

Independent Auditors' Report

To the Members of Old Mutual Zimbabwe Limited

Opinion

We have audited the consolidated and separate financial statements of Old Mutual Zimbabwe Limited (the "group and company"), set out on pages 11 to 61, which comprise the statements of financial position as at 31 December 2016, and the group statement of profit or loss, the group statement of comprehensive income, the company statement of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Old Mutual Zimbabwe Limited as at 31 December 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act (Chapter 24:03) of Zimbabwe.

Basis for Opinion

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

Independent Auditors' Report (continued)

To the Members of Old Mutual Zimbabwe Limited

Key Audit Matters

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

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

Refer to the summary of significant accounting policies in Notes 2.13 and 2.14 and to Note 23 and the "credit risk" section of Note 40 to the financial statements.

<i>The key audit matter</i>	<i>How we addressed the matter in our audit</i>
<p>The carrying amount of loans and advances of the group was determined after an impairment amounting to US\$ 19 447 125 was recognised.</p> <p>The nature of deriving the carrying amount of loans and advances involves significant judgement in terms of establishing adequate specific and portfolio impairment provisions. This determination makes reference to the repayment capacity of the obligor, quality and condition of security offered as part of the loan arrangement, customer payment history and financial position of the customer. We have assessed impairment of loans and advances as a key audit matter in our audit of the consolidated financial statements because of subjective assumptions used, as well as the need to comply with IFRS and guidelines by the regulator, the Reserve Bank of Zimbabwe (RBZ).</p>	<p>In evaluating the adequacy of impairment provisions with respect to IAS 39 <i>Financial Instruments: Recognition and Measurement</i>, audit procedures included, among others:</p> <ul style="list-style-type: none">• obtaining evidence in respect of key controls over models and manual processes for impairment events identification and collateral valuation;• testing reasonableness of and support for future cash flows expected from customers;• testing reasonableness of the discount rates used in the calculation of present values of the future cash flows relating to customer forecasts or asset disposals in potential liquidation cases;• testing the valuation of security pledged by customers for loan balances by comparing security values to recent market transactions or recent valuations of similar properties in similar locations;• testing the adequacy of the provisions for potential loss in the good loan book by determining the probability of default through trend analysis around downgrading of loans and advances;• recalculating impairments raised and comparing with amounts recorded; and• inspecting financial statements to confirm that disclosures comply with IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. <p>In respect of regulatory provisions, audit procedures included:</p> <ul style="list-style-type: none">• selecting material loans and testing the accuracy of the classification into various credit grades as prescribed by the RBZ regulatory provisioning guidelines;• performing independent re-calculations of the impairment provisions for respective credit quality grades and comparing with management estimates; and• testing consistency of rates used to determine the regulatory impairment provision to the RBZ Supervisory Rating System.

Independent Auditors' Report (continued)

To the Members of Old Mutual Zimbabwe Limited

Valuation of investment properties (applicable to consolidated financial statements)

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

<i>The key audit matter</i>	<i>How we addressed the matter in our audit</i>
<p>The group holds investment properties, carried at fair value, which are valued at US\$ 392 554 780 in the consolidated financial statements.</p> <p>The valuation of the group's investment properties requires the exercise of judgement and the use of subjective assumptions, primarily in respect of market rentals and yield rates. The inputs used in the valuation are made in an environment where there is limited market activity due to illiquidity in the market. In addition, the rental market has experienced high levels of vacancies, which may impact on the valuation of the group's properties.</p> <p>Given the significant judgements that were made in the valuation of the group's investment properties, this was a matter of most significance to the consolidated financial statements.</p>	<p>Our procedures included, among others:</p> <ul style="list-style-type: none">• testing the independence, professional competence and objectivity of the internal professional valuers ("internal valuers") and the external independent valuers ("external valuers") engaged by directors to value the properties;• testing the appropriateness of the valuation methodologies and assumptions used by both the internal valuers and the external valuers. This included discussions on key findings with both valuers and comparing the assumptions used by the internal valuers with those used by the external valuers and understanding the rationale for the assumptions ultimately applied. Where necessary, we challenged the assumptions used with reference to our knowledge of the industry;• comparing key inputs used in the valuation, including current and estimated rental income and equivalent yields for consistency with the external valuers' inputs and our knowledge of the industry and the economy;• comparing the values determined by internal valuers to the values of external valuers for the portfolio of properties valued by the external valuers. Where there were variances between internal valuations and external valuations, we identified the reasons for the differences arising from yields and/or rental incomes applied and assessed the reasonability of the final valuations adopted; and• assessing whether the valuation policies and their application, as described in the notes to the financial statements, complied with IAS 40 <i>Investment Properties</i>.

Independent Auditors' Report (continued)

To the Members of Old Mutual Zimbabwe Limited

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

Refer to the summary of significant accounting policies in Note 2.3, and to Notes 21.1, 21.3, and 45.2 to the financial statements.

<i>The key audit matter</i>	<i>How we addressed the matter in our audit</i>
<p>Both the group and the company hold unlisted investments, which are carried at fair value through profit or loss and classified as level 3 financial instruments in the fair value hierarchy. These unlisted investments are included in "Investments and securities", valued at US\$ 32 197 797 and US\$ 8 894 707 in the consolidated and separate financial statements, respectively.</p> <p>The valuation of unlisted investments requires the exercise of judgement and the use of subjective assumptions made by management. The inputs to the valuations, on which judgement is exercised, include the price earnings ratio, estimating the future cash flows and the discount rates used to determine fair values.</p> <p>In addition, the classification of unlisted investments for accounting purposes involves judgement, particularly where the investment exceeds 20% of the investee's issued share capital, which may indicate that the investee should be accounted for as an associate.</p> <p>Given the significance of the judgements involved in the valuation and classification of unlisted investments, this was considered a key audit matter in our audit of the consolidated and separate financial statements.</p>	<p>Our procedures in respect of the valuation of unlisted investments included, among others, using our internal valuation specialists as part of our audit team to test the valuation inputs and assumptions, for significant unlisted investments, in respect of:</p> <ul style="list-style-type: none">(a) forecasted future cash flows,(b) discount rates or yields used to determine present values of the future cash flows,(c) recomputation of the future cash flows and comparing with management's calculations, and(d) challenging management as regards the rationale for inputs used with reference to past performance. <p>• Our procedures in respect of the classification of investments for accounting purposes included assessing if the group and company was able to exercise significant influence in respect of these investments by applying the criteria for recognition of an associate set out in IAS 28 <i>Investment in Associates</i>. The criteria included, amongst others, assessing whether or not there was representation on the board of the investees, participation in policymaking, material transactions or interchange of personnel with the investees.</p>

Independent Auditors' Report (continued)

To the Members of Old Mutual Zimbabwe Limited

Measurement of treasury bills (applicable to consolidated financial statements)

Refer to the summary of significant accounting policies in Note 2.3, and to Note 21.1 and 21.4 to the financial statements.

<i>The key audit matter</i>	<i>How we addressed the matter in our audit</i>
<p>The group holds significant investments in treasury bills (TBs) valued at US\$ 88 931 464 at year end.</p> <p>The initial recognition of TBs and the subsequent measurement thereof has been identified as an area that requires significant audit attention due to the fact that there are varying views in the market on whether TBs should be accounted for at amortised cost or fair value, as well as the absence of an active market to inform the fair value of these bonds.</p> <p>As judgement was required in selecting the appropriate accounting treatment, this matter was considered a key audit matter in the audit of the consolidated financial statements.</p>	<p>In assessing the valuation of TBs, our audit procedures included:</p> <ul style="list-style-type: none">• enquiries of management regarding the circumstances specific to the banking business which holds the TBs, and their intention in holding the TBs to assess whether it was appropriate to recognise the TBs at fair value;• inspecting the payment history for TBs that matured over in the current period; and• inspecting the financial statements for adequacy of disclosures based on the accounting treatment adopted.

Independent Auditors' Report (continued)

To the Members of Old Mutual Zimbabwe Limited

Insurance contract liabilities (applicable to consolidated financial statements)

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

<i>The key audit matter</i>	<i>How we addressed the matter in our audit</i>
<p>Insurance contracts are contracts under which the group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event adversely affects the policyholder. The group has recognised significant liabilities related to long-term insurance contracts valued at US\$ 897 652 811 at year end.</p> <p>We considered insurance contract liabilities to be a key audit matter in respect of the consolidated financial statements because judgement is required to be exercised over factors such as expense assumptions relating to valuation interest rates and inflation, including the policy for creating and releasing discretionary provisions and margins. Economic assumptions, including investment returns, discount rates, and operating assumptions, such as mortality and persistency, are key inputs used in estimating the valuation of these insurance contract liabilities.</p>	<p>Our procedures in respect of insurance contract liabilities included, among others:</p> <ul style="list-style-type: none">• testing the design, implementation and operating effectiveness of key controls over the identification, measurement and management of the group's calculation of insurance liabilities and evaluation of the consistency of methodologies applied and the appropriateness of the assumptions used by the group;• involving our internal actuarial specialists as part of our audit team to assist us in challenging the assumptions used and the process followed for setting and updating these assumptions, particularly around persistency, expense and mortality/morbidity assumptions. Our challenge to the assumptions was provided in the context of our own industry knowledge and external data. This included assessing the appropriateness of the data used in management's analysis that was prepared to set the assumptions; and• assessing whether the disclosures in the financial statements met the requirements of IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and IFRS 4 <i>Insurance Contracts</i>.

Independent Auditors' Report (continued)

To the Members of Old Mutual Zimbabwe Limited

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, but does not include the consolidated and separate financial statements and our auditor's report thereon. Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditors' Report (continued)

To the Members of Old Mutual Zimbabwe Limited

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

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

We also provided the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determined those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters.

We described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Michael de Beer
Registered Auditor

PAAB Practising Certificate Number 0369
For and on behalf of KPMG Chartered Accountants (Zimbabwe), Reporting Auditor
Mutual Gardens
100 The Chase (West)
Emerald Hill
Harare
Zimbabwe
14 March 2017