors consider that this is best achieved by aggregating into the segments listed below.

Measurement of segment assets and liabilities and segment income and results is based on the accounting policies set out in the accounting policy notes.

Intersegment transactions, which occurred during the year, are conducted on an arm's length basis in a similar manner to third party transactions.

The Group comprises four reportable operating segments:

**Life and pensions business (long term insurance)**
The insurance segment comprises life assurance and reassurance.

**Health insurance**
This relates to the medical insurance business.

**Property and casualty insurance (short term insurance)**
The segment comprises direct insurance and reinsurance.

**Property**
This relates to the property holding company

**Other segment**
Other segment comprises the holding company, wealth management and actuarial consultancy. Profit before tax of US$4.9 million includes a once off impairment adjustment of US$5.2 million in respect of investment in subsidiaries by the holding company which is not expected to recur in the future.

| Segmental analysis As at 31 December 2015 | Life insurance US$ | Property and casualty US$ | Health US$ | Property US$ | Other US$ | Gross figures US$ | Consolidation entries US$ | Total consolidated US$ |
|---|---|---|---|---|---|---|---|---|
| Net premium earned | 35 146 982 | 19 211 342 | 52 481 633 | - | - | 106 839 957 | (235 850) | 106 604 107 |
| Rental income | - | - | - | 8 342 349 | | 8 342 349 | (1 013 504) | 7 328 845 |
| Investment income and fair value adjustment on investment property | (6 790 657) | (628 211) | (384 127) | (6 590 661) | (5 170 153) | (19 563 809) | 8 237 093 | (11 326 716) |
| Other income and fee income | 4 841 365 | 82 764 | 284 202 | 640 708 | 4 505 823 | 10 354 862 | (5 172 605) | 5 182 257 |
| **Total income** | **33 197 690** | **18 665 895** | **52 381 708** | **2 392 396** | **(664 330)** | **105 973 359** | **1 815 134** | **107 788 493** |
| Total expenses | (31 872 192) | (18 770 316) | (51 483 522) | (4 928 826) | (5 340 996) | (112 395 853) | 896 127 | (111 499 726) |
| Non-current assets | 92 451 681 | 5 938 410 | 1 259 526 | 135 955 505 | 13 861 337 | 249 466 459 | (72 118 643) | 177 347 816 |
| Current assets | 17 380 673 | 17 675 591 | 9 460 880 | 7 103 076 | 1 535 572 | 53 155 792 | (21 483 925) | 31 671 867 |
| Non-current liabilities | 96 779 574 | 249 976 | - | 15 616 301 | 2 159 518 | 114 805 369 | 22 751 554 | 137 556 923 |
| Current liabilities | 4 183 285 | 11 108 238 | 12 298 798 | 1 052 587 | 6 976 434 | 35 619 342 | (31 515 897) | 4 103 445 |
| Cash flows from operating activities | 2 526 105 | 716 607 | 1 929 551 | 2 734 733 | 33 280 | 7 940 277 | 7 880 842 | 15 821 119 |
| Cash flows utilised on investing activities | (400 362) | (1 242 470) | 8 438 | - | (1 773 523) | (3 407 916) | (15 141 156) | (18 549 072) |
| Cash utilised in financing activities | - | 51 602 | - | (146 194) | 1 510 158 | 1 415 566 | (1 166 276) | 249 290 |
| (Loss)/profit before income tax | (431 409) | 64 847 | 898 186 | (1 162 323) | (4 937 153) | (5 567 852) | 1 850 765 | (3 717 087) |

# Notes to the Consolidated Financial Statements (continued)

## 5 SEGMENT INFORMATION (continued)

**Segmental analysis**

| As at 31 December 2014 | Life insurance US$ | Property and casualty US$ | Health US$ | Property US$ | Other US$ | Gross figures US$ | Consolidation entries US$ | Total consolidated US$ |
|---|---|---|---|---|---|---|---|---|
| Net premium earned | 36 431 144 | 19 965 414 | 49 213 069 | - | - | 105 609 627 | (935 691) | 104 673 936 |
| Rental income | - | - | - | 8 699 564 | - | 8 699 564 | (1 157 897) | 7 541 667 |
| Investment income and fair value adjustment on investment property | (1 454 691) | 209 073 | 104 250 | 1 445 237 | 60 010 | 363 879 | (3 013 974) | (2 650 095) |
| Other income and fee income | 3 851 050 | 446 515 | 269 119 | 610 644 | 4 850 355 | 10 027 683 | (4 583 733) | 5 443 950 |
| **Total income** | **38 827 503** | **20 621 002** | **49 586 438** | **10 755 445** | **4 910 365** | **124 700 753** | **(9 691 295)** | **115 009 458** |
| Total expenses | (32 866 900) | (18 825 790) | (53 041 623) | (5 300 263) | (6 072 050) | (116 106 626) | (2 365 657) | (118 472 283) |
| Non-current assets | 96 472 999 | 5 318 245 | 1 992 378 | 142 068 196 | 17 722 803 | 263 574 621 | (83 657 918) | 179 916 703 |
| Current assets | 14 215 202 | 16 639 516 | 7 662 976 | 6 662 141 | 1 206 263 | 46 386 098 | (12 964 202) | 33 421 896 |
| Non-current liabilities | 96 672 000 | 554 977 | - | 20 002 860 | 1 431 123 | 118 660 960 | 21 660 847 | 140 321 807 |
| Current liabilities | 4 807 266 | 11 245 358 | 12 131 931 | 1 214 607 | 6 164 253 | 35 563 415 | (30 203 142) | 5 360 273 |
| Cash flows from operating activities | 3 998 002 | 434 750 | 2 667 002 | 7 333 123 | 717 864 | 15 150 741 | (354 274) | 14 796 467 |
| Cash flows utilised on investing activities | (3 329 583) | (858 264) | (115 120) | (11 323 606) | 11 777 606 | (3 848 967) | (17 269 827) | (21 118 794) |
| Cash utilised in financing activities | 667 500 | (137 913) | - | 4 637 860 | (5 492 731) | (325 284) | 4 104 040 | 3 778 756 |
| (Loss) / profit before income tax | 1 625 150 | 1 203 429 | (3 455 184) | 3 524 981 | (89 456) | 2 808 920 | (6 542 115) | (3 733 195) |

**Analysis of additions during the year**

| Additions to non-current assets | Office equipment US$ | Motor vehicles US$ | Office furniture US$ | Investment property US$ | Land and buildings US$ | Total US$ |
|---|---|---|---|---|---|---|
| 31 December 2015 | 202 886 | 36 553 | 48 109 | 650 492 | - | 938 040 |
| 31 December 2014 | 124 368 | 322 646 | 173 958 | 11 449 370 | - | 12 070 342 |

**Geographical concentration of gross premium written**

| | Life US$ | Property and Casualty US$ | Health US$ | Property US$ | Other US$ | 31 December 2015 US$ | 31 December 2014 US$ |
|---|---|---|---|---|---|---|---|
| Zimbabwe | 34 029 978 | 20 332 045 | 52 481 633 | - | - | 106 843 656 | 106 728 180 |
| Other countries | 1 761 807 | 7 489 872 | - | - | - | 9 251 679 | 8 600 475 |
| **Total** | **35 791 785** | **27 821 917** | **52 481 633** | **-** | **-** | **116 095 335** | **115 328 655** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 6 GROUP - PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings US$ | Office equipment US$ | Motor vehicles US$ | Office furniture US$ | Total US$ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Year ended 31 December 2014** | | | | | |
| At 1 January 2014 | 9 373 504 | 2 193 986 | 4 825 307 | 557 722 | 16 950 519 |
| Additions | - | 124 368 | 322 646 | 173 958 | 620 972 |
| Disposals | (857) | (19 689) | ( 558 776) | (1 379) | (580 701) |
| **At 31 December 2014** | **9 372 647** | **2 298 665** | **4 589 177** | **730 301** | **16 990 790** |
| **Year ended 31 December 2015** | | | | | |
| At 1 January 2015 | 9 372 647 | 2 298 665 | 4 589 177 | 730 301 | 16 990 790 |
| Additions | - | 202 886 | 36 553 | 48 109 | 287 548 |
| Disposals | - | (22 754) | (656 380) | (12 555) | (691 689) |
| **At 31 December 2015** | **9 372 647** | **2 478 797** | **3 969 350** | **765 855** | **16 586 649** |
| **Accumulated depreciation** | | | | | |
| **Year ended 31 December 2014** | | | | | |
| At 1 January 2014 | 921 098 | 1 246 189 | 2 385 492 | 338 100 | 4 890 879 |
| Charge for the year | 187 470 | 328 874 | 720 796 | 54 951 | 1 292 091 |
| Depreciation on disposals | - | (5 897) | (441 267) | (1 030) | (448 194) |
| **At 31 December 2014** | **1 108 568** | **1 569 166** | **2 665 021** | **392 021** | **5 734 776** |
| **Year ended 31 December 2015** | | | | | |
| At 1 January 2015 | 1 108 568 | 1 569 166 | 2 665 021 | 392 021 | 5 734 776 |
| Charge for the year | 187 470 | 363 530 | 729 159 | 37 957 | 1 318 116 |
| Depreciation on disposals | - | (9 262) | (196 858) | (9 604) | (215 724) |
| **At 31 December 2015** | **1 296 038** | **1 923 434** | **3 197 322** | **420 374** | **6 837 168** |
| **Net book amount** | | | | | |
| **At 31 December 2014** | **8 264 079** | **729 499** | **1 924 156** | **338 280** | **11 256 014** |
| **At 31 December 2015** | **8 076 609** | **555 363** | **772 028** | **345 481** | **9 749 481** |
| Current | - | - | - | - | - |
| Non-current | 8 076 609 | 555 363 | 772 028 | 345 481 | 9 749 481 |
| **Total** | **8 076 609** | **555 363** | **772 028** | **345 481** | **9 749 481** |

There were no restrictions on the title of the above property, plant and equipment, except for certain motor vehicles as at the reporting date. Included in property, plant and equipment are motor vehicles with a cost of US$949 000 (2014: US$884 000) and a net book amount of US$254 661 (2014: US$437 961) financed through a loan. The loan of an equivalent amount was advanced to First Mutual Holdings Limited, by the Peoples Own Savings Bank ("POSB"). Security for the loan is in the form of a Notarial General Covering Bond on the vehicles financed.

A loan of US$5.5 million was sourced from Barclays Bank of Zimbabwe Limited to partially fund the acquisition of the land in Mount Pleasant, Harare. Stand 14908 of Salisbury Township called First Mutual Park with a net book amount of US$8.1 million was pledged as security. This building is owner occupied, thus classified as property, plant and equipment

# Notes to the Consolidated Financial Statements (continued)

## 6 COMPANY - PROPERTY, PLANT AND EQUIPMENT

| Cost | Office equipment US$ | Motor vehicles US$ | Office furniture US$ | Total US$ |
|---|---|---|---|---|
| **Year ended 31 December 2014** | | | | |
| At 1 January 2014 | 312 596 | 1 320 909 | 49 651 | 1 683 156 |
| Additions | 39 072 | 107 800 | 10 174 | 157 046 |
| Disposals | (9 570) | (496 940) | (178) | (506 688) |
| **At 31 December 2014** | **342 098** | **931 769** | **59 647** | **1 333 514** |
| **Year ended 31 December 2015** | | | | |
| At 1 January 2015 | 342 098 | 931 769 | 59 647 | 1 333 514 |
| Additions | 4 615 | - | - | 4 615 |
| Disposals | (242) | (173 800) | - | (174 042) |
| **At 31 December 2015** | **346 471** | **757 969** | **59 647** | **1 164 087** |
| **Accumulated depreciation** | | | | |
| **Year ended 31 December 2014** | | | | |
| At 1 January 2014 | 160 984 | 483 713 | 22 184 | 666 881 |
| Charge for the year | 60 560 | 205 704 | 5 889 | 272 153 |
| Depreciation on disposals | (2 987) | (254 140) | (258) | (257 385) |
| | **218 557** | **435 277** | **27 815** | **681 649** |
| **Year ended 31 December 2015** | | | | |
| At 1 January 2015 | 218 557 | 435 277 | 27 815 | 681 649 |
| Charge for the year | 56 249 | 172 580 | 5 964 | 234 793 |
| Depreciation on disposals | - | (68 779) | - | (68 779) |
| **At 31 December 2015** | **274 806** | **539 078** | **33 779** | **847 663** |
| **Net book amount** | | | | |
| **At 31 December 2014** | **123 541** | **496 492** | **31 832** | **651 865** |
| **At 31 December 2015** | **71 665** | **218 891** | **25 868** | **316 424** |
| Current | - | - | - | - |
| Non-current | 71 665 | 218 891 | 25 868 | 316 424 |
| **Total** | **71 665** | **218 891** | **25 868** | **316 424** |

## 7 INVESTMENT PROPERTY

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| At 1 January | 127 797 001 | 115 562 001 | - | - |
| Additions to properties under development | 339 245 | 10 727 341 | - | - |
| Improvements to existing properties | 311 247 | 722 029 | - | - |
| Disposals | - | (335 000) | - | - |
| Transfer from inventory | 189 000 | - | - | - |
| Fair value adjustments | (6 609 492) | 1 120 630 | - | - |
| **At 31 December** | **122 027 001** | **127 797 001** | **-** | **-** |
| Current | - | - | - | - |
| Non-current | 122 027 001 | 127 797 001 | - | - |
| **Total** | **122 027 001** | **127 797 001** | **-** | **-** |

# Notes to the Consolidated Financial Statements (continued)

## 7 INVESTMENT PROPERTY (continued)

First Mutual Park, 100 Borrowdale Road, Harare, Zimbabwe was reclassified from investment property to property, plant and equipment because the Group occupies more than an insignificant portion of the property.

Investment property known as 99 Jason Moyo Avenue with a carrying amount of US$7 800 000 at 31 December 2015 was pledged as security on a loan of US$2 000 000 secured from the National Social Security Authority ("NSSA") by the holding company

### 7.1 Fair value hierarchy

The following table shows an analysis of the fair values of investment property recognised in the statement of financial position by level of the fair value hierarchy;

| 31 December 2015 | Level 1 US$ | Level 2 US$ | Level 3 US$ | Total US$ | Total gain/ (loss) in the period in the statement of comprehensive income US$ |
|---|---|---|---|---|---|
| CBD retail | - | - | 12 530 001 | 12 530 001 | (217 900) |
| CBD offices | - | - | 32 980 000 | 32 980 000 | (4 606 051) |
| Office parks | - | - | 33 670 000 | 33 670 000 | (800 000) |
| Suburban retail | - | - | 9 430 000 | 9 430 000 | (384 668) |
| Industrial | - | - | 12 430 000 | 12 430 000 | (528 376) |
| Residential | - | - | 330 000 | 330 000 | (70 147) |
| Land* | - | - | 20 657 000 | 20 657 000 | (2 350) |
| **Total** | **-** | **-** | **122 027 001** | **122 027 001** | **(6 609 492)** |
| **31 December 2014** | | | | | |
| CBD retail | - | - | 12 490 001 | 12 490 001 | 1 520 000 |
| CBD offices | - | - | 37 470 000 | 37 470 000 | (1 464 169) |
| Office parks | - | - | 34 470 000 | 34 470 000 | 1 234 999 |
| Suburban retail | - | - | 9 800 000 | 9 800 000 | (25 967) |
| Industrial | - | - | 12 840 000 | 12 840 000 | 449 968 |
| Residential | - | - | 355 000 | 355 000 | (110 690) |
| Land * | - | - | 20 372 000 | 20 372 000 | (483 511) |
| **Total** | **-** | **-** | **127 797 001** | **127 797 001** | **1 120 630** |

* This consists of land earmarked for future developments.

Losses recorded in statement of comprehensive income for recurring fair value measurements categorised within level 3 of the fair value hierarchy amount to US$6.609 million (December 2014: gain of US$1.206 million) and are presented in the consolidated statement of comprehensive income in line item; 'fair value adjustments – investment property'.

All gains and losses recorded in statement of comprehensive income for recurring fair value measurements categorised within level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at the end of the reporting period.

**Valuation techniques used to derive level 3 fair values**

The table below presents the following for each class of the investment property:

- The fair value measurements at the end of the reporting period;
- The level of the fair value hierarchy (in this case level 3) within which the fair value measurements are categorised in their entirety;
- A description of the valuation techniques applied;
- The inputs used in the fair value measurement, including the ranges of rent charged to different units within the same building; and
- Level 3 fair value measurements, quantitative information about the significant observable inputs used in the fair value measurement

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 7 INVESTMENT PROPERTY (continued)

### 7.1 Fair value hierarchy (continued)

| Class of Property | Fair Value 31 December 2015 US$ | Fair Value 31 December 2014 US$ | Valuation Technique | Key unobservable Inputs | 2015 Range (weighted average) | 2014 Range (weighted average) |
|---|---|---|---|---|---|---|
| CBD retail | 12 530 001 | 12 490 001 | Income capitalisation | Rental per square metre | US$15.00-US$25.00 (US$20.00) | US$10.00-US$25.00 (US$17.50) |
| | | | | Prime yield | 7.00%-8.00% (7.50%) | 7.00%-13.00% (10.00%) |
| | | | | Void rate | 0.00%-40.00% (20.00%) | 0.00%-40.00% (20.00%) |
| CBD offices | 32 980 000 | 37 470 000 | Income capitalisation | Rental per square metre | US$7.00-US$12.00 (US$10.00) | US$5.00-US$15.00 (US$10.00) |
| | | | | Prime yield | 5.00%-15.00% (10.00%) | 7.00%-13.00% (10.00%) |
| | | | | Void rate | 00.00%-100.00%(50.00%) | 40.00%-60.00% |
| Office parks | 33 670 000 | 34 470 000 | Income capitalisation | Rental per square metre | US$7.00-US$12.00 (US$10.00) | US$10.00-US$15.00 (US$12.50) |
| | | | | Prime yield | 5.00%-15.00% (10.00%) | 7.00%-13.00% (10.00%) |
| | | | | Void rate | 0.00%-100.00% (50.00%) | 40.00%-60.00% (50.00%) |
| Suburban retail | 9 430 000 | 9 800 000 | Income capitalisation | Rental per square metre | US$10.00-US$25.00 (US$17.50) | US$10.00-US$25.00 (US$17.50) |
| | | | | Prime yield | 7.00%-13.00% (10.00%) | 7.00%-13.00% (10.00%) |
| | | | | Void rate | 0.00%-3.00% (1.50%) | 0.00%-3.00% (1.50%) |
| Industrial | 12 430 000 | 12 840 000 | Income capitalisation | Rental per square metre | US$1.50-US$4.00 (US$3.00 ) | US$1.00-US$5.00 (US$3.00) |
| | | | | Prime yield | 11.00%-13.00%(12.00%) | 11.00%-15.00% (13.00%) |
| | | | | Void rate | 40.00%-60.00% (50.00%) | 40.00%-60.00% (50.00%) |
| Land | 20 657 000 | 20 372 000 | Market comparable | Rate per square metre | US$50.00-US$80.00 (US$65.00) | US$25.00-US$30.00 (US$27.50) |
| Other | 330 000 | 355 000 | Market comparable | Comparable transacted properties prices | | |
| **Total** | **122 027 001** | **127 797 001** | | | | |

**Other relates to residential property valued at US$0.33 million which has been valued based on market comparable method (main space equivalent).

**Descriptions and definitions**
The table above includes the following descriptions and definitions relating to valuation techniques and key unobservable inputs made in determining the fair values:

**i. Income capitalisation method**
Under the income capitalisation method, a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation rate (discounted by the investor's rate of return). Under the income capitalisation method, over (above market rent) and under-rent situations are separately capitalised (discounted).

**ii. Market comparable method**
Under the market comparable method (or market comparable approach), a property's fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square metre (sqm).

**iii. Rent per square metre**
The rent at which space could be let in the market conditions prevailing at the date of valuation. The unit of comparison is the rental rate per square metre.

# Notes to the Consolidated Financial Statements (continued)

## 7 INVESTMENT PROPERTY (continued)

### 7.1 Fair value hierarchy (continued)

**iv. Void rate**
The Group determines the void rate which can be based on the percentage of estimated vacant space divided by the total lettable area.

**v. Prime yield**
The prime yield is defined as the internal rate of return of the cash flow from the property, assuming a rise to estimated rental value ("ERV") at the next review, but with no further rental growth.

**Sensitivity analysis to significant changes in unobservable inputs within level 3 of the hierarchy.**
The significant unobservable inputs used in the fair value measurement categorised within level 3 of the value hierarchy of the Group's portfolio of investment property are :

- Prime yield;
- Void rate;
- Rental per square metre; and
- Comparable transacted properties

Increases / (decreases) in the comparable transacted properties and rental per square metre in isolation would result in a higher / (lower) fair value measurement.

Increases / (decreases) in the long-term void rate and prime yield in isolation would result in a lower / (higher) fair value measurement.

| Analysis of property portfolio<br>Sector | Lettable space $m^2$<br>December 2015 US$ | <br>December 2014 US$ | % of portfolio<br>December 2015 US$ | <br>December 2014 US$ |
|---|---|---|---|---|
| Industrial | 36 616 | 36 616 | 30.28% | 30.49% |
| CBD offices | 39 431 | 39 431 | 32.61% | 32.83% |
| Office park | 25 231 | 25 231 | 20.86% | 21.01% |
| Suburban retail | 7 603 | 7 603 | 6.29% | 6.33% |
| CBD retail | 12 047 | 11 218 | 9.96% | 9.34% |
| **Total** | **120 928** | **120 099** | **100.00%** | **100.00%** |

Investment property is stated at fair value, which is determined based on valuations performed by Knight Frank Zimbabwe, an accredited independent property valuer, at 31 December 2015. Investment property is stated based on a desktop valuation at 31 December 2015 as opposed to the full valuations conducted in previous years. The fair values of some properties have not been determined with reference to transactions observable on the market because of the nature of the properties and the limited amount of comparable data. Instead, valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied.

**Valuation process**
The Group's valuation policies and procedures for property valuations are determined by a management committee. Each year, the committee decides, after advising the Audit and Actuarial Committee, which external valuer to appoint to be responsible for the external valuation of the Group's property portfolio. The selection criteria includes market knowledge, reputation, independence and whether professional standards are maintained. Consideration is normally given to rotate external valuers every five years.

The management committee decides, after discussions with the Group's external valuers and the Group's internal Valuation Department:

- Whether a property's fair value can be reliably determined;
- Which valuation method should be applied for each property (the methods that are applied for fair value measurements categorised within level 3 of the fair value hierarchy are market comparables and the income capitalisation method) and;
- The assumptions made for the unobservable inputs that are used in the valuation methods (the major observable inputs are rental per square metre, rate per square metre, vacancy rate and prime yield).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 7 INVESTMENT PROPERTY (continued)

### 7.1 Fair value hierarchy (continued)

As at each year-end, all properties are valued by external valuers. At each reporting date, the internal Valuation Department analyses the movements in each property value. For this analysis, the internal valuation department verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts (for example rent amounts in lease agreements), market reports (for example market rent, capitalisation rates in property market reports) and other relevant documents. In addition, the accuracy of the computation is tested on a sample basis. For each property, the latest valuation is compared with the valuations of the preceding annual periods. If fair value changes (positive or negative) are abnormal, the changes are further analysed for example by having discussions with external valuers.

The internal Valuation Department also compares each property's change in fair value with relevant external sources (e.g. the investment property database or other relevant benchmark) to determine whether the change is reasonable.

On an annual basis, after the management committee discusses the valuations with the internal Valuation Department, they present the valuation results with the Group's external valuers to the Audit and Actuarial Committee and the Group's independent auditor. This includes a discussion of the major assumptions used in the valuations, with an emphasis on:

- Properties with fair value changes that are abnormal; and
- Investment property under construction.

## 8 INTANGIBLE ASSETS - SOFTWARE

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| **Cost** | | | | |
| **Year ended 31 December 2015** | | | | |
| At 1 January | 993 087 | 993 087 | - | - |
| Additions | - | - | - | - |
| **At 31 December** | **993 087** | **993 087** | - | - |
| **Accumulated amortisation and impairment losses** | | | | |
| **Year ended 31 December 2015** | | | | |
| At 1 January | 725 036 | 532 354 | - | - |
| Charge for the year | 183 358 | 192 682 | - | - |
| **At 31 December** | **908 394** | **725 036** | **-** | **-** |
| **Carrying amount** | | | | |
| **At 31 December** | **84 693** | **268 051** | **-** | **-** |
| Current | - | - | - | - |
| Non-current | 84 693 | 268 051 | - | - |
| **Total** | **84 693** | **268 051** | **-** | **-** |

Intangible assets refer to the Individual Life Assurance business, Exergy system and the Nexus system in the Health insurance business. The intangible assets are amortised over their useful economic lives, determined by management to be five years, which is 20% per annum, using the straight-line method and recognised in statement of comprehensive income. As at 31 December 2015, these assets were tested for impairment, and management determined that no impairment is required in respect of these intangibles.

## 9 INVESTMENT IN SUBSIDIARIES

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| **At 1 January** | **-** | **-** | **16 169 464** | **15 837 852** |
| Purchases | - | - | 2 323 475 | 700 000 |
| Disposal | - | - | - | - |
| Fair value loss | - | - | (5 154 651) | (368 388) |
| | | | **13 338 288** | **16 169 464** |
| Transfer to non-current assets held for sale (note 15) | - | - | (340 000) | - |
| | | | **12 998 288** | **16 169 464** |
| Current | - | - | - | - |
| Non-current | - | - | 12 998 288 | 16 169 464 |
| **Total** | **-** | **-** | **12 998 288** | **16 169 464** |

# Notes to the Consolidated Financial Statements (continued)

## 10 INVESTMENT IN ASSOCIATE

The Group has a 19.97% (2014: 19.94%) interest in its associate, Rainbow Tourism Group Limited ("RTG"), which is involved in the tourism and leisure industry. RTG is listed on the Zimbabwe Stock Exchange and there are published price quotations for the fair value of this investment. The principal place of business is Rainbow Towers Hotel and Conference Centre, 1 Pennefather Avenue, Harare.

The reporting date for RTG is the same as the Group and no differences in accounting policies between First Mutual and the associate have been identified which warrant adjustments in the Group financial statements. The investment in RTG is as follows:

The Group reclassified its 20% interest in RTG from an investment in associate to a non-current asset, held-for-sale. The reclassification is an acknowledgement that this asset is no longer a strategic investment and will be sold in the next 12 months. The carrying value of this asset was re-aligned to stock market prices resulting in an impairment of the asset by US$2.6 million.

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| **Carrying amount as at 1 January** | **7 081 684** | **7 014 047** | **-** | **-** |
| Share of comprehensive income | (67 816) | 338 008 | - | - |
| Share of associate's loss for the year | (5 852) | (270 371) | - | - |
| **Carrying amount of investment in associate** | **7 008 016** | **7 081 684** | **-** | **-** |
| Impairment | (2 634 105) | - | - | - |
| | 4 373 911 | 7 081 684 | - | - |
| Reclassified to non-current asset classified as held for sale (note 15) | (4 373 911) | - | - | - |
| **Carrying amount of investment in associate** | **-** | **7 081 684** | **-** | **-** |
| Current | - | - | - | - |
| Non-current | - | 7 081 684 | - | - |
| **Total** | **-** | **7 081 684** | **-** | **-** |

The shares held by the Group in RTG had a fair value less cost of disposal value of US$4 373 911 (2014: US$4 844 571) as at reporting date.

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| **Associate's statement of financial position** | | | | |
| **Assets** | | | | |
| Non-current assets | 40 317 992 | 41 044 368 | - | - |
| Current assets | 9 457 688 | 9 329 812 | - | - |
| **Total assets** | **49 775 680** | **50 374 180** | **-** | **-** |
| **Equity and liabilities** | | | | |
| Shareholders' equity | 17 077 517 | 17 126 764 | - | - |
| Non-current liabilities | - | 19 221 946 | - | - |
| Current liabilities | 32 698 163 | 14 025 470 | - | - |
| **Total equity and liabilities** | **49 775 680** | **50 374 180** | **-** | **-** |
| **Share of net assets** | **3 410 380** | **3 408 226** | **-** | **-** |
| **Associate's statement of comprehensive income** | | | | |
| Revenue | 30 588 774 | 30 715 846 | - | - |
| Cost of sales | (10 015 588) | (10 234 917) | - | - |
| **Gross profit** | **20 573 186** | **20 480 929** | **-** | **-** |
| Other operating income | 261 193 | 51 575 | - | - |
| Operating expenses | (17 269 626) | (19 639 841) | - | - |

# Notes to the Consolidated Financial Statements (continued)

## 10 INVESTMENT IN ASSOCIATE (continued)

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| **Earnings before interest, tax, depreciation and amortisation** | **3 564 753** | **892 663** | **-** | **-** |
| Depreciation | (2 519 788) | (1 731 089) | - | - |
| **Profit/(loss) from operations** | **1 044 965** | **(838 426)** | **-** | **-** |
| Finance expense | (2 179 496) | (2 109 308) | | |
| **Loss before tax** | **(1 134 531)** | **(2 947 734)** | **-** | **-** |
| Income tax credit | 1 105 227 | 1 591 812 | - | - |
| **Loss after tax from continuing operations** | **(29 304)** | **(1 355 922)** | **-** | **-** |
| Loss from discontinued operations | - | - | - | - |
| **Loss for the year** | **(29 304)** | **(1 355 922)** | **-** | **-** |
| **Items that will not be reclassified subsequent to statement of comprehensive income** | | | | |
| Gain on property revaluation, net of tax | - | 1 728 103 | - | - |
| **Items that will be reclassified subsequent to statement of comprehensive income** | | | | |
| Exchange loss arising from translation of foreign operations | (339 587) | (32 980) | - | - |
| **Total comprehensive loss for the year** | **(368 891)** | **(339 201)** | **-** | **-** |
| Share of losses | (5 852) | (270 371) | - | - |
| Share of comprehensive (loss)/income | (67 816) | 338 008 | - | - |
| **Share of total comprehensive (loss)/income for the year** | **(73 668)** | **67 637** | **-** | **-** |

## 11 CLASSIFICATION OF FINANCIAL ASSETS

The Group's financial instruments are summarised by category as follows:

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| Cash and balances with banks and receivables (note 11.1) | 41 570 731 | 35 787 099 | 560 900 | 497 567 |
| Financial assets at fair value through profit or loss (note 11.2) | 11 483 355 | 18 991 887 | 92 596 | 327 181 |
| Held to maturity (note 11.3) | 14 729 561 | 7 472 667 | - | - |
| | **67 783 647** | **62 251 653** | **653 496** | **824 748** |
| Non-current assets classified as held for sale (note 15) | 4 373 911 | - | - | - |
| Assets of investments held for sale (note 15) | 226 468 | - | - | - |
| | **4 600 379** | **-** | **-** | **-** |
| **Total financial instruments** | **72 384 026** | **62 251 653** | **653 496** | **824 748** |

The carrying values of the financial instruments approximate their carrying values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 11 CLASSIFICATION OF FINANCIAL ASSETS (continued)

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| **11.1 Cash and balances with banks and receivables are broken down as follows:** | | | | |
| Insurance receivables (note 14) | 7 763 344 | 9 015 957 | - | - |
| Cash and balances with banks (note 16) | 28 139 670 | 22 902 731 | 111 315 | 115 707 |
| Tenant receivables (note 14) | 827 077 | 1 318 935 | - | - |
| Other receivables excluding prepayments (note 14) | 4 840 640 | 2 549 476 | 449 585 | 381 860 |
| **Total** | **41 570 731** | **35 787 099** | **560 900** | **497 567** |
| Current | 40 357 066 | 35 033 367 | 459 700 | 480 482 |
| Non-current | 1 213 665 | 753 732 | 101 200 | 17 085 |
| **Total** | **41 570 731** | **35 787 099** | **560 900** | **497 567** |
| **11.2 Financial assets at fair value through profit or loss** | | | | |
| **Fair value** | | | | |
| At 1 January | 18 991 887 | 25 563 655 | 327 181 | 1 073 338 |
| Purchases | 368 710 | 3 203 239 | 11 | 180 451 |
| Disposals | (597 992) | (3 672 090) | (180 158) | (847 033) |
| Fair value loss on unquoted investments | - | (772 145) | - | - |
| Fair value (loss) / gain on quoted equities | (7 279 250) | (5 330 772) | (54 438) | (79 575) |
| **Total financial assets at fair value through profit or loss** | **11 483 355** | **18 991 887** | **92 596** | **327 181** |
| Current | 11 483 355 | 18 991 887 | 92 596 | 327 181 |
| Non-current | - | - | - | - |
| **Total** | **11 483 355** | **18 991 887** | **92 596** | **327 181** |
| **11.3 Held to maturity investments** | | | | |
| At 1 January | 7 472 667 | 3 998 587 | - | - |
| Purchases | 12 868 019 | 6 076 306 | - | - |
| Maturities of investments | (5 611 125) | (2 602 226) | - | - |
| **At 31 December** | **14 729 561** | **7 472 667** | **-** | **-** |
| Current | 7 343 627 | 480 087 | - | - |
| Non-current | 7 385 934 | 6 992 580 | - | - |
| **Total** | **14 729 561** | **7 472 667** | **-** | **-** |

### 11.4 Determination of fair value and fair values hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- **Level 1:** Quoted (unadjusted) prices in active markets for identical assets and liabilities.
- **Level 2:** Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, directly or indirectly.
- **Level 3:** Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 11 CLASSIFICATION OF FINANCIAL ASSETS (continued)

### 11.4 Determination of fair value and fair values hierarchy (continued)

The following table shows an analysis of financial instruments recorded at fair value of the fair value hierarchy:

| | Level 1 US$ | Level 2 US$ | Level 3 US$ | Total fair value US$ |
|---|---|---|---|---|
| **At 31 December 2015** | | | | |
| Financial assets designated at fair value through profit or loss | 11 483 355 | - | - | 11 483 355 |
| **Total financial assets recorded at fair value** | **11 483 355** | **-** | **-** | **11 483 355** |
| **At 31 December 2014** | | | | |
| Financial assets designated at fair value through profit or loss | 18 991 887 | - | - | 18 991 887 |
| **Total financial assets recorded at fair value** | **18 991 887** | **-** | **-** | **18 991 887** |

During the year there were no transfers of financial assets between levels 1, 2 and 3.

**Valuation techniques for financial assets measured at fair value**

**Quoted equity investments valuation**

Level 1 is made up of the Group's investments in quoted equities

| 12 DEFERRED ACQUISITION COSTS | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| At 1 January | 1 111 471 | 786 322 | - | - |
| Expenses deferred during the year | 829 677 | 592 034 | - | - |
| Amortisation | (807 089) | (266 885) | - | - |
| **At 31 December** | **1 134 059** | **1 111 471** | **-** | **-** |
| Current | 1 134 059 | 1 111 471 | - | - |
| Non-current | | | | |
| **Total** | **1 134 059** | **1 111 471** | **-** | **-** |

## 13 INVENTORY

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| Property held for trading | - | 140 150 | - | - |
| Work-in-progress cluster home development | 2 897 813 | 2 608 309 | - | - |
| Consumables | 184 149 | 203 630 | 27 577 | 29 068 |
| | **3 081 962** | **2 952 089** | **27 577** | **29 068** |
| Current | 3 081 962 | 2 952 089 | 27 577 | 29 068 |
| Non-current | - | - | - | - |
| **Total** | **3 081 962** | **2 952 089** | **27 577** | **29 068** |

There was no write off of inventories during the year ended 31 December 2015 (2014: US$nil).

The cost of inventories recognised as an expense and included in 'property cost of sales' amounted to US$78 264 (2014: US$nil).

Trading stock valued US$189 001 was transferred from inventory to investment properties. This was as result of a decision made to withdraw the property from sale and hold it for capital appreciation.

Property held for trading comprises property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group acquires or develops and intends to sell before or on completion of construction. The property classified as inventory is measured at the lower of cost or net realisable value. Work in progress comprises cluster home development valued at US$2.9 million (2014: US$2.6 million) at end of year.

# Notes to the Consolidated Financial Statements (continued)

| 14 LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| Insurance receivables (note 14.1) | 7 763 344 | 9 015 957 | - | - |
| Tenant receivables (note 14.2) | 827 077 | 1 318 935 | - | - |
| Amounts due from group companies (note 14.3) | - | - | 272 769 | 342 672 |
| Other receivables (note 14.4) | 4 840 639 | 2 549 476 | 176 817 | 39 188 |
| **Total** | **13 431 060** | **12 884 368** | **449 586** | **381 860** |
| Current | 13 431 060 | 12 884 368 | 449 586 | 381 860 |
| Non-current | - | - | - | - |
| **Total** | **13 431 060** | **12 884 368** | **449 586** | **381 860** |

## 14.1 Insurance receivables

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| Due from cedants | 5 866 078 | 4 663 726 | - | - |
| Due from policyholders under the direct and health business | 1 961 693 | 5 187 817 | - | - |
| Due from agents, brokers and intermediaries | 314 754 | 741 793 | - | - |
| **Gross insurance receivables** | **8 142 525** | **10 593 336** | **-** | **-** |
| Allowance for credit losses | (379 181) | (1 577 379) | - | - |
| **Net insurance receivables** | **7 763 344** | **9 015 957** | **-** | **-** |
| Current | 7 763 344 | 9 015 957 | - | - |
| Non-current | - | - | - | - |
| **Total** | **7 763 344** | **9 015 957** | **-** | **-** |

Insurance receivables for the pensions business relate to pension contributions and Group Life Assurance ("GLA") premiums that are in arrears. Pension receivables are not accumulated for more than 3 months in accordance with pension regulations. In the event that three months pass with the contributions still outstanding, premium receivables are impaired. The same applies for GLA premiums.

The premiums for the individual life business are accounted for on a cash basis due to the lapsable nature of the life insurance contracts. In the event of default, the contract will lapse and the premium will no longer be due to the Group hence the criteria to recognise revenue only when received. Refer to note 6.3 for the ageing of insurance receivables that are past due but not impaired.

For the property and casualty insurance business premiums are booked at the inception of the policy, any premium due but not settled after 120 days is provided for in full.

Allowance for credit losses on insurance receivables
Insurance receivables with a value of US$0.379 million (2014: US$1.577 million) were impaired and fully provided for due to policyholder defaults. Movements in the allowance for credit losses of insurance receivables were as follows:

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| **Allowance for credit losses on insurance receivables** | | | | |
| At 1 January | 1 577 379 | 911 622 | - | - |
| Charge for the year (note 29.3.1) | 1 077 704 | 874 155 | - | - |
| Utilised during the year | (2 275 902) | (208 398) | - | - |
| **At 31 December** | **379 181** | **1 577 379** | **-** | **-** |

# Notes to the Consolidated Financial Statements (continued)

## 14 LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES (continued)

| | | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|---|
| 14.2 | **Tenant receivables** | | | | |
| | Tenant operating cost recoveries | 638 355 | 573 565 | - | - |
| | Rental receivables | 2 398 718 | 2 393 036 | - | - |
| | **Gross tenant receivables** | **3 037 073** | **2 966 601** | **-** | **-** |
| | Allowance for credit losses | (2 209 996) | (1 647 666) | - | - |
| | **Net tenant receivables** | **827 077** | **1 318 935** | **-** | **-** |
| | Current | 827 077 | 1 318 935 | - | - |
| | Non-current | - | - | - | - |
| | **Total** | **827 077** | **1 318 935** | **-** | **-** |

The Group holds no collateral in respect of tenant receivables. Tenant receivables that are past due, without credit payment plans and whose chances of recovery are rated remote are considered for specific write-off. An assessment of amounts that are neither past due nor impaired has been done based on the history of the tenant account and management is satisfied with the chances of recovery.

Tenant receivables are normally on 30 day terms. Tenants will be charged 10% per annum. as interest on overdue amounts that remain outstanding after 30 days. Refer to note 4.3 for further information relating to credit risk management.

| | | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|---|
| 14.2.1 | **Allowance for credit losses on tenant receivables** | | | | |
| | At 1 January | 1 647 666 | 986 926 | - | - |
| | Charge for the year (note 29.3.1) | 864 764 | 1 215 199 | - | - |
| | Utilised during the year | (302 434) | (554 459) | - | - |
| | **At 31 December** | **2 209 996** | **1 647 666** | **-** | **-** |
| 14.3 | **Amounts due from group companies** | | | | |
| | First Mutual Health Company (Private) Limited | - | - | 26 404 | 55 661 |
| | FMRE Life and Health (Private) Limited | - | - | 7 521 | 22 098 |
| | FMRE Property and Casualty (Private) Limited | - | - | 19 395 | 40 327 |
| | FMRE Property and Casualty (Proprietary) Limited | - | - | 2 359 | 2 214 |
| | TristarInsurance Company Limited | - | - | 38 805 | 82 789 |
| | Pearl Properties (2006) Limited | - | - | - | 6 666 |
| | African Actuarial Consultants (Private) Limited | - | - | 96 379 | - |
| | First Mutual Wealth Management (Private) Limited | - | - | 81 906 | 132 917 |
| | **Total** | **-** | **-** | **272 769** | **342 672** |
| | Current | - | - | 272 769 | 342 672 |
| | Non-current | - | - | - | - |
| | **Total** | **-** | **-** | **272 769** | **342 672** |

**Terms and conditions of transactions with related parties**

Outstanding balances at the year-end are unsecured with agreed payment terms and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. The sale and purchase transactions between related parties are made at terms equivalent to those that prevail in arm's length transactions. The amounts outstanding are unsecured and will be settled on normal terms. No expense has been recognised in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 14 LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES (continued)

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| **14.4 Other receivables** | | | | |
| Sundry debtors | 4 008 019 | 3 482 104 | 21 871 | 4 254 |
| Staff debtors | 1 213 664 | 705 760 | 101 200 | 17 086 |
| **At 31 December** | **5 221 683** | **4 187 864** | **123 071** | **21 340** |
| Allowance for credit losses | (553 455) | (2 122 105) | - | - |
| **Other receivables excluding prepayments** | **4 668 228** | **2 065 759** | **123 071** | **21 340** |
| Prepayments | 172 411 | 483 717 | 53 746 | 17 848 |
| **Total other receivables** | **4 840 639** | **2 549 476** | **176 817** | **39 188** |
| Current | 3 626 974 | 1 795 744 | 75 616 | 22 102 |
| Non-current | 1 213 665 | 753 732 | 101 200 | 17 086 |
| **Total** | **4 840 639** | **2 549 476** | **176 817** | **39 188** |

Sundry debtors comprise of amounts owing to the Group from various counter parties which are receivable within a period of less than three months.

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| **Allowance for credit losses** | | | | |
| At 1 January | 2 122 105 | 255 133 | - | - |
| Charge for the year (note 29.3.1) | 218 949 | 1 879 568 | - | - |
| Utilised during the year | (1 787 599) | (12 596) | - | - |
| **Total** | **553 455** | **2 122 105** | **-** | **-** |

## 15 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| The Group's non-current assets held for sale comprise the following: | | | | |
| 100% investment in African Actuarial Consultants (Private) Limited | 226 468 | - | 340 000 | - |
| 19.97% investment in Rainbow Tourism Group Limited (note 10) | 4 373 911 | - | - | - |
| **Total assets of investments held for sale** | **4 600 379** | **-** | **340 000** | **-** |
| Current | 4 600 379 | - | 340 000 | - |
| **Total** | **4 600 379** | **-** | **340 000** | **-** |

The details of the non-current assets held for sale are disclosed in 11.1 (a) to (d) below;

### 15.1 Non-current assets classified as held for sale

The Group decided to dispose of its 19.97% interest in Rainbow Tourism Group Limited ("RTG") in the year under review. The decision to dispose resulted in the need to reclassify the investment from an investment in associate to a non-current asset, held-for-sale. The reclassification is an acknowledgement that this asset is no longer a strategic investment and will be sold in the next 12 months.

The carrying value of the asset was re-aligned to stock market prices resulting in an impairment of the asset by US$2.6 million.

### 15.2 Assets and liabilities of the subsidiary classified as held for sale

**a) Description**

In December 2015 the Group announced its intention to exit the actuarial services business, African Actuarial Consultants (Private) Limited a 100% owned subsidiary. The associated assets and liabilities were consequently presented as held for sale in the 2015 financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 15 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (continued)

### 15.2 Assets and liabilities of the subsidiary classified as held for sale (continued)

**a) Description (continued)**

The subsidiary was sold on 1 January 2016 with effect from the same date and is reported in the current period as a discontinued operation. Financial information relating to the subsidiary classified as held for sale for the period to the date of disposal is set out below .

**b) Financial performance and cash flow information**

The financial performance and cash flow information presented are for the year ended 31 December

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| Revenue | 791 357 | - | - | - |
| Expenses | (866 568) | - | - | - |
| **Loss before Income tax** | **(75 211)** | **-** | **-** | **-** |
| Income tax expense | - | - | - | - |
| **Loss after income tax of discontinued operation** | **(75 211)** | **-** | **-** | **-** |
| Gain on sale of the subsidiary after income tax | - | - | - | - |
| **Loss from the disposed of subsidiary** | **(75 211)** | **-** | **-** | **-** |
| Net cash outflow from operating activities | (183 518) | - | - | - |
| Net cash outflow from investing activities | (37 794) | - | - | - |
| Net cash inflow from financing activities | 202 258 | - | - | - |
| **Net decrease in cash generated by the subsidiary** | **(19 054)** | **-** | **-** | **-** |
| **Details of the sale of the subsidiary** | | | | |
| Consideration received or receivable: | | | | |
| Cash | 340 000 | - | 340 000 | - |
| Carrying amount of net assets sold | (5 594) | - | (340 000) | - |
| **Gain on sale** | **334 406** | **-** | **-** | **-** |
| Income tax expense on gain | - | - | - | - |
| **Gain on sale after income tax** | **334 406** | **-** | **-** | **-** |
| **c) The carrying amounts of assets and liabilities as at the date of sale were:** | | | | |
| Property, plant and equipment | 70 627 | - | - | - |
| Accounts receivable | 65 249 | - | - | - |
| Intercompany debtors | 63 540 | - | - | - |
| Inventories | 8 087 | - | - | - |
| Cash and balances with banks | 18 965 | - | - | - |
| **Total assets** | **226 468** | **-** | **-** | **-** |
| Trade and other payables | 113 060 | - | - | - |
| Amounts due to group companies | 107 814 | - | - | - |
| **Total liabilities** | **220 874** | **-** | **-** | **-** |
| **Net assets** | **5 594** | **-** | **-** | **-** |

# Notes to the Consolidated Financial Statements (continued)

## 15 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (continued)

### 15.2 Assets and liabilities of the subsidiary classified as held for sale (continued)

**d) Assets and liabilities of disposal group classified as held for sale**

The following assets and liabilities were reclassified as held for sale in relation to the subsidiary held for sale as at 31 December 2015.

| | | | | |
|---|---|---|---|---|
| **Assets classified as held for sale** | | | | |
| Property, plant and equipment | 70 627 | - | - | - |
| Accounts receivable | 65 249 | - | - | - |
| Amounts due from group companies | 63 540 | - | - | - |
| Inventories | 8 087 | - | - | - |
| Bank and cash | 18 965 | - | - | - |
| **Total assets of the subsidiary held for sale** | **226 468** | **-** | **-** | **-** |
| **Liabilities directly associated with assets classified as held for sale** | | | | |
| Trade and other payables | 113 060 | - | - | - |
| Amounts due to group companies | 107 814 | - | - | - |
| **Total liabilities of disposal group held for sale** | **220 874** | **-** | **-** | **-** |

### 15.3 Fair values of non-current assets held for sale

The fair value of the 19.97% investment in RTG was determined using quoted prices in active markets which is the Zimbabwe Stock Exchange (level 1), less the associated disposal costs.

The assets of a disposal group classified as held for sale have been valued as per the consideration contained in the agreement of sale.

This is a non-recurring fair value which has been measured using unobservable inputs, is therefore within level 3 of the fair value hierarchy

| 16 CASH AND BALANCES WITH BANKS | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| Money market investments with original maturities less than 90 days | 7 571 446 | 9 591 482 | - | - |
| Cash at bank and on hand | 5 894 879 | 6 261 850 | 111 315 | 115 707 |
| **Cash and cash equivalents** | **13 466 325** | **15 853 332** | **111 315** | **115 707** |
| Money market investments with original maturities more than 90 days | 14 673 345 | 7 049 399 | - | - |
| **Cash and balances with banks** | **28 139 670** | **22 902 731** | **111 315** | **115 707** |
| Current | 28 139 670 | 22 902 731 | 111 315 | 115 707 |
| Non-current | - | - | - | - |
| **Cash and balances with banks** | **28 139 670** | **22 902 731** | **111 315** | **115 707** |

### 16.1 Split of cash and balances with banks

| | | | | |
|---|---|---|---|---|
| Policyholder | 8 196 432 | 5 163 787 | - | - |
| Owners of parent | 19 285 826 | 17 319 380 | 111 315 | 115 707 |
| Non-controlling interest | 657 412 | 419 564 | - | - |
| **Total** | **28 139 670** | **22 902 731** | **111 315** | **115 707** |

Cash at bank earns interest at floating rates based on daily bank deposit rates. Money market investments are made of varying periods as between one day and six months depending on the immediate cash requirements of the Group and earn interest at the short-term deposit rates.

# Notes to the Consolidated Financial Statements (continued)

## 17 SHARE CAPITAL

| | | Group 2015 | Group 2014 | Company 2015 | Company 2014 |
|---|---|---|---|---|---|
| **17.1** | **Authorised** | | | | |
| | 1 000 000 000 ordinary shares with a nominal value of US$0.001 each | 1 000 000 | 1 000 000 | 1 000 000 | 1 000 000 |
| **17.2** | **Issued and fully paid** | | | | |
| | 380 200 758 ordinary shares with a nominal value of US$0,001 each | 380 201 | 380 201 | 380 201 | 380 201 |
| **17.3** | **Unissued shares** | | | | |
| | 619 799 242 unissued shares, under the control of directors | 619 799 | 619 799 | 619 799 | 619 799 |

### 17.4 Employee share option scheme

The Group has a Share Option Scheme that was approved by shareholders. The objective is to attract, retain and motivate key employees and agents of the Group. 19 010 038 (nineteen million ten thousand and thirty eight) shares, representing 5% of the issued ordinary share capital of the Company at the commencement of the scheme, were set aside by the Board for purposes of the Share Option Scheme. Each year the Board determines how many share options shall be issued.

Participants to whom an option has been granted under the scheme shall only be entitled to exercise the options in part as follows:

- On the first anniversary of the date of grant, the participant shall be entitled to exercise up to one third (1/3) of the shares offered to him/her under that particular option;
- On the second anniversary of the date of grant, the participant shall be entitled to exercise an additional one third (1/3) of the shares offered to him/her under that option;
- On the third anniversary of the date of grant, the participant shall be entitled to exercise an additional one third (1/3) of the shares offered to the participant under that option.
- Options not exercised within five (5) years from the date of grant shall lapse.

Details of the share options outstanding during the year are as follows:-

| Date of grant | Exercise price US$ | Number of shares |
|---|---|---|
| 30 April 2014 | 0.065 | 7 073 114 |
| 30 April 2015 | 0.03 | 7 500 000 |

In terms of the share option scheme, options were granted on 30 April 2014. The estimated fair value of the options granted on that date was US$72 204. The Group recognised total expenses of US$24 494 in respect of the share options that were granted. The options granted mature in batches at every anniversary date and hence will be amortised over the exercisable periods.

The fair value of the options was calculated using the Black-Scholes Merton Optional Valuation Method under the following assumptions:

| Grant date | 30 April 2015 | 30 April 2014 |
|---|---|---|
| Grant date share price (US$) | 0.03 | 0.065 |
| Exercise price of option (US$) | 0.03 | 0.065 |
| Risk-free interest rate | 9.00% | 8.62% |
| Annualised standard deviation | 82.09% | 5.87% |
| Dividend yield | 0.00% | 0.00% |
| Weighted average remaining contractual life | 4.32 years | 4.33 years |
| Expected volatility | 82.09% | 5.87% |

The standard deviation was calculated over a 3 year period, that from January 2013 to December 2015 but it should be noted that the share is generally not very liquid on the Zimbabwe Stock Exchange. The risk free rate was determined on the power-related bonds issued by Infrastructure Development Bank of Zimbabwe ("IDBZ") on behalf of Zimbabwe Electricity Transmission and Distribution Company (Private) Limited ("ZETDC") and Zimbabwe Power Company (Private) Limited ("ZPC").

# Notes to the Consolidated Financial Statements (continued)

## 17 SHARE CAPITAL (continued)

### 17.4 Employee share option scheme (continued)

| Movement for the year | 2015 Number of Shares | 2014 Number of Shares |
|---|---|---|
| At 1 January | 7 073 114 | - |
| Options granted during the year | 7 500 000 | 7 073 114 |
| Lapsed options | - | - |
| Options exercised during the year | - | - |
| **At 31 December** | **14 573 114** | **7 073 114** |
| **Exercisable at 31 December *** | **2 357 705** | **-** |

* Being a third of options granted that have reached one year maturity.

### 17.5 Group - Non distributable reserves

| | Available for sale US$ | Change in functional currency US$ | Foreign currency translation reserve US$ | Revaluation reserve US$ | Solvency reserve US$ | Share based payment reserve US$ | Re-denomination of share capital US$ | Total US$ |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2014 | 144 164 | 196 730 | (141 824) | 2 281 350 | 59 595 | - | (216 775) | 2 323 240 |
| Other comprehensive income | (144 164) | - | (95 707) | - | - | - | - | (239 871) |
| Share based payments | - | - | - | - | - | 24 494 | - | 24 494 |
| **At 31 December 2014** | **-** | **196 730** | **(237 531)** | **2 281 350** | **59 595** | **24 494** | **(216 775)** | **2 107 863** |
| At 1 January 2015 | - | 196 730 | (237 531) | 2 281 350 | 59 595 | 24 494 | (216 775) | 2 107 863 |
| Transfer to solvency reserve | | | | | 50 163 | | | 50 163 |
| Other comprehensive income | - | - | (87 919) | - | - | - | - | (87 919) |
| Share based payments | - | - | - | - | - | 24 494 | - | 24 494 |
| **At 31 December 2015** | **-** | **196 730** | **(325 450)** | **2 281 350** | **109 758** | **48 988** | **(216 775)** | **2 094 601** |
| **Company - Non distributable reserves** | | | | | | | | |
| At 1 January 2014 | - | - | - | 291 047 | - | - | - | 291 047 |
| **At 31 December 2014** | **-** | **-** | **-** | **291 047** | **-** | **-** | **-** | **291 047** |
| At 1 January 2015 | - | - | - | 291 047 | - | - | - | 291 047 |
| **At 31 December 2015** | **-** | **-** | **-** | **291 047** | **-** | **-** | **-** | **291 047** |

**Available for sale reserve**

Available for sale reserve refers to cumulative fair value gains on investments that had been set aside for property developmental projects in accordance with the objectives of the Initial Public Offer of 2007.

**Foreign currency translation reserve**

The change in functional currency reserve relates to the gains/(losses) that arise in translating the statement of financial position of a foreign subsidiary to the reporting currency.

**Revaluation reserve**

The revaluation surplus arose in the prior years in respect of properties that were reclassified from owner occupied to investment property.

# Notes to the Consolidated Financial Statements (continued)

## 17 SHARE CAPITAL (continued)

### 17.5 Group - Non distributable reserves (continued)

**Solvency reserve**
The solvency reserve is as a result of a regulatory requirement for the foreign subsidiary.

**Re-denomination of share capital and change in functional currency reserve**
The reserves in respect of the redenomination of share capital and change in functional currency relate to reserves created on dollarisation when balances were converted to United States of America dollars, and the related redenomination of share capital.

### 17.6 Acquisition of additional interest in Pearl Properties

The Group acquired an additional interest in the voting shares of Pearl Properties (2006) Limited, maintaining its ownership interest at 56.52%.

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| Cash consideration paid to non-controlling shareholders | 799 | 305 105 | - | - |
| Carrying value of the additional interest in Pearl Properties (2006) Limited | (2 962) | (991 035) | - | - |
| **Difference recognised in retained profits** | **(2 163)** | **(685 930)** | **-** | **-** |

## 18 INSURANCE CONTRACT LIABILITIES

### 18.1 Insurance contracts

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| Insurance contracts with DPF | 15 569 895 | 14 769 684 | - | - |
| Insurance contracts without DPF | 19 477 385 | 16 152 456 | - | - |
| **Total insurance contract liabilities** | **35 047 280** | **30 922 140** | **-** | **-** |
| Current | - | - | - | - |
| Non-current | 35 047 280 | 30 922 140 | - | - |
| **Total** | **35 047 280** | **30 922 140** | **-** | **-** |

### 18.2 Investment contracts

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| Investment contracts with DPF | 55 695 844 | 57 249 854 | - | - |
| Investment contracts without DPF | 5 661 964 | 7 316 953 | - | - |
| **Total investment contract liabilities** | **61 357 808** | **64 566 807** | **-** | **-** |
| Current | - | - | - | - |
| Non-current | 61 357 808 | 64 566 807 | - | - |
| **Total** | **61 357 808** | **64 566 807** | **-** | **-** |

### 18.3 Life insurance contracts and investment contracts with and without DPF liabilities

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| **Life insurance contracts with DPF** | | | | |
| Balance at 1 January | 14 769 684 | 13 815 103 | - | - |
| Movement | 800 211 | 954 581 | - | - |
| **Balance at 31 December** | **15 569 895** | **14 769 684** | **-** | **-** |
| **Life insurance contracts without DPF** | | | | |
| Balance at 1 January | 16 152 456 | 14 021 304 | - | - |
| Movement | 3 324 929 | 2 131 152 | - | - |
| **Balance at 31 December** | **19 477 385** | **16 152 456** | **-** | **-** |
| **Investment contracts with DPF** | | | | |
| Balance at 1 January | 57 249 854 | 55 422 489 | - | - |
| Movement | (1 554 010) | 1 827 365 | - | - |
| **Balance at 31 December** | **55 695 844** | **57 249 854** | **-** | **-** |

# Notes to the Consolidated Financial Statements (continued)

## 18 INSURANCE CONTRACT LIABILITIES (continued)

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| **18.3 Life insurance contracts and investment contracts with and without DPF liabilities (continued)** | | | | |
| **Total life insurance contracts and investment contracts with and without DPF liabilities** | | | | |
| Balance at 1 January | 88 171 995 | 83 258 897 | - | - |
| Policyholder gain on acquisition of Pearl shares | - | 685 930 | - | - |
| Transfer from statement of comprehensive income | 2 571 130 | 4 227 168 | - | - |
| **Balance at 31 December** | **90 743 125** | **88 171 995** | **-** | **-** |
| **Total life insurance contracts and investment contracts with and without DPF liabilities** | **90 743 125** | **88 171 995** | **-** | **-** |
| **Total movement in insurance contracts and investment contracts with and without DPF liabilities** | **2 571 130** | **4 913 098** | **-** | **-** |
| **Reconciliation of insurance contracts and investment contracts with and without DPF liabilities** | | | | |
| Balance at 1 January | 88 171 995 | 83 258 897 | - | - |
| **Movement in insurance contracts and investment contracts with and without DPF liabilities** | **6 627 337** | **8 664 967** | **-** | **-** |
| Premiums | 18 669 836 | 19 235 231 | - | - |
| Claims | (8 866 311) | (11 870 275) | - | - |
| Commissions | (584 959) | (454 767) | - | - |
| Branch expenses | (201 718) | (216 148) | - | - |
| Actuarial and other fees | (344 345) | (374 468) | - | - |
| Correction of liability - prior years | - | 1 455 459 | - | - |
| Investment Income | (3 842 959) | 304 741 | - | - |
| Investment impairments | - | (1 143 236) | - | - |
| Bad debts recovered | 71 061 | - | - | - |
| Tax | 18 737 | 19 915 | - | - |
| Shareholder risk reserve | 1 707 995 | 1 708 515 | - | - |
| **Fees to shareholder** | **(4 056 207)** | **(3 751 869)** | **-** | **-** |
| **Balance at 31 December** | **90 743 125** | **88 171 995** | **-** | **-** |
| **18.4 Investment contact liabilities without DPF** | | | | |
| Balance at 1 January | 7 316 953 | 9 043 836 | - | - |
| Net cash flows | 661 458 | 598 412 | - | - |
| Transfer from statement of comprehensive income | (2 316 447) | (2 325 295) | - | - |
| **Balance at 31 December** | **5 661 964** | **7 316 953** | **-** | **-** |
| **18.4.1 Investment contract liabilities without DPF** | | | | |
| Balance at 1 January | 7 316 953 | 9 043 836 | - | - |
| Investments performance | (2 316 447) | (2 325 295) | - | - |
| **Net cash flows** | **661 458** | **598 412** | **-** | **-** |
| Premium | 667 077 | 979 034 | - | - |
| Claims and policy benefits | (19 392) | (216 811) | - | - |
| Investment expenses | (85 263) | (98 968) | - | - |
| Other charges and transfers | 99 036 | (64 843) | - | - |
| **Balance at 31 December** | **5 661 964** | **7 316 953** | **-** | **-** |

# Notes to the Consolidated Financial Statements (continued)

## 18 INSURANCE CONTRACT LIABILITIES (continued)

### 18.4.1 Investment contract liabilities without DPF (continued)

All insurance contract liabilities and investment contracts with DPF liabilities as at 31 December 2015 and 2014 were actuarially determined using the Financial Soundness Valuation method.

In calculating gross premium liabilities above, best estimate assumptions were used plus compulsory margins as defined in SAP 104. The best estimate assumptions were derived from experience investigations carried out during the year. The primary assumptions used in the gross premium valuation (excluding compulsory margins) are as follows:

- A mortality investigation was carried out for the five years ended December 2015. The mortality experience for 2015 was less than the valuation assumption. The mortality investigation revealed that adult dependants had a significantly higher mortality compared to the other policies.
- A lapse investigation was carried out in 2015, which suggested reducing the lapse assumptions. However the lapse assumption was maintained in view of the current macro-economic environment which has distorted the lapse behaviour of policyholders.
- Expense assumptions of US$24 (2014: US$21) per policy was estimated from the 2015 and 2014 expense investigation.• Expense inflation assumption of 4% (2014: 5%). The inflation rate in Zimbabwe has been mostly negative or nearly zero. However, this could also be as a result of price corrections following the dollarisation of the economy. Long term inflation is forecast to be above 3% consistent with imported inflation. Therefore the inflation assumption has reduced down from 5% in 2014 to 4% in 2015.
- Withdrawal rates are based on the current experience.
- The real investment return assumption has increased to 3% (2014: 2%).

| | % p.a. 2015 | % p.a. 2014 |
|---|---|---|
| Investment - untaxed | 7% | 7.0% |
| Expense inflation | 4% | 5.0% |

- A contingency reserve to cover for possible data problems of US$99 684 (2014: US$398 738) was held as a discretionary reserve. The reserve reduced by 75% to reflect the improvement in data quality as a result of the new data extraction tool. The reserve will be released when all the data issues are resolved. In addition to the above compulsory margins were allowed for as outlined in SAP104.

  A bonus smoothing account is used to reduce policyholders' exposure to market movements positive or negative. During periods of relatively strong investment performance of the fund's investments, a portion of investment growth is not declared as a bonus. It is held back, so that in times of poor investment performance, there are funds available to declare a higher bonus than would otherwise have been the case.

### 18.4.2 Change in assumptions from the prior year

**a) Expense per policy assumption**

Expense assumptions were changed as shown below after management carried out an expense investigation

| | 2015 p.a. | 2014 p.a. |
|---|---|---|
| Individual assurances | 24 | 21 |
| Funeral cash plan | 24 | 21 |
| Individual annuities | 62 | 64 |
| Unit linked assurances | 24 | 21 |

The results of the expense investigation resulted in the upwards review of expense assumption which had an effect of increasing insurance contract liabilities for funeral cash plan by US$1 157 953 (2014: US$ 2 737 767).

**b) Lapse assumptions**

A lapse investigation was carried out which suggested reducing the lapse assumptions. Lapse assumptions were reduced but to maintain stability of the basis, the lapses were not reduced to the levels in the investigation but rather gradually.

# Notes to the Consolidated Financial Statements (continued)

## 18 INSURANCE CONTRACT LIABILITIES (continued)

### 18.4.2 Change in assumptions from the prior year

Below are the lapse assumptions used for 2015 and 2014.

**2015**

| **Product** | **1st year** | **2nd year** | **3rd year** | **4th year** | **Subsequent** |
|---|---|---|---|---|---|
| Funeral cash plan | 25% | 20% | 10% | 10% | 10% |
| Wealth life plan | 15% | 7% | 5% | 5% | 5% |
| Platinum plan | 10% | 7% | 5% | 0% | 0% |
| Early harvest plan | 10% | 7% | 5% | 0% | 0% |

**2014**

| **Product** | | | | | |
|---|---|---|---|---|---|
| Funeral cash plan | 25% | 20% | 10% | 10% | 10% |
| Wealth life plan | 15% | 7% | 5% | 5% | 5% |
| Platinum plan | 10% | 7% | 5% | 0% | 0% |
| Early harvest plan | 10% | 7% | 5% | 0% | 0% |

c) **Mortality assumptions**
Mortality for individual business was reduced from SA56-62 + 33.33% AIDS HA1 to SA56-62 +30% AIDS HA1 except for Funeral Cash Plan adults who had the AIDS assumption increased to 60%.

The detailed mortality assumptions used are as follows:

| | |
|---|---|
| Individual assurance (excluding AIDS) | SA56-62 |
| Annuities | a55 |

| **Table showing AIDS assumption** | **2015** | **2014** |
|---|---|---|
| **Product** | **% HA1** | **% HA1** |
| FCP main member | 30% | 33% |
| FCP spouse | 30% | 33% |
| FCP adult | 60% | 33% |
| Other individual products | 30% | 33% |

For children the following assumptions were used

| **Age group (years)** | **0-5** | **5-10** | **10-15** | **15-20** | **20-25** |
|---|---|---|---|---|---|
| Male mortality rates | 0.0040048 | 0.0164410 | 0.0015388 | 0.0012662 | 0.0020342 |
| Female mortality rates | 0.0028106 | 0.0011093 | 0.0013733 | 0.0011605 | 0.0012960 |

The change in mortality assumptions had the effect of reducing insurance contract liabilities by US$634 505.

d) **Expense inflation**
The expense inflation assumption was reduced from 5% in 2014 to 4% in 2015 with the effect of reducing policyholder liabilities by US$409 111.

## 19 FINANCIAL LIABILITIES

| | **Group 2015 US$** | **Group 2014 US$** | **Company 2015 US$** | **Company 2014 US$** |
|---|---|---|---|---|
| **19.1 Borrowings** | | | | |
| At 1 January | 5 002 838 | 538 776 | 378 829 | 521 685 |
| Loan received | 1 985 000 | 5 700 000 | 1 920 000 | 200 000 |
| Loan repayment | (1 439 606) | (1 235 938) | (142 264) | (342 856) |
| **Balance at 31 December** | **5 548 232** | **5 002 838** | **2 156 565** | **378 829** |
| Current | 3 155 606 | 1 439 388 | 2 055 606 | 226 388 |
| Non-current | 2 392 626 | 3 563 450 | 100 959 | 152 441 |
| **Total** | **5 548 232** | **5 002 838** | **2 156 565** | **378 829** |

# Notes to the Consolidated Financial Statements (continued)

## 19 FINANCIAL LIABILITIES (continued)

### 19.1 Borrowings (continued)

A loan of US$5.5 million was sourced from Barclays Bank of Zimbabwe Limited on 19 December 2013 to partially fund the acquisition of the land in Mount Pleasant of Harare at a rate of 10% per annum. The tenure of the facility is 5 years from 26 December 2013 and stand 14908 of Salisbury Township called First Mutual Park has been pledged as security. The last instalment is due on 27 December 2018.

The Group also has a motor vehicle facility of US$0.9 million from the People's Own Savings Bank ("POSB"), with the security for the loan being a Notarial General Covering Bond on the vehicles financed. Interest is charged at 11% and repayments are made monthly over three years.

A loan facility amounting to US$2 000 000, was sourced from National Social Security Authority ("NSSA") the ultimate parent company of the Group to capitalise TristarInsurance. The loan was granted on 31 December 2015 and has a tenure of 365 day. The loan will be repaid on 31 December 2016. Investment property known as 99 Jason Moyo Avenue with a carrying amount of US$7 800 000 at 31 December 2015 was pledged as security. The loan is repayable at the end of 2016 and carries an interest rate of 7%.

| 20 NON-LIFE INSURANCE LIABILITIES | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| Outstanding claims | 5 700 460 | 5 688 395 | - | - |
| Losses incurred but not reported | 5 445 787 | 4 896 992 | - | - |
| Members' savings pot (note 20.1) | 4 559 031 | 4 229 342 | - | - |
| Premium received in advance (note 20.2) | 4 482 735 | 4 970 097 | - | - |
| Unearned premium reserve | 4 570 586 | 4 670 000 | | |
| Commissions | 247 973 | 294 651 | - | - |
| **Total** | **25 006 572** | **24 749 477** | **-** | **-** |
| Current | 20 447 541 | 20 520 135 | - | - |
| Non-current | 4 559 031 | 4 229 342 | - | - |
| **Total** | **25 006 572** | **24 749 477** | **-** | **-** |

The insurance payables are of a short term nature (less than 12 months) except for the members' savings pot.

### 20.1 Members' savings pot

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| As at 1 January 2015 | 4 229 342 | 3 842 994 | - | - |
| **Movement** | **329 689** | **386 348** | **-** | **-** |
| Arising during the year | 7 802 279 | 7 447 235 | - | - |
| Utilised during the year | (7 472 590) | (7 060 887) | - | - |
| **As at 31 December** | **4 559 031** | **4 229 342** | **-** | **-** |
| Current | - | - | - | - |
| Non-current | 4 559 031 | 4 229 342 | - | - |
| **Total** | **4 559 031** | **4 229 342** | **-** | **-** |

Members savings pot balance refers to amounts held on behalf of health care clients as an accumulation from their contributions. The amounts accumulated are meant to cover selected future medical claims as well as to qualifying members for a cash back arrangement if they meet certain claims thresholds.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

| 20 NON-LIFE INSURANCE LIABILITIES (continued) | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| **20.2 Unearned premium reserve** | | | | |
| Balance at 1 January | 4 970 097 | 4 191 181 | - | - |
| Movement for the year | (487 362) | 869 246 | - | - |
| Loss on exchange | - | (90 330) | - | - |
| **Total** | **4 482 735** | **4 970 097** | **-** | **-** |
| Current | 4 482 735 | 4 970 097 | - | - |
| Non-current | - | - | - | - |
| **Total** | **4 482 735** | **4 970 097** | **-** | **-** |

## 21 TRADE AND OTHER PAYABLES

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| Amounts due to related parties | 2 254 679 | 4 046 539 | 6 122 427 | 5 415 646 |
| Trade payables | 2 254 679 | 4 046 539 | 422 143 | 115 153 |
| Loans | - | - | 5 700 284 | 5 300 493 |
| Property business related liabilities | 1 611 049 | 1 215 000 | - | - |
| Other | - | - | 464 794 | 409 681 |
| | **3 865 728** | **5 261 539** | **6 587 221** | **5 825 327** |
| Current | 3 865 728 | 5 261 539 | 6 587 221 | 5 825 327 |
| Non-current | - | - | - | - |
| **Total** | **3 865 728** | **5 261 539** | **6 587 221** | **5 825 327** |

Trade and other payables are non-interest bearing and are normally on 30 day terms. Provision is made for leave pay when staff members accrue leave days. In the event the staff members leave the employ of the Group they are entitled the cash equivalent of their leave days. In the event that it is impractical for staff members to exhaust their leave days according to their leave plan, part of the accumulated days can be cashed and the rest utilised by the staff member. There is uncertainty on when a staff member may decide to leave the Group and the liability is calculated based on the normal pay rates.

### 21.1 Amounts due to group companies

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| First Mutual Life Assurance Company (Private) Limited | - | - | 4 723 262 | 4 279 247 |
| Pearl Properties (2006) Limited | - | - | 977 022 | 977 022 |
| FMRE Property and Casualty (Private) Limited | - | - | - | 44 224 |
| **Total** | **-** | **-** | **5 700 284** | **5 300 493** |
| Current | - | - | 5 700 284 | 5 300 493 |
| Non-current | - | - | - | - |
| **Total** | **-** | **-** | **5 700 284** | **5 300 493** |

i) Loan of US$4 723 262 from First Mutual Life Assurance (Private) Limited to First Mutual Holdings Limited, the ultimate parent company. During the year 2014 and prior year, the ultimate holding company did not service the loan for both capital and interest repayments. In April 2014, the loan terms were revised to be administered as follows:

| | | |
|---|---|---|
| 1. | Facility amount: | Principal plus accumulated interest at 30 April 2014 - US$3 981 209 |
| 2. | Type of facility: | Term loan facility being roll over of existing money market placement facility |
| 3. | Principal repayment: | Eight (8) equal quarterly capital repayments |
| 4. | Interest payments: | Twelve (12) equal quarterly interest repayment |
| 5. | Rollover date: | 1 May 2014 |
| 6. | Final maturity date: | 30 April 2017 |
| 7. | Interest rate: | 11% per annum |
| 8. | Security: | Pledge of shares in First Mutual Life Assurance Company (Private) Limited at 1.5 times cover of market value of the shares to total outstanding loan balance |
| 9. | Governing Law: | Zimbabwe law |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 21 TRADE AND OTHER PAYABLES (continued)

### 21.1 Amounts due to group companies (continued)

Related party loans receivables are measured at amortised cost using the effective interest rate method. The carrying amount approximates fair value and management has assessed that the receivables are not impaired. The ultimate parent company provided security for the loan from FML Policyholders by pledging shares in First Mutual Life Assurance Company (Private) Limited at a market value which shall at all times be at least 1.5 times the amount still owing by the ultimate parent company to FML Policyholders. No security was pledged for the loan from Pearl Properties (2006) Limited to the ultimate parent company. See note 4.3 on credit risk related party loans to understand the Group's exposure to the loan.

ii) An amount of US$0.977 million relates to the loan placed with Pearl Properties (2006) Limited, a subsidiary of the Company. During the year 2015, the ultimate parent company had been servicing the interest portion accrued. With effect from 1 October 2014, the loan is administered under the following terms:

| | | |
|---|---|---|
| 1. | Type of facility | Term loan facility for 3 years 3 months |
| 2. | Final maturity date | 31 December 2017 |
| 3. | Interest rate | 13% per annum, accrued and paid monthly |
| 4. | Security | No security pledged |
| 5. | Repayment | Quarterly capital repayments from 31 March 2016 |

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| **21.2 Amounts due to group companies** | | | | |
| First Mutual Life Assurance Company (Private) Limited | - | - | 175 914 | 114 234 |
| Pearl Properties (2006) Limited | - | - | 246 229 | 919 |
| **Total** | **-** | **-** | **422 143** | **115 153** |

### 21.2.1 Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured with agreed payment terms and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

The sale and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. The amounts outstanding are unsecured and will be settled on normal terms. No expense has been recognised in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties

## 22 TAX

### 22.1 Deferred tax

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| At 1 January | 15 080 544 | 15 012 542 | 942 511 | 376 314 |
| Recognised through statement of comprehensive income | (4 483 513) | 68 002 | (942 511) | 566 197 |
| Fair value adjustment on available-for-sale investments | - | - | - | - |
| Revaluation | - | - | - | - |
| **At 31 December** | **10 597 031** | **15 080 544** | **-** | **942 511** |
| Current | - | - | - | - |
| Non-current | 10 597 031 | 15 080 544 | - | 942 511 |
| **Total** | **10 597 031** | **15 080 544** | **-** | **942 511** |

# Notes to the Consolidated Financial Statements (continued)

## 22 TAX (continued)

### 22.1 Deferred tax (continued)

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| Analysis of deferred tax | | | | |
| Arising on vehicles and equipment | (99 155) | 3 137 | - | - |
| Arising on investment properties | 12 742 404 | 15 681 770 | - | - |
| Arising on financial assets at fair value through profit or loss | 1 575 | 189 919 | - | 942 511 |
| Arising on available-for-sale investments | (132 818) | 4 870 | - | - |
| Arising from life business (schedule 8 Income Tax Act (Chapter 23:06)) | (37 034) | 206 189 | - | - |
| Arising from assessable losses | (474 047) | (271 255) | - | - |
| Receivables and prepayments | - | 894 101 | - | - |
| Payables and provisions | (1 403 894) | (1 376 891) | - | - |
| IBNR | - | (45 968) | - | - |
| Deferred acquisition costs | - | (198 853) | - | - |
| Leave pay provision | - | (6 475) | - | - |
| **At 31 December** | **10 597 031** | **15 080 544** | **-** | **942 511** |

### 22.2 Net current income tax asset

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| **At 1 January** | **(521 901)** | **(439 005)** | **-** | **-** |
| Tax asset | (620 636) | (665 718) | - | - |
| Tax liability | 98 735 | 226 713 | - | - |
| Charge for the year | 635 486 | 1 265 993 | - | - |
| Paid during the year | (655 204) | (1 348 889) | - | - |
| **At 31 December** | **(541 619)** | **(521 901)** | **-** | **-** |
| **Disclosed as** | | | | |
| Income tax asset | (558 462) | (620 636) | - | - |
| Income tax liability | 16 843 | 98 735 | - | - |
| **At 31 December** | **(541 619)** | **(521 901)** | **-** | **-** |

### 22.3 Income tax expense

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| Deferred tax expense | (4 483 513) | 68 002 | - | - |
| Current income tax expense | 635 486 | 1 265 993 | - | - |
| **Total** | **(3 848 027)** | **1 333 995** | **-** | **-** |

### 22.4 Reconciliation of income tax expense

| | Group 2015 US$ | Group 2014 US$ | Company 2015 US$ | Company 2014 US$ |
|---|---|---|---|---|
| Loss before income tax | (3 717 087) | (3 733 195) | | |
| Standard tax rate 25.75% (2014: 25.75%) | (957 150) | (961 298) | - | - |
| Financial assets at fair value through profit or loss taxed at different rate | (365 394) | 1 479 986 | - | - |
| Investment property taxed at different rates | (2 687 405) | - | | |
| Effect of expenses not deductible for tax purposes | 1 104 433 | 172 477 | - | - |
| Arising from Schedule 8 of Income Tax Act (Chapter 23:06) | - | 158 841 | - | - |
| Tax on impairment of money market investments | - | 483 989 | - | - |
| Impact of write off of tax asset on subsidiary now exempt from tax | (942 511) | - | - | - |
| **Tax (credit)/charge for the year** | **(3 848 027)** | **1 333 995** | **-** | **-** |

# Notes to the Consolidated Financial Statements (continued)

| | | Group 2015 US$ | Group 2014 US$ |
|---|---|---|---|
| **23** | **NET PREMIUM WRITTEN** | | |
| | Life assurance and pension | 36 258 543 | 36 190 725 |
| | Health insurance | 52 481 633 | 50 191 865 |
| | Property and casualty - direct | 4 342 906 | 6 282 684 |
| | Property and casualty - reinsurance | 23 012 253 | 22 663 381 |
| | **Gross premium** | **116 095 335** | **115 328 655** |
| | Less: reinsurance recoveries | (9 802 210) | (9 785 473) |
| | **Net premium** | **106 293 125** | **105 543 182** |
| **24** | **RENTAL INCOME** | | |
| | Office | 3 834 365 | 2 871 753 |
| | Retail | 1 869 975 | 3 564 811 |
| | Industry | 1 380 484 | 1 097 303 |
| | Other | 244 021 | 7 800 |
| | **Total rental income** | **7 328 845** | **7 541 667** |
| **25** | **INVESTMENT LOSS** | | |
| | Interest income from money market investments | 2 300 545 | 1 889 045 |
| | Dividend received | 412 491 | 412 885 |
| | Gain from disposal of quoted investments at fair value through profit or loss | ( 151 009) | 30 262 |
| | Fair value loss on unquoted equities at fair value through profit or loss | - | ( 772 145) |
| | Fair value loss on quoted equities at fair value through profit or loss | ( 7 279 251) | ( 5 330 772) |
| | **Total** | **( 4 717 224)** | **( 3 770 725)** |
| **26** | **OTHER INCOME** | | |
| **26.1** | **Fee income** | | |
| | Insurance contracts | 1 159 846 | 742 432 |
| | Investment contracts | 2 896 361 | 3 009 436 |
| | Investment contracts with DPF | 2 852 002 | 2 945 712 |
| | Investment contracts without DPF | 44 359 | 63 724 |
| | **Total fee income** | **4 056 207** | **3 751 868** |

Fee income is in respect of investment contracts insurance contracts. The fees include management charges, policy fees and capital guarantee charges.

| | | Group 2015 US$ | Group 2014 US$ |
|---|---|---|---|
| **26.2** | **Other operating income** | | |
| | Tenant interest | 301 266 | 263 906 |
| | Profit on disposal of vehicles and equipment | 241 | 56 463 |
| | Other fee income | 824 542 | 1 371 713 |
| | **Total** | **1 126 049** | **1 692 082** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

| | | Group 2015 US$ | Group 2014 US$ |
|---|---|---|---|
| **27** | **CLAIMS AND BENEFITS** | | |
| | Insurance claims and loss adjustment expenses | | |
| | Health insurance | 45 541 726 | 47 304 528 |
| | Property and casualty - reinsurance | 6 815 532 | 5 928 286 |
| | **Total insurance claims and loss adjustment expenses** | **52 357 258** | **53 232 814** |
| | Insurance benefits: | | |
| | Life assurance | 6 954 640 | 5 965 596 |
| | Pensions | 8 866 311 | 11 870 275 |
| | **Total insurance benefits** | **15 820 951** | **17 835 871** |
| | | 68 178 209 | 71 068 685 |
| | Less: insurance claims and loss adjustment expenses recovered from reinsurers | (490 870) | (1 039 270) |
| | **Net claims and benefits** | **67 687 339** | **70 029 415** |

## 28 ACQUISITION OF INSURANCE AND INVESTMENT CONTRACTS EXPENSES

| | | Group 2015 US$ | Group 2014 US$ |
|---|---|---|---|
| **28.1** | **Commission cost** | | |
| | Commissions paid | 8 866 695 | 9 592 755 |
| | - Insurance contracts | 8 285 234 | 9 154 934 |
| | - investment contracts with DPF | 581 461 | 437 821 |
| | Commissions received | (1 759 838) | (2 195 456) |
| | **Net commissions paid** | **7 106 857** | **7 397 299** |
| **28.2** | **Branch network costs** | | |
| | Staff costs | 487 822 | 459 085 |
| | Office costs | 359 681 | 416 409 |
| | Communications | 83 341 | 101 905 |
| | Business travel | 54 144 | 74 918 |
| | Other fees | 398 833 | 511 122 |
| | **Total other acquisition expenses** | **1 383 821** | **1 563 439** |
| | **Total acquisition of insurance and investment contracts expenses** | **8 490 678** | **8 960 738** |

The Group has an agents force which is made up of tied and independent agents who write new business of the Life Assurance segment. The agents are located in major cities and towns across the country. Area offices were established to house and facilitate operations of the agents force. All costs of maintaining the agents force are classified as acquisition expenses which include staff costs, rentals, travel related expenses paid for agents and communication expenses.

Other fees include registration fees for agents with the Insurance and Pensions Commission, Medical fees paid when taking new policyholders on board, as well as bank charges.

Acquisition expenses are charged to statement of comprehensive income in the period in which they are accrued and the Group does not have deferred acquisition expenses, arising from branch network costs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

| 29 ADMINISTRATION EXPENSES | Group 2015 US$ | Group 2014 US$ |
|---|---|---|
| The profit before income tax is shown after charging: | | |
| Staff costs (note 29.1) | 13 714 740 | 13 411 410 |
| Directors' fees - Group | 131 259 | 98 246 |
| -Group companies | 472 145 | 306 373 |
| Property expenses (note 29.4) | 1 241 120 | 1 102 797 |
| Depreciation of property, vehicles and equipment | 1 318 116 | 1 292 091 |
| Amortisation of intangible assets | 183 359 | 192 682 |
| Audit fees: | | |
| Current | 263 482 | 113 097 |
| Prior year | 361 280 | 350 640 |
| Other expenses covered by tax amnesty | 831 430 | - |
| Other costs (note 29.5) | 7 230 926 | 11 606 271 |
| **Total administration expenses** | **25 747 857** | **28 473 607** |
| **29.1 Staff costs** | | |
| Wages and salaries | 7 796 890 | 9 560 621 |
| Social security and health insurance costs | 977 298 | 1 582 033 |
| Defined contribution pension costs | 807 753 | 715 105 |
| Share based payments | 24 494 | 24 494 |
| Other staff costs | 4 108 305 | 1 529 157 |
| **Total staff costs** | **13 714 740** | **13 411 410** |

**Staff Pension and Life Assurance scheme**

All employees are members of the First Mutual Staff Pension and Life Assurance Scheme, which is a defined contribution pension plan.

The Group's contributions to the defined contribution pension plan are charged to the statement of comprehensive income in the year in which they relate.

**National Social Security Authority Scheme**

The Group and its employees contribute to the National Social Security Authority Pension Scheme. This is a social security scheme, which was promulgated under the National Social Security Act (Chapter 17:04). The Group obligations under the scheme are limited to specific contributions legislated from time to time.

### 29.2 Rationalisation expenses

Following a rationalisation exercise that was concluded in 2014, the Group incurred a cost of US$156 053 in 2015 (2014: US$2 498 012) representing the pay-outs to employees retrenched as mutually agreed between the Group and the affected employees.

| | Group 2015 US$ | Group 2014 US$ |
|---|---|---|
| **29.3 Impairment allowances** | | |
| Allowance for credit losses (note 29.3.1) | 2 161 417 | 3 968 922 |
| Impairment of investment in associate (note 10) | 2 634 105 | - |
| **Total** | **4 795 522** | **3 968 922** |
| **29.3.1 Allowance for credit losses** | | |
| Insurance receivables (note 14.1) | 1 077 704 | 874 155 |
| Tenant receivables (note 14.2) | 864 764 | 1 215 199 |
| Other receivables (note 14.3) | 218 949 | 1 879 568 |
| **Total** | **2 161 417** | **3 968 922** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 29 ADMINISTRATION EXPENSES (continued)

### 29.4 Property expenses

| | Group 2015 US$ | Group 2014 US$ |
|---|---|---|
| Operating costs recoveries | 521 429 | 636 404 |
| Maintenance costs | 404 801 | 212 888 |
| Valuation fees | 10 510 | 15 873 |
| Property security and utilities | 226 116 | 237 632 |
| Property cost of sales | 78 264 | - |
| **At 31 December 2014** | **1 241 120** | **1 102 797** |
| Property expenses arising from investment properties that generated rental income | 936 740 | 865 165 |
| Property expenses arising from investment properties that did not generate rental income | 304 380 | 237 632 |
| **At 31 December 2014** | **1 241 120** | **1 102 797** |

Operating costs under recoveries relate to the operating costs attributable to the vacant spaces on buildings within the portfolio.

### 29.5 Other costs

| | Group 2015 US$ | Group 2014 US$ |
|---|---|---|
| Marketing and corporate relationship management | 1 465 092 | 1 765 688 |
| Information technology expenses | 2 082 059 | 2 673 798 |
| Office costs | 2 269 124 | 3 222 344 |
| Fees and other charges | 813 116 | 651 603 |
| Communication expenses | 387 196 | 402 493 |
| Staff rationalisation (note 29.2) | 156 053 | 2 498 012 |
| Other expenses | 58 286 | 392 334 |
| **Total** | **7 230 926** | **11 606 272** |

## 30 EARNINGS PER SHARE ("EPS")

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS 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 that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

### 30.1 Basic earnings per share

| | Group 2015 US$ | Group 2014 US$ |
|---|---|---|
| Profit / (loss) attributable to ordinary equity holders of the Group | 340 225 | (6 599 822) |
| Weighted average number of shares in issue | 380 200 758 | 380 200 758 |
| Basic profit / (loss) per share (US cents) | 0.09 | (1.74) |

### 30.2 Diluted earnings per share

| | Group 2015 US$ | Group 2014 US$ |
|---|---|---|
| Profit / (loss) attributable to ordinary equity holders of the Group | 340 225 | (6 599 822) |
| Weighted average number of shares in issue | 380 200 758 | 380 200 758 |
| Weighted number of shares adjusted for the effects of dilution | 380 200 758 | 380 200 758 |
| **Diluted profit/(loss) per share (US cents)** | **0.09** | **(1.74)** |

The share options are not dilutive as the exercise price is above the market price at 31 December 2015

# Notes to the Consolidated Financial Statements (continued)

## 31 COMMITMENT AND CONTINGENT LIABILITIES

### 31.1 Commitments

### 31.1.1 Operating lease commitments

**As lessor**

The Group holds operating leases with terms that expire after 3 to 5 year lease periods. Future lease payments could not be determined as rental rates are reviewed on an annual basis.

The Group anticipates to generate rental income of US$7 700 400 (2014: US$8 342 349) out of its existing operating leases in the next 12 months.

### 31.1.2 Capital commitments

The Group has capital expenditures contracted for at the end of the year but not year incurred is as follows:

| | Group 2015 US$ | Group 2014 US$ |
|---|---|---|
| Inventories - property trading stock | 265 002 | - |
| Vehicles and equipment | 11 096 | - |
| **Total** | **276 098** | **-** |

**Authorised and contracted for:**

The Group, through its subsidiary, Pearl Properties (2006) Limited is committed to utilising funds raised at the Initial Public Offer for the construction of capital projects. The funds that are still to be utilised in respect of this commitment amount to US$388 952 (2014: US$389 823).

### 31.2 Contingencies

The Group and the Company do not have significant contingent liabilities that require disclosure as at 31 December 2015 (2014 : US$nil).

## 32 RELATED PARTY DISCLOSURES

**Related companies**

Related party transactions exist between First Mutual Holdings Limited and its fellow subsidiaries.

The National Social Security Authority ("NSSA") is the ultimate parent company of First Mutual Holdings Limited. NSSA holds 51% directly in First Mutual Holdings and 20% indirectly through Capital Bank as at 31 December 2015.

NSSA owns 84% of Capital Bank Limited, under liquidation.

### 32.1 Subsidiaries and associates

The financial statements comprise the financial statements of First Mutual Holdings Limited and its subsidiaries and associate companies listed in the following table (indicating the extent of ownership):

| | 2015 | 2014 |
|---|---|---|
| **Subsidiaries** | | |
| First Mutual Life Assurance Company (Private) Limited | 100% | 100% |
| FMRE Life and Health (Private) Limited | 100% | 100% |
| TristarInsurance Company Limited | 100% | 100% |
| FMRE Property and Casualty (Private) Limited | 100% | 100% |
| FMRE Property and Casualty (Proprietary) Limited* | 100% | 100% |
| First Mutual Health Company (Private) Limited | 100% | 100% |
| Pearl Properties (2006) Limited | 57% | 57% |
| Rainbow Tourism Group Limited | 20% | 20% |
| African Actuarial Consultants (Private) Limited | 100% | 100% |
| First Mutual Wealth Management (Private) Limited | 100% | 100% |

# Notes to the Consolidated Financial Statements (continued)

## 32 RELATED PARTY DISCLOSURES (continued)

### 32.1 Subsidiaries and associates (continued)

Pearl Properties (2006) Limited is owned 56.52% by First Mutual Group as follows:

| | 2015 | 2014 |
|---|---|---|
| First Mutual Holdings Limited - the company | 0.25% | 0.25% |
| First Mutual Life Assurance Company (Private) Limited - shareholders | 11.50% | 11.50% |
| First Mutual Life Assurance Company (Private) Limited - policyholders | 40.09% | 40.09% |
| FMRE Life and Health (Private) Limited - shareholders | 1.04% | 1.04% |
| FMRE Property and Casualty (Private) Limited - shareholders | 1.52% | 1.52% |
| TristarInsurance Limited - shareholders | 1.35% | 1.35% |
| First Mutual Health Company (Private) Limited - shareholders | 0.77% | 0.77% |
| **Total** | **56.52%** | **56.52%** |

* This company is registered and operates in Botswana

### 32.2 Transactions and balances with related companies:

### 32.2.1 Summary of related party transactions

**The following table provides the total amount of transactions that have been entered into with related parties during the year ended 31 December 2015:**

| | Relationship to First Mutual Holdings Limited | Loans owed to related parties US$ | Investment fees related parties US$ | Purchases from related parties US$ | Amount owed to related parties US$ | Amount owed by related parties US$ | Amount owed by related parties US$ | Carrying amounts of investments in subsidiaries US$ |
|---|---|---|---|---|---|---|---|---|
| National Social Security Authority | | 2 000 000 | - | - | - | - | - | - |
| First Mutual Life Assurance Company (Private) Limited | subsidiary | 4 723 262 | - | - | 175 914 | - | - | 2 600 000 |
| FMRE Life and Health (Private) Limited | subsidiary | - | - | - | - | - | - | 726 145 |
| TristarInsurance Company Limited | subsidiary | - | - | 46 558 | - | - | - | 2 514 802 |
| FMRE Property and Casualty (Private) Limited | subsidiary | - | - | - | - | - | - | 3 930 417 |
| FMRE Property and Casualty (Proprietary) Limited | subsidiary | - | - | - | - | - | - | 2 681 472 |
| First Mutual Health Company (Private) Limited | subsidiary | - | - | - | - | - | - | - |
| Pearl Properties (2006) Limited | subsidiary | 977 022 | - | 262 410 | 246 229 | - | - | - |
| African Actuarial Consultants (Private) Limited | subsidiary | - | - | - | - | - | - | 340 000 |
| First Mutual Wealth Management (Private) Limited | subsidiary | - | - | - | - | - | - | 545 451 |
| **Total** | | **7 700 284** | **-** | **308 968** | **422 143** | **-** | **-** | **13 338 287** |

### 32.2.2 Transactions and balances with related companies:

**The following table provides the total amount of transactions that have been entered into with related parties during the year ended 31 December 2014:**

| | Relationship to First Mutual Holdings Limited | Rentals charged to related parties US$ | Investment fees related parties US$ | Purchases from related parties US$ | Amount owed to related parties US$ | Amount owed by related parties US$ | Amount owed by related parties US$ | Carrying amounts of investments in subsidiaries US$ |
|---|---|---|---|---|---|---|---|---|
| National Social Security Authority | - | - | - | - | - | - | - | - |
| First Mutual Life Assurance Company (Private) Limited | subsidiary | 4 279 247 | 456 024 | - | 114 234 | - | - | 2 600 000 |
| FMRE Life and Health (Private) Limited | subsidiary | - | 15 701 | - | - | - | - | 2 484 629 |
| TristarInsurance Company Limited | subsidiary | - | 14 374 | 58 316 | - | - | - | 2 833 086 |
| FMRE Property and Casualty (Private) Limited | subsidiary | 44 224 | 51 114 | - | - | - | - | 3 930 417 |
| FMRE Property and Casualty (Proprietary) Limited | subsidiary | - | - | - | - | - | - | 2 973 623 |
| First Mutual Health Company (Private) Limited | subsidiary | - | 62 778 | - | - | - | - | - |
| Pearl Properties (2006) Limited | subsidiary | 977 022 | 3 794 | 262 410 | 920 | - | - | - |
| African Actuarial Consultants (Private) Limited | subsidiary | - | - | - | - | - | - | 802 258 |
| First Mutual Wealth Management (Private) Limited | subsidiary | - | - | - | - | - | - | 545 451 |
| **Total** | | **5 300 493** | **603 785** | **320 726** | **115 154** | | | **16 169 464** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 32 RELATED PARTY DISCLOSURES (continued)

### 32.3 Compensation of key management:

Key management personnel includes Executive Directors and Senior Management of the Group

| | Group 2015 | Group 2014 |
|---|---|---|
| | US$ | US$ |
| Short term employment benefits | 3 244 483 | 3 320 593 |
| Post-employment pension and medical benefits | 358 019 | 450 542 |
| Share based payments | 24 494 | 24 494 |
| **Total compensation paid to key management personnel** | **3 626 996** | **3 795 629** |

### 32.4 Loans to directors and officers

| | | |
|---|---|---|
| Executive directors | - | - |

### 32.5 Directors and other key management's interest in the employee share option scheme:

In terms of the share option scheme 19,010,038 options were granted to executive directors and key management on 30 April 2014. Share options granted but not exercised by executive members of the Board of Directors to purchase ordinary shares of the Group were as follows:

| | 2015 Number of shares | 2014 Number of shares |
|---|---|---|
| Douglas Hoto | 2 325 195 | 1 188 599 |
| William Marere | 1 627 406 | 701 126 |

### 32.6 Material partly-owned subsidiary

Financial information of subsidiary that have material non-controlling interests are provided below

**Portion of equity interest held by non-controlling interest**

| Name | Country of incorporation and operation | | |
|---|---|---|---|
| Pearl Properties (2006) Limited | Zimbabwe | 43.48% | 43.48% |
| Accumulated balances of material non-controlling interest | | | |
| Pearl Properties (2006) Limited | | 53 411 033 | 53 919 384 |
| (Loss) / profit allocated to non-controlling interest: | | | |
| Pearl Properties (2006) Limited | | (209 285) | 1 532 662 |

# Notes to the Consolidated Financial Statements (continued)

## 32 RELATED PARTY DISCLOSURES (continued)

### 32.6 Material partly-owned subsidiary (continued)

The summarised financial information of the subsidiary is provided below. This information is based on amounts before intercompany eliminations

| | Group 2015 | Group 2014 |
|---|---|---|
| Revenue | 8 983 057 | 8 777 892 |
| Direct expenses | (2 105 884) | (2 317 996) |
| Administration expenses | (2 822 942) | (2 982 268) |
| **Operating profit** | **4 054 231** | **3 477 628** |
| Investment (loss) / income | (7 010 450) | 1 333 930 |
| **Profit before income tax** | **(2 956 219)** | **4 811 558** |
| Income tax expense / (credit) | 2 474 883 | (1 286 578) |
| **Profit for the year** | **(481 336)** | **3 524 980** |
| Other comprehensive income | - | 29 533 |
| **Total comprehensive income** | **(481 336)** | **3 554 513** |
| Attributable to non-controlling interest | (209 285) | 1 532 662 |
| Dividends paid to non-controlling interest | (296 105) | - |
| **Summarised statement of financial position as at 31 December** | | |
| Investment property | 135 027 000 | 140 797 000 |
| Property, plant and equipment and other non-current financial assets | 928 505 | 2 248 218 |
| Inventories, cash and bank, current financial assets and other receivables (current) | 7 103 076 | 6 316 093 |
| Non-current liabilities (deferred tax only) | (12 224 634) | (15 511 194) |
| Long term liabilities | (3 391 667) | (3 391 667) |
| Trade and other payable (current) | (1 052 587) | (2 945 581) |
| **Total equity** | **126 389 693** | **127 512 869** |
| **Summarised cash flow information for the year ending 31 December** | | |
| Operating | 2 624 206 | 7 188 861 |
| Investing | (149 996) | (11 179 344) |
| Financing | (1 927 181) | 4 637 861 |
| **Net increase in cash and cash equivalents** | **547 029** | **647 378** |

## 33 PROPOSED DIVIDEND ON ORDINARY SHARES

The final cash dividend for 2015 was US$nil (2014 : US$nil). Subsequent to year-end no dividend was declared for the year (2014 : US$nil).

## 34 SUBSEQUENT EVENTS

The Group disposed of its entire shareholding in African Actuarial Consultants (Private) Limited (“AAC”) to Frankmash Enterprises (Private) Limited. AAC will maintain the same brand name and will continue to provide comprehensive actuarial services to the First Mutual Group and other clients with no disruption to services expected during the transition period and beyond. There were no other subsequent events requiring adjustments to be effected on the financial statements or disclosure in the financial statements.

# Top 20 Shareholders as at 31 December 2015

| Rank | Account name | Shares | % |
|---|---|---|---|
| 1 | NATIONAL SOCIAL SECURITY AUTHORITY | 195 154 770 | 51.33% |
| 2 | CAPITAL BANK CORPORATION LIMITED | 76 343 373 | 20.08% |
| 3 | STANBIC NOMINEES (PRIVATE) LIMITED | 10 792 477 | 2.84% |
| 4 | ZISCO | 4 220 237 | 1.11% |
| 5 | ZIMBABWE ASSOCIATION OF CHURCH RELATED HOSPITALS (ZACH) PENSION SCHEME | 3 329 940 | 0.88% |
| 6 | RENAISSANCE SECURITIES NOMINEES (TWO) (PRIVATE) LIMITED | 3 092 406 | 0.81% |
| 7 | AFRE CORPORATION LIMITED SHARE PURCHASE TRUST | 2 843 763 | 0.75% |
| 8 | FIRST MUTUAL | 2 754 300 | 0.72% |
| 9 | COLOSSUS INVESTMENTS (PRIVATE) LIMITED | 2 338 948 | 0.62% |
| 10 | RUFARO | 2 172 199 | 0.57% |
| 11 | LHG MALTA HOLDINGS LIMITED | 2 084 934 | 0.55% |
| 12 | CONSTRUCTION INDUSTRY PENSION FUND | 1 517 746 | 0.40% |
| 13 | COLNEST ZIMBABWE PENSION PLAN | 1 281 135 | 0.34% |
| 14 | SCB NOMINEES | 1 189 099 | 0.31% |
| 15 | AUTUMN GOLD GROUP PENSION PLAN | 1 136 957 | 0.30% |
| 16 | ABC ASSET MGT NOM (PRIVATE) LIMITED-NONT | 931 685 | 0.25% |
| 17 | MTAMBO REGGIES | 877 381 | 0.23% |
| 18 | TFS NOMINEES (PRIVATE) LIMITED | 804 474 | 0.21% |
| 19 | STANBIC NOMINEES (PRIVATE) LIMITED. NNR | 740 272 | 0.19% |
| 20 | PRESERVATION FUND | 709 189 | 0.19% |
| | **TOTAL** | **314 315 285** | **82.68%** |
| | Other shareholders | 65 885 473 | 17.32% |
| | **Total number of shares** | **380 200 758** | **100.00%** |

# Notice to Shareholders

Notice is hereby given that the thirteenth Annual General Meeting of the shareholders of FIRST MUTUAL HOLDINGS LIMITED will be held at Royal Harare Golf Club, Harare, on Thursday, 9 June 2016 at 14.30 hours for the purpose of transacting the following business.

**ORDINARY BUSINESS**

1 To receive, consider and adopt the Audited Financial Statements and Reports of the Directors and Auditors for the financial year ended 31 December 2015.

2 To elect directors:

2.1 Mr O Mtasa, Mr S V Rushwaya and Mr E K Moyo retire as directors of the Company in terms of Article 106 of the Articles of Association and, being eligible, offer themselves for re-election.

2.2 Mr J Sekeso, Mr R Vela, Mrs M Mukondomi and Ms E Mkondo, who were appointed during the year, also retire and, being eligible offer themselves for re-election in terms of Article 113.

3 To fix the remuneration of the Directors.

4 To confirm the remuneration of the Auditors, PricewaterhouseCoopers Chartered Accountants, Zimbabwe, for the past year and to appoint Auditors to hold office until the conclusion of the next Annual General Meeting.

**SPECIAL BUSINESS**

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

5 Amendment of the Memorandum and Articles of Association

5.1 Dematerialisation of Securities

**AS A SPECIAL RESOLUTION**

THAT a new Article, Article 14A, be inserted as follows:

Notwithstanding any contrary provisions in the Companies Act [Chapter 24:03] and these Articles of Association, the Company shall be empowered to issue securities in dematerialised form, convert certificated securities to dematerialised securities and allow its securities to be traded in dematerialised form, provided that no certificated securities shall be converted to their dematerialised form without the consent of the holder thereof.

5.2 Electronic Communications

**AS A SPECIAL RESOLUTION**

THAT a new Article, Article 147A, be inserted as follows:

Notwithstanding any other provisions of these Articles of Association, any document and or notice required to be sent to members in terms of sections 147 to 150 or in terms of any other provisions of these Articles of Association or the Companies Act [Chapter 24:03] may, notwithstanding anything to the contrary, be sent by electronic means to the electronic address last furnished by such members and shall be posted on the Company's official website. Such documents and / or notices shall be forwarded to the members concerned within the prescribed timeframes, provided that should a member request a hard copy, such document shall be availed in hard copy format to the member.

5.3 Payment of Dividends

**AS A SPECIAL RESOLUTION**

THAT Article 139 be amended to read as follows:

Any dividend, interest or other monies payable in respect of the shares may be paid through any and all approved national payment systems and such payment may be notified to the recipient by communication to his electronic address or in the case of joint holders, to the electronic address of that one of the joint holders who is first named on the register of members or to such person or to such electronic address as the holder or joint holders may in writing direct. Any one of 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.

# Notice to Shareholders (continued)

6 Loans to Executive Directors

**AS AN ORDINARY RESOLUTION**
THAT the Company be and is hereby authorised to make any loan to any Executive Director or to enter into any guarantee or provide any security in connection with a loan to such Executive Director for the purpose of enabling him to properly perform his duty as an officer of the Company as may be determined by the Group Human Resources and Governance Committee, provided that the amount of the loan or the extent of the guarantee or security shall not exceed the annual remuneration of that Director. Any such loans, securities or guarantees made or provided during the six months preceding this Annual General Meeting are hereby ratified.

7 General Authority to Buy Back Shares

**AS AN ORDINARY RESOLUTION**
THAT the Company authorises in advance, in terms of section 79 of the Companies Act [Chapter 24:03] and the Zimbabwe Stock Exchange Listing Requirements the purchase by the Company of its own shares subject to the following terms and conditions:

a. The authority in terms of this resolution shall expire on the date of the Company's next Annual General Meeting; and
b. Acquisitions shall be of ordinary shares which, in the aggregate in any one financial year shall not exceed 10% of the Company's issued ordinary share capital; and
c. The maximum and minimum prices, respectively, at which such ordinary shares may be acquired will be the weighted average of the market price at which such ordinary shares are traded on the Zimbabwe Stock Exchange, as determined over the five business days immediately preceding the day of purchase of such ordinary share of the Company and shall not be less than the nominal value of the company's shares; and
d. All shares purchased pursuant to this resolution shall be utilised for treasury purposes.
e. If the maximum number of shares that can be purchased pursuant to the authority is purchased, the Directors believe that:
   i) The Company will be able, in the ordinary course of business, to pay its debts for a period of twelve months after the date of this notice;
   ii) The assets of the Company will be in excess of the liabilities of the Company and the Group;
   iii) There will be adequate ordinary capital and reserves in the Company for a period of 12 months after the date of this notice; and
   iv) There will be adequate working capital in the Company for a period of 12 months after the date of this notice.
f. A press announcement will be published as soon as the Company has acquired ordinary shares constituting, on a cumulative basis in the period between annual general meetings, 3% of the number of ordinary shares in issue prior to the acquisition.

8 Any Other Business
To transact any other business competent to be dealt with at a general meeting.

**Notes:**

i) In terms of the Companies Act (Chapter 24:03) a member entitled to attend and vote at a meeting is entitled to appoint a proxy to attend and vote on a poll and speak in his stead. A proxy need not be a member of the Company.
ii) Proxy forms must be lodged at the registered office of the Company not less than forty-eight hours before the time for holding the meeting.
iii) The registration of members attending the meeting will commence at 1400 hours on 9 June 2016, at the meeting venue.

**BY ORDER OF THE BOARD**

**S F Lorimer (Mrs.)**
**Group Company Secretary**
HARARE

**Registered Office**
First Mutual Park
100 Borrowdale Road, Borrowdale
P O Box BW 178, Borrowdale
HARARE

# PROXY FORM

I / We, ______________________________________________________________________________
(full names)

of ________________________________________________________________________________
(full address)

being the registered holder / s of ___________________________________________________ Ordinary shares in

**FIRST MUTUAL HOLDINGS LIMITED**, do hereby appoint:

___________________________________________________________________________________
(full names)

of ________________________________________________________________________________
(full address)

or failing him / her the Chairman of the meeting as my / our proxy to vote for me / us on my / our behalf at the **ANNUAL GENERAL MEETING** of the Company to be held on Tuesday, 9 June 2016 and at any adjournment thereof.

Signed this ________________________________ day of ___________________________________ 2016

___________________________________________________________________________________
**SIGNATURE OF SHAREHOLDER**

**NOTES:**

1. In terms of section 129 of the Companies Act (Chapter 24:03), a member of the Company is entitled to appoint one or more persons to act in the alternative as his proxy, to attend and vote and speak in his stead. A proxy need not be a shareholder of the Company.
2. Unless otherwise instructed, the proxy will vote as he / she thinks fit.
3. This proxy form must be deposited at the Registered Office of the Company which is situated at Second Floor, First Mutual Park, 100 Borrowdale Road, Borrowdale, Harare or posted to P O Box BW 178 Borrowdale, Harare, so as to be received by the Secretary not less than 48 hours before the meeting.
4. The proxy form must be signed and dated for it to be valid. Any alterations or corrections to this form must be initialled.
5. Anyone signing this proxy form in a representative capacity must be authorised to do so. Please stamp this form with your company or organisation's stamp and enclose proof of authorisation.
6. The return of this proxy form will not prevent you from attending the meeting and voting in person. However, should this happen, the proxy will be revoked.

FIRST MUTUAL

HOLDINGS LIMITED

Go Beyond

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