FIRST MUTUAL
HOLDINGS LIMITED

Go Beyond

LIFE | HEALTH |INSURANCE | REINSURANCE |SAVINGS | PROPERTY

We help you Go Beyond

For over 100 years, we have been the helping hand in achieving economic dignity for many Zimbabweans.

This year, choose First Mutual for your financial freedom.

Audited Abridged Financial Results

FOR THE YEAR ENDED 31 DECEMBER 2018

CHAIRMAN'S STATEMENT

ECONOMIC OVERVIEW

The Zimbabwe economy is estimated to have grown by 4% in 2018, driven by strong growth in mining, agriculture and construction of 13%, 12% and 8% respectively. While international commodity prices have remained under pressure, performance by the mining sector has been sustained by increased throughput. The downside to the Gross Domestic Product growth was the acute shortage of foreign currency evidenced by parallel currency market premiums and sharp rise in inflation in the last quarter of the year. The annual inflation rate rose to 42.1% year-on-year by December of 2018 compared to 3.5% at December 2017. The 2% Intermediate Money Transfer Tax was introduced in October 2018 to boost government revenues and reduce dependence on deficit monetisation. The equities market benefitted from the migration to real assets especially in the second half of the year as inflationary fears increased. The mainstream Zimbabwe Stock Exchange ("ZSE") Industrial Index closed the year up 46.3% (2017: 130%).

NICOZDIAMOND INSURANCE COMPANY LIMITED ACQUISITION

Subsequent to the acquisition of NicozDiamond Insurance Company Limited ("NDIL") in 2017 by First Mutual Holdings Limited ("FMHL"), FMHL made a mandatory tender offer to NDIL minority shareholders to acquire the remaining 19.08% shareholding in terms of the ZSE listing Requirements. NDIL minority shareholders all voted in favour of the proposal to buy them out on 28 June 2018 and the transaction was completed on 10 August 2018. NDIL was delisted from the ZSE on 20 August 2018. NDIL was consolidated into the Group from 1 December 2017 for one month and full year to the year ended 31 December 2018.

FUNCTIONAL CURRENCY

The Group has in previous financial periods used the United States of America Dollar ("US$") as its presentation currency and functional currency. The fiscal and monitary policy pronoucements made in October 2018, led to a reassesment of the functional currency and a justificaton to conclude that, under IAS 21 Effects of Foreign Exchange Rates, that there was a change in functional currency. However, this could not be effected because, at law, there was no local currency in Zimbabwe until 22 February 2019. The inconsistancy between the legal requirements and International Financial Reporting Standards ("IFRS") resulted in auditors expressing an adverse opinion on the financial statements, which is a market wide phenomenon.

FINANCIAL HIGHLIGHTS

The financial highlights for the year ended 31 December 2018 are shown below:

Operating Performance & Financial Position

	Audited 2018 $000	Audited 2017 $000	Proforma 2017 $000
Gross premium written	180 628	124 927	153 680
Net premium earned	153 848	115 123	132 068
Rental income	7 685	6 470	6 933
Operating profit	11 125	8 143	9 082
Investment income	34 276	32 924	35 487
Profit before income tax	24 815	14 800	18 386
Profit for the year	18 155	12 224	15 731
Total assets	385 468	329 946	329 946
Cash generated from operations	29 195	18 251	19 869
Share Performance	**2018**	**2017**	**2017**
Basic earnings per share (cents)	2.41	2.13	2.13
Market price per share (cents)	12	13	13
Sustainability Performance			
Environmental Highlights	**2018**	**2017**	**2017**
Electricity usage (MWh)	3 559	3 367	3 469
Water consumption: Municipal (m3)	25 268	26 274	18 611
Social Performance Highlights	**2018**	**2017**	**2017**
Total number of new employees	85	75	53
Average training hours per employee	80	121	117

The proforma 2017 has been included to capture full NDIL results for 2017. In 2017 NDIL was only consolidated for one month.

FINANCIAL PERFORMANCE

The business achieved growth in revenue but experienced pressure in operating costs in line with developments in the country, particularly the last quarter of the year.

Statement of comprehensive income

The consolidated gross premium written ("GPW") for the year, at $180.6 million, grew by 45% compared to 2017. The growth is a result of consolidating NDIL for the whole year compared to only one month in 2017, when it was acquired, as well as growth across all insurance segments.

Consolidated rental income for the year, at $7.7 million, went up 19%. The positive movement is attributed to turnover rentals on retail space and an increase in occupancy on high value lettable space.

Operating profit, a critical measure of the Group's performance, went up by 37% to $11.1 million. NDIL contributed $2.4 million to the Group's operating profit. Other Group companies contributed $8.7 million.

The Group attained an investment income of $34.3 million for the year against an investment income of $32.9 million in 2017. The profit for the year was $18.2 million (2017: $12.2 million) due to the increase in operating profit and investment income as well as the positive fair value on investment property.

Statement of financial position

The Group's total assets increased by 17% to $385.5 million as at 31 December 2018 compared to $329.9 million as at 31 December 2017. The growth was driven by increases in listed equity values of $48.9 million and investment property of $7.2 million while debt securities at amortised cost declined by $9.6 million. Cash and balances with banks increased by $7.8 million due to cash generated from operations .

SUSTAINABILITY

Sustainability has always been a core value of FMHL. Sustainability provides considerable integrated thinking on how to manage economic, environmental and social impact through shared values with stakeholders. During the year the Group embarked on a journey of integrating sustainability into the business as a long term value creation business model and comprehensive risk management strategy. The Group is set to produce its first report containing sustainability information using the Global Reporting Initiatives ("GRI") standards. The Group will continue to take constructive steps of aligning business values with sustainability while building shared values with stakeholders for long term business success

FIRST MUTUAL IN THE COMMUNITY

First Mutual Foundation, an arm of the Group's Corporate Social Responsibility, ("CSR") continues to enhance access to education for under priviledged children through school fees payment and ancillary assistance. The beneficiaries are in primary, secondary and tertiary levels. In addition, First Mutual assisted students from the Reformed Church University with financial support based on humanitarian need and academic merit. First Mutual also supported measures to mitigate the impact of the cholera outbreak epidemic in 2018 and the Cyclone Idai in 2019.

OUTLOOK

Zimbabwe is expected to record GDP growth of 3.1% in 2019 owing to subdued performance in agriculture on account of erratic rainfall patterns and inconsistent access to foreign currency. The implementation of the Transitional Stabilisation Programme launched in 2018 to operationalise Vision 2030 which targets Zimbabwe becoming a middle income country is expected to set the economy on a recovery path. The policy is premised on tackling macroeconomic problems, in particular the resolution of the foreign currency crisis as well as improving foreign direct investment and finding an acceptable plan to the foreign debt resolution. Furthermore, the Government's ability to live within its means will be key in keeping a lid on inflationary pressures and cost of doing business. First Mutual is adopting various strategies to exploit opportunities arising from these Government initiatives.

DIRECTORATE

We continuously endeavour to develop our governance and reflect an ethical and accountable leadership focused on value creation for all stakeholders.

Appointments

Mr A R T Manzai was appointed as non-executive director, effective 1 January 2018 and Mrs D Tomana was appointed effective 30 July 2018. On behalf of the Board, I welcome them and look forward to their positive contribution.

Resignations

Mr C Nziradzemhuka and Mr J Sekeso resigned as non-executive directors, effective 15 June 2018 and 7 February 2019 respectively. On behalf of the Board, I would like to thank them for the valuable contribution they made to the Group.

DIVIDEND

At a meeting held on 10 April 2019, the Board resolved that a final dividend of $2.1 million, being 0.29 RTGS cents per share be declared from the profits of the Group for the year ended 31 December 2018. The dividend will be payable on or about 24 May 2019 to all shareholders of the Company registered at close of business on 10 May 2019. The shares of the Company will be traded cum-dividend on the Zimbabwe Stock Exchange up to the market day of 7 May 2019 and ex-dividend as from 8 May 2019.

APPRECIATION

Lastly, I would like to thank our customers, regulators, shareholders and other stakeholders for their efforts and support to the Group. I would like to thank fellow Board members, management and staff for their unwavering commitment, wise counsel and vision in taking the Group forward.

Oliver Mtasa
Chairman
10 April 2019

GROUP CEO'S REVIEW OF OPERATIONS

The Group continued to deliver on its core pillars of risk management, wealth creation and wealth management during the year ended 31 December 2018. This is becoming increasingly important in a dynamic environment, characterised by shrinking disposable income and increasing customer discernment in pursuit of value for money. The Group is anchored on availing economic dignity to our stakeholders by delivering value through innovation, service excellence, strategic partnerships, relevant products and capacitating our distribution channels driven by robust Information & Communication Technology ("ICT") platforms. The acquisition of NDIL strengthened the Group's position in a market where flight to quality has become more prevalent. During the period under review, the Group achieved improved financial performance for the year of $18.2 million compared to a profit of $12.2 million in 2017.

Systems and Processes

The Group remains committed to improving customer service, ICT process efficiencies, greater customer convenience and cost containment. The Group continues to make substantial investments to achieve these objectives.

OPERATIONS REVIEW

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

HEALTH INSURANCE

First Mutual Health Company (Private) Limited ("FMHC")

GPW for the year, at $62.3 million, grew by 11% compared to 2017, driven by organic growth on corporate clients and acquisition of new business. Membership increased from 118 590 at 31 December 2017 to 135 999. The claims ratio went down from 79.14% in 2017 to 77.87%. The business launched a new product, Micromed, on 14 December 2018 targeting low income earners.

LIFE AND PENSIONS BUSINESS

First Mutual Life Assurance Company (Private) Limited

GPW for both Life Assurance and Pensions and Savings businesses increased by 23%. The two segments are further analysed below:

Pensions and Savings

Gross premium written, at $27.8 million, was 35% higher than 2017. The strong growth is a result of higher single premiums which normally arise through the setup of pension annuities and preservation funds when employees retire, resign or are retrenched. Group pensions, recurring business which grew by 10% relative to prior period, also contributed to the growth in policyholder business.

Life Assurance

Shareholder risk business GPW, which mainly comprises the traditional Funeral Cash Plan ("FCP"), mobile based e-FML and Group Life Assurance ("GLA"), at $15.7 million, grew by 7% relative to 2017. The growth was driven by a 27% increase in mobile based e-FML and Group Life Assurance. Claims were 4% higher than the prior period mainly due to GLA claims that grew by 17%

PROPERTY AND CASUALTY INSURANCE

First Mutual Reinsurance Company Limited

GPW at 1$9.3 million was in line with 2017. The claims ratio went down from 63% in 2017 to 57% due to lower agriculture losses than the experience in 2017. The business revised the underwriting policies on agriculture business after severe losses in 2017. Regional business contribution went down due to challenges in discharging obligations.

FMRE Property and Casualty (Proprietary) Limited - Botswana

GPW, at $10.4 million, was 48% ahead of prior year as the business continued on an upward trajectory both in Botswana and in the region. The local market contributed 54% of the total GPW compared to 56% in 2017. The percentage contribution of local business went down due to growth in regional business. In absolute terms, local business went up 38% due to new business acquired from major cedants.

NicozDiamond Insurance Company Limited ("NDIL")

GPW, at $40.6 million, grew by 29% relative to prior year mainly due to organic growth, change in sum insured to match the foreign currency parallel market premiums in October 2018 and the recently launched Post Insurance business. The business managed to retain its portfolio in 2018. The claims ratio remained rooted at 51% in 2018 versus 2017. The operations of TristarInsurance have been merged with those of NDIL with effect from 1 January 2019.

TristarInsurance

GPW, at $6.5 million, was 33% ahead of 2017. The growth from prior period was driven by greater broker support, high success rate for recurring business and increased market confidence and the effects of new business initiatives launched in 2018.

PROPERTY

First Mutual Properties Limited ("FMP")

Revenue for the year, at $8 million, was 9% ahead of prior year. The increase is mainly attributed to new lettings in high value space, turnover based rentals in retail properties and new rental income from recent acquisitions. The occupancy level improved to 76.10% during the period, up from 70.94% at 31 December 2017, reflecting significant leasing efforts during the period.

An independent valuation of properties by Knight Frank Zimbabwe for the property portfolio as at 31 December 2018 resulted in a gain of 6% from 31 December 2017.

WEALTH MANAGEMENT

First Mutual Wealth Management (Private) Limited

The business achieved lower investment fees of $1.4 million for the period compared to $1.7 million for the comparative year. This resulted in lower operating profit of $0.1 million compared to $0.4 million in 2017.

SUSTAINIBILITY

The Group took constructive steps of implementing sustainability reporting using GRI standards as a strategy for identifying, managing and being transparent on our impact on society, the economy and the environment. We believe sustainability reporting will allow us to build strong shared values for long term value creation for our stakeholders. During the year, the Group produced the first sustainability report prepared in accordance with GRI Standards as a demonstration of our commitment to our sustainability values. The integration of sustainability in our operations is expected to continue with setting measurable targets, improving systems and developing capacity across the group.

HUMAN CAPITAL DEVELOPMENT

We believe that investment in human capital is essential to achieve our business strategy. We therefore continue to invest in talent and human capital development through various programmes.

LOOKING AHEAD

We enter 2019 in a position to increase investment in client-driven innovation and create efficiencies through operating model integration. This is expected to result in accelerated growth and free cash flow generation. We are excited about this next step and what it means for our clients and other stakeholders.

Thank you for the continued trust you have placed in our Group. Your support is critical, and we will continue to work hard to exceed your expectations.

Douglas Hoto
Group Chief Executive Officer
10 April 2019

DIRECTORS: O Mtasa (Chairman), D Hoto (Group Chief Executive Officer), W M Marere (Group Finance Director), G Baines, A R T Manzai, E Mkondo, E Moyo, M Mukondomi, D Tomana, S V Rushwaya

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Audited Abridged Financial Results
FOR THE YEAR ENDED 31 DECEMBER 2018

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

ASSETS	Note	AUDITED Group 31-Dec-18 $000	AUDITED Group 31-Dec-17 $000	AUDITED Company 31-Dec-18 $000	AUDITED Company 31-Dec-17 $000
Property, plant and equipment	5	10,540	10,258	74	57
Investment property	6	145,170	136,433	-	-
Intangible assets		897	1,104	-	-
Investment in subsidiaries	7	-	-	77,144	61,473
Investment in associates		1,491	1,992	-	-
Financial assets:					
- Equity securities at fair value through profit or loss	8	104,710	55,267	4,983	2,290
- Debt securities held to maturity	9	-	39,391	-	-
- Debt securities at amortised cost	9.1	29,799	-	-	-
Deferred acquisition costs		2,934	2,681	-	-
Income tax asset		622	530	-	-
Inventory		804	497	40	38
Insurance receivables including loans and other receivables	10	-	28,765	-	849
Insurance, tenant and other receivables	10.1	27,417	-	1,332	-
Cash and balances with banks	11	61,084	53,028	3,845	4,898
TOTAL ASSETS		**385,468**	**329,946**	**87,418**	**69,605**
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Share capital		721	719	721	719
Share premium		38,582	39,972	38,582	39,972
Non-distributable reserves		6,674	6,471	362	354
Retained profits		44,191	26,735	47,070	27,791
Total equity attributable to equity holders of the parent					
Non-controlling interests					
Total equity					
Liabilities					
Life insurance contracts with and without DPF and investment contracts with DPF liabilities	12	141,335	110,696	-	-
Investment contract liabilities without DPF	13	28,010	20,461	-	-
Shareholder risk reserves	14	11,670	11,932	-	-
Borrowings		92	1,192	-	-
Insurance contract liabilities - short term	15	43,764	34,537	-	-
Insurance liabilities - life assurance		2,269	2,253	-	-
Other payables	16	9,446	12,223	683	769
Deferred income tax	17	16,436	12,366	-	-
Current income tax liabilities		54	612	-	-
Total liabilities		**253,076**	**206,272**	**683**	**769**
TOTAL EQUITY AND LIABILITIES		**385,468**	**329,946**	**87,418**	**69,605**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	AUDITED 31-Dec-18 $000	AUDITED 31-Dec-17 $000
INCOME			
Gross premium written	18	180,628	124,927
Reinsurance	18	(23,942)	(8,873)
Net premium written	**18**	**156,686**	**116,054**
Unearned premium reserve		(2,838)	(931)
Net premium earned		**153,848**	**115,123**
Rental income		7,685	6,470
Fair value adjustments - investment property		6,841	(294)
Investment income	19	34,276	32,924
Fee income:			
- Insurance contracts		1,641	1,426
- Investment contracts		3,698	3,083
Other income		1,266	1,011
Total income		**209,255**	**159,743**
EXPENDITURE			
Pension benefits	20	(11,053)	(10,029)
Insurance claims and loss adjustment expenses	20	(85,107)	(61,917)
Insurance claims and loss adjustment expenses recovered from reinsurers	20	7,444	827
Net insurance benefits and claims	**20**	**(88,716)**	**(71,119)**
Movement in insurance liabilities		(35,964)	(24,303)
Investment gain on investment contract liabilities		(7,065)	(11,934)
Acquisition of insurance and investment contracts expenses		(12,694)	(8,596)
Administration expenses	21	(39,305)	(28,287)
Impairment allowances		(690)	(390)
Finance cost on borrowings		(53)	(327)
Total expenditure		**(184,487)**	**(144,956)**
Profit before share of profit of associate		**24,768**	**14,787**
Share of profit of associate		47	13
Profit before income tax		**24,815**	**14,800**
Income tax expense		(6,660)	(2,576)
Profit for the year		**18,155**	**12,224**
Other comprehensive income/(loss)			
Other comprehensive (loss)/income to be reclassified to statement of comprehensive income in subsequent year			
Exchange (loss)/ gain on translating foreign operations		(126)	294
Share of other comprehensive profit of associate		152	-
Other comprehensive (loss)/income to be reclassified to statement of comprehensive income in subsequent year		**26**	**294**
Total comprehensive profit for the year		**18,181**	**12,518**
Profit attributable to:			
Non-controlling interest		1,119	632
Equity holders of the parent		17,036	11,592
Profit for the year			
Comprehensive income attributable to:			
Non-controlling interest			632
Equity holders of the parent			11,886
Total comprehensive income for the year			**12,518**
Basic profit per share (cents)		2.41	2.13

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital $000	Share premium $000	Non-distributable reserves $000	Retained profits $000	Total equity for parent $000	Non-controlling interest $000	Total equity $000
As at 1 January 2017	**380**	**7,958**	**2,074**	**13,812**	**24,224**	**51,651**	**75,875**
Profit for the year	-	-	-	11,592	11,592	632	12,224
Other comprehensive income	-	-	294	-	294	-	294
Total comprehensive income	**-**	**-**	**294**	**11 592**	**11,886**	**632**	**12,518**
Transactions with shareholders in their capacity as owners							
Issue of shares							
. Acquisition of NDIL	95	10,366	4,040	-	14,501	-	14,501
- acquisition of 50.82%	60	6,511	2,538	-	9,109	-	9,109
- acquisition of 30.09%	35	3,855	1,502	-	5,392	-	5,392
- mandatory tender offer	22	4,091	-	-	4,113	-	4,113
. Rights offer	211	17,040	-	-	17,251	-	17,251
. Share options	11	517	-	-	528	-	528
Disposal of treasury shares	-	-	-	196	196	-	196
Share based payments	-	-	63	-	63	-	63
Acquisition of non-controlling interest	-	-	-	1,609	1,609	(2,216)	(607)
Dividend declared and paid	-	-	-	-	-	(290)	(290)
Acquisition of treasury shares	-	-	-	(474)	(474)	-	(474)
As at 31 December 2017	**719**	**39,972**	**6,471**	**26,735**	**73,897**	**49,777**	**123,674**
As at 1 January 2018	**719**	**39,972**	**6,471**	**26,735**	**73,897**	**49,777**	**123,674**
Impact of adopting IFRS 9	-	-	-	(1,985)	(1,985)	-	(1,985)
Restated as at 1 January 2018	**719**	**39,972**	**6,471**	**24,750**	**71,912**	**49,777**	**121,689**
Profit for the year	-	-	-	17,036	17,036	1,119	18,155
Other comprehensive loss	-	-	(126)	152	26	-	26
Total comprehensive (loss)/income	**-**	**-**	**(126)**	**17 188**	**17,062**	**1,119**	**18,181**
Transactions with shareholders in their capacity as owners							
Issue of shares	24	2,701	-	-	2,725	-	2,725
- acquisition of additional NDIL shares	17	2,701	-	-	2,718	-	2,718
- share options	7	-	-	-	7	-	7
2017 mandatory tender offer	(22)	(4,091)	-	-	(4,113)	-	(4,113)
Share based payments	-	-	329	-	329	-	329
Acquisition of non controlling interest	-	-	-	3,309	3,309	(8,399)	(5,090)
Dividend declared and paid	-	-	-	(1,056)	(1,056)	(273)	(1,329)
As at 31 December 2018	**721**	**38,582**	**6,674**	**44,191**	**90,168**	**42,224**	**132,392**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018	AUDITED 31-Dec-18 $000	AUDITED 31-Dec-17 $000
Profit before income tax	**24,815**	**14,800**
Total non- cash and separately disclosed items	4,540	3,878
Operating cash flows before working capital changes	**29,355**	**18,678**
Working capital changes	(160)	(427)
Cash generated from operations	**29,195**	**18,251**
Finance costs on borrowings	(53)	(327)
Interest received	3,013	2,729
Tax paid	(3,239)	(939)
Net cash flows generated from operating activities	**29,916**	**19,714**
Net cash flow used in investing activities	**(18,457)**	**(16,386)**
Net cash flow (utilized)/generated from financing activities	**(2,403)**	**13,843**
Net increase in cash and cash equivalents	**8,056**	**17,171**
Cash and cash equivalents at the beginning of the year	53,028	35,857
Cash and cash equivalents at the end of the year	**61,084**	**53,028**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Corporate information

The main business of First Mutual Holdings Limited ("the Company") and its subsidiaries (together the "Group") is provision of life and funeral assurance, health insurance, short term insurance, reinsurance, property management and development and wealth management services. 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 owns 68.81% (2017: 68.81%) directly and an additional 11.41% (2017: 11.41%) indirectly through Capital Bank Limited (under liquidation). NSSA owns 84% (2017: 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 Group for the year ended 31 December 2018 were authorised for issue in accordance by a resolution of the Directors at a meeting held on 10 April 2019.

2. Functional and presentation currency

The Group had in previous financial periods used the United States of America Dollar ("US$") as its presentation currency and functional currency.

The macroeconomic developments and fiscal and monetary policy changes diclosed in note 23, lead to the reassessment of whether the US$ still met the primary and secondary indicators of the functional currency of the Group, in accordance with the provisions of IAS 21, with effect from 1 October 2018.

The Directors, based on their interpretation of IFRS had considered the Monetary Policy Statement ("MPS") of 20 February 2019, and the subsequent emergence of an interbank exchange rate to be an adjusting event in terms of IAS 10 "Events After the Reporting Period", however this could not be effected because at law there was no local currency in Zimbabwe until 22 February 2019. The RTGS was also legally not recognised as a currency prior to the currency changes announced on 22 February 2019 that are detailed in note 23.

The Directors of the Company, in compliance with Statutory Instrument 41 of 2019, which prescribed that where IFRS is not aligned to local laws, then local laws take precedence, therefore resolved not to effect the change in functional currency as at and for the year ended 31 December 2018.

3.1 Statement of compliance

These financial results should be read in conjunction with the complete set of financial statements for the year ended 31 December 2018, which have been audited by PricewaterhouseCoopers Chartered Accountants (Zimbabwe). The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("the 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) except for IAS 21, Effects of changes in foreign exchange rates.

Audited Abridged Financial Results

FOR THE YEAR ENDED 31 DE ER 201

The financial statements are based on statutory records that are maintained under the historical cost convention except for investment properties, equity securities at fair value through profit or loss and insurance and investment contract liabilities that have been measured on a fair value basis.

3.2 Audit opinion

An adverse opinion was issued in respect of functional currency as requirements of IAS 21 Effects of Foreign Exchange Rates were not met. The auditors report includes a section on key audit matters as defined by ISA 701, 'Communicating key audit matters in the independent auditor's report'. This includes both the rationale for determining the key audit matters and how they were addressed during the audit. Below are the key audit matters:

- valuation of investment property, and
- valuation of policyholder insurance contracts with and without DPF and investment contracts with DPF liabilities.

The directors have performed a sensitivity analysis of how different exchange rates would have impacted the consolidated and separate financial statements as at 31 December 2018 and disclosed this sensitivity analysis in note 23.

4 Accounting policies

The principal accounting policies adopted in the presentation of these financial statements are consistent with those of the previous financial year except for changes arising from adoption of IFRS9 and IFRS15. The Group applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018;

4.1 IFRS9 'Financial Instruments

IFRS9 replaces the IAS 39 'Financial Instruments: Recognition and measurement' that relate to the recognition, classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements.

4.1.1 Initial recognition of financial assets

Under IFRS9, on initial recognition, a financial asset is classified as measured at:

- Amortised cost;
- Fair value through other comprehensive income ("FVOCI") which may include debt or equity instruments; or
- Fair value through profit and loss ("FVTPL").

IFRS9 eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale

4.1.2 Initial recognition of financial liabilities

IFRS9 largely retains the requirements in IAS 39 for the classification and measurement of financial liabilities. On initial recognition financial liabilities are measured at fair value plus or minus, in the case of financial liabilities not classified at FVTPL, transaction costs that are incremental and directly attributable to the issue of the financial liability. Transaction costs of financial liabilities carried at FVTPL are expensed in profit or loss.

4.1.3 Subsequent measurement of financial assets

The following accounting policies apply to the subsequent measurement of financial assets;

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss
Debts investments at FVOCI	These assets are subsequently measured at fair value, interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

4.1.4 Subsequent measurement of financial liabilities

IFRS9 largely retains the requirements in IAS 39 for the measurement of financial liabilities with one exception. Fair value movements attributable to changes in the credit risk of a financial liability designated at FVTPL is recorded in other comprehensive income and not recycled to profit of loss. The balance of the fair value movement is recorded in profit or loss.

The Group changed its accounting policies and made retrospective adjustments following the adoption of IFRS9. This is disclosed in the statement of changes in equity and the IFRS9 disclosures under note 22.

4.2 IFRS15 Revenue from Contracts with Customers

4.2.1 Revenue recognition

In line with the IFRS15, revenue is recognised when the following conditions have been met;

- the contract has been approved by the parties to the contract;
- each party's rights in relation to the goods or services to be transferred can be identified;
- the payment terms for the goods or services to be transferred can be identified;
- the contract has commercial substance;
- and it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

Insurance contracts for all insurance subsidiaries and rental income from leasing properties for property owning subsidiaries are outside the scope of IFRS15. IFRS15 did not have material impact on the amounts recognised as revenue nor the timing of revenue recognition.

		AUDITED Group 31-Dec-18 $000	AUDITED Group 31-Dec-17 $000	AUDITED Company 31-Dec-18 $000	AUDITED Company 31-Dec-17 $000
5	**Property, vehicles and equipment**				
	As at 1 January				
	Acquisition of NDIL				
	Additions				
	Disposals				
	Depreciation charge				
	Aa at 31 December				
6	**Investment property**				
	As at 1 January				
	Acquisition of NDIL				
	Additions				
	Improvements to Existing properties				
	Transfer to associate				
	Fair value adjustments				
	As at 31 December				

Investment property with a total carrying amount of US$12.7 million (31 December 2017: U$12.7 million) was encumbered at 31 December 2018.

7	**Investment in subsidiaries**				
	First Mutual Microfinance				
	First Mutual Life Assurance Company (Private) Limited				
	First Mutual Funeral Services				
	First Mutual Health Company (Private) Limited				
	First Mutual Reinsurance Company (Private) Limited				
	FMRE Property & Casualty (Proprietary) Limited				
	First Mutual Wealth Management (Private) Limited				
	TristarInsurance Company Limited				
	NicozDiamond Insurance Limited				
	Total				

		AUDITED Group 31-Dec-18 $000	AUDITED Group 31-Dec-17 $000	AUDITED Company 31-Dec-18 $000	AUDITED Company 31-Dec-17 $000
8	**Equity securities at fair value through profit or loss**				
	As at 1 January	55,267	19,863	2,290	139
	Acquisition of NDIL	-	4,182	-	-
	Purchases	32,609	15,288	1,747	3,488
	Disposals	(1,237)	(9,178)	-	(476)
	Fair value gain on unquoted investments	21	10	-	-
	Fair value gain/ (loss) on quoted equities	18,050	25,102	946	(861)
	As at 31 December	**104,710**	**55,267**	**4,983**	**2,290**
9	**Debt securities held to maturity investments**				
	At 1 January	39,391	20,292	-	-
	Reclassification to debt securities at amortised cost	(39,391)			
	Acquisition of NDIL	-	1,711	-	
	Purchases	-	60,914	-	-
	Maturities	-	(43,526)	-	-
	As at 31 December	**-**	**39,391**	**-**	**-**
9.1	**Debt securities at amortised cost**				
	At 1 January	-	20,292	-	-
	Reclassification from debt securities held to maturity investments	39,391	-	-	
	Acquisition of NDIL	-	1,711	-	
	Purchases	64,404	60,914	-	-
	Maturities	(73,996)	(43,526)	-	-
	As at 31 December	**29,799**	**39,391**	**-**	**-**
10	**Insurance receivables including loans and other receivables**				
	Insurance receivables	-	17,661	-	-
	Tenant receivables	-	1,654	-	-
	Amounts due from Group companies	-	-	-	549
	Other receivables	-	9,450	-	300
	Total	**-**	**28,765**	**-**	**849**
10.1	**Insurance, tenant and other receivables**				
	Insurance receivables	22,382	-	-	-
	Tenant receivables	616	-	-	-
	Amounts due from Group companies	-	-	1,083	-
	Other receivables	4,419	-	249	-
	Total	**27,417**	**-**	**1,332**	**-**
11	**Cash and balances with banks**				
	Money market investments with original maturities less than 90 days	42,816	20,027	2,168	-
	Cash at bank and on hand	18,268	33,001	1,677	4,898
	Cash and cash equivalents	**61,084**	**53,028**	**3,845**	**4,898**
12	**Life insurance contracts and investment contracts with Discretionary Participating Features ("DPF") liabilities**				
	As at 1 January	110,696	88,773	-	-
	Movement	30,639	21,923	-	-
	As at 31 December	**141,335**	**110,696**	**-**	**-**
13	**Investment contract liabilities without DPF**				
	As at 1 January	20,461	8,532	-	-
	Movement	7,549	11,929	-	-
	As at 31 December	**28,010**	**20,461**	**-**	**-**
14	**Shareholder risk reserve**				
	As at 1 January	11,932	12,922	-	-
	Movement	(262)	(990)	-	-
	As at 31 December	**11,670**	**11,932**	**-**	**-**
15	**Insurance contract liabilities - short term**				
	Outstanding claims	7,995	8,579	-	-
	Reinsurance	8,556	4,998	-	-
	Losses incurred but not reported	6,209	6,367	-	-
	Members savings pot	5,526	5,264	-	-
	Premium received in advance	2,524	1,965	-	-
	Unearned premium reserve	12,930	7,349	-	-
	Commissions	24	15	-	-
	Total	**43,764**	**34,537**	**-**	**-**
16	**Other payables**				
	Other payables	1 098	819	-	-
	Provisions	2 180	3 109	51	230
	Payroll and statutory payables	1 412	3 777	89	2
	Accrued expenses	1 213	1 561	396	243
	Unpaid losses	203	358	-	-
	Trade payables	1 107	632	103	205
	Property business related liabilities	2 233	1 967	-	-
	Amounts due to group companies	-	-	44	89
	Total	**9,446**	**12,223**	**683**	**769**
17	**Deferred tax**				
	As at 1 January	12,366	10,788	-	-
	Recognised through statement of comprehensive income	4,070	1,578	-	-
	As at 31 December	**16,436**	**12,366**	**-**	**-**
18	**Net premium written**				
	Pension and savings business			27,838	20,619
	Life assurance			15,655	14,650
	Health insurance			62,895	56,867
	Property and casualty			74,240	32,791
	Gross premium written			**180,628**	**124,927**
	Less: reinsurance			(23,942)	(8,873)
	Net premium written			**156,686**	**116,054**
19	**Investment income**				
	Interest income from money market investments			3,014	2,729
	Dividend received			12,729	824
	Fair value gain from unquoted equities at fair value through profit or loss			21	10
	Fair value gain from quoted equities at fair value through profit or loss			18,512	29,361
	Total			**34,276**	**32,924**
20	**Net insurance claims and benefits**				
	Insurance claims and loss adjustment expenses				
	Health insurance			48,979	45,002
	Life assurance			4,232	4,831
	Property and casualty			31,896	12,084
	Total insurance claims			**85,107**	**61,917**
	Less: Insurance claims and benefits expenses recovered from reinsurers			(7,444)	(827)
	Net total insurance claims expense			**77,663**	**61,090**
	Pensions benefits			11,053	10,029
	Net insurance claims and benefits			**88,716**	**71,119**
21	**Profit before income tax is shown after charging:**				
	Staff costs			18,253	16,048
	Directors' fees			620	506
	Depreciation of property, vehicles and equipment			964	947
	Amortisation of software			211	156
	Audit fees			631	480

22 IFRS 9 DISCLOSURES

Below are IFRS9 disclosures futher to note 4.1.

Classification of financial assets and liabilities on the date of initial application of IFRS 9

	Original classification under IAS 39	New classification under IFRS9	Original carrying amount under IAS 39 US$m	New carrying amount under IFRS 9 US$m
Assets				
Equities	Fair value through profit or loss	Fair value through profit or loss	55,267	55,267
Cash and balances with banks	Loans and receivables	Amortised cost	53,028	53,028
Debt securities at amortised cost	Held to maturity investm ents	Amortised cost	39,391	39,391
Insurance and other receivables	Loans and receivables	Amortised cost	28,765	26,780
Total			**176,451**	**174,466**
Liabilities				
Life insurance contracts with and without DPF and investment contracts with DPF liabilities	Fair value through profit or loss	Fair value through profit or loss	110,696	110,696
Investment contract liabilities without DPF	Fair value through profit or loss	Fair value through profit or loss	20,461	20,461
Shareholder risk reserves	Fair value through profit or loss	Fair value through profit or loss	11,932	11,932
Borrowings	Amortised cost	Amortised cost	1,192	1,192
Insurance contract liabilities - short term	Amortised cost	Amortised cost	34,537	34,537
Insurance liabilities - life assurance	Amortised cost	Amortised cost	2,253	2,253
Other payables	Amortised cost	Amortised cost	12,223	12,223
Total			**193,294**	**193,294**

Transitional adjustments on financial assets and liabilities on the date of initial application of IFRS 9

	Original carrying amount un er IAS 39 as at 31 December 2017 US$m	Reclassification US$m	Remeasurement US$m	New carrying amount under IFRS 9 as at 1 January 2018 US$m
Financial assets at amortised cost				
Cash and balances with banks	53,028	-	-	53,028
Debt securities at amortised cost	39,391	-	-	39,391
Insurance other receivables	28,765		(1,985)	26,780
Total amortised cost	**121,184**	**-**	**(1,985)**	**119,199**
Financial liabilities at amortised cost				
Borrowings	1,192	-	-	1,192
Insurance contract liabilities - short term	34,537	-	-	34,537
Insurance liabilities - life assurance	2,253	-	-	2,253
Other payables	12,223	-	-	12,223
Total amortised cost	**50,205**	**-**	**-**	**50,205**

SEGMENTAL RESULTS AND ANALYSIS

FOR THE YEAR ENDED 31 DECEMBER 2018

As at 31 December 2018	Life $000	Property and Casualty $000	Health $000	Property $000	Other $000	Gross Figures $000	Consolidation Entries $000	Total Consolidated $000
Net premium earned	43 028	48 156	62 895	-	-	154 079	(231)	153 848
Rental income	-	-	-	8 597	-	8 597	(912)	7 685
Investment income and fair value adjustments on investment property	30 243	1 489	5 613	6 305	19 906	63 556	(22 439)	41 117
Other income and fee income	7 118	861	210	437	4 726	13 352	(6 747)	6 605
Total income	**80 389**	**50 506**	**68 718**	**15 339**	**24 632**	**239 584**	**(30 329)**	**209 255**
Total expenses	(72 297)	(51 709)	(57 973)	(5 828)	(4 158)	(191 965)	7 478	(184 487)
Total assets	209 188	76 492	38 757	148 722	88 425	561 584	(176 116)	385 468
Total liabilities	187 238	37 948	12 991	17 894	847	256 918	(3 842)	253 076
Cash flows from operating activities	32 819	4 025	6 369	2 613	(309)	45 517	(16 322)	29 195
Cash flows utilised on investing activities	(19 430)	(1 848)	(6 554)	(2 294)	1 548	(28 578)	10 121	(18 457)
Cash utilised in financing activities	-	(646)	-	(1 100)	(2 451)	(4 197)	1 794	(2 403)
Profit before income tax	8 092	2 840	10 745	8 876	20 473	51 026	(26 211)	24 815

As at 31 December 2017	Life $000	Property and Casualty $000	Health $000	Property $000	Other $000	Gross Figures $000	Consolidation Entries $000	Total Consolidated $000
Net premium earned	34,851	23,540	56,867	-	-	115,258	(135)	115,123
Rental income	-	-	-	7,417	-	7,417	(947)	6,470
Investment income and fair value adjustments on investment property	30,398	1,918	5,930	(563)	16,683	54,366	(21,736)	32,630
Other income and fee income	6,083	450	234	560	4,370	11,697	(6,177)	5,520
Total income	**71,332**	**25,908**	**63,031**	**7,414**	**21,053**	**188,738**	**(28,995)**	**159,743**
Total expenditure	(64,009)	(24,100)	(51,501)	(4,083)	1,370	(142,323)	(2,633)	(144,956)
Total assets	164,537	62,864	28,157	143,485	71,743	470,786	(142,825)	327,961
Total liabilities	147,906	31,343	12,052	15,741	947	207,989	(1,717)	206,272
Cash flows from operating activities	6,800	(930)	6,138	774	(1,651)	11,131	7,120	18,251
Cash flows generated on investing activitie s	(9,098)	6,041	(2,810)	627	(17,654)	(22,894)	6,508	(16,386)
Cash utilised in financing activities	5,097	470	-	(793)	24,044	28,818	(14,975)	13,843
Profit before income tax	7,322	100	11,529	3,150	15,842	37,943	(23,143)	14,800

23. Events after the balance sheet date.

On 20 February 2019, the Reserve Bank Zimbabwe (RBZ) Governor announced a new Monetary Policy Statement ("MPS") whose highlights included:

- RTGS balances, bond notes and coins collectively as RTGS dollars ("RTGS$"). RTGS dollars become part of the multi-currency system.
- RTGS$ to be used by all entities (including government) and individuals in Zimbabwe for purposes of pricing of goods and services, record debts, accounting and settlement of domestic transactions.
- The MPS also saw the establishment of an inter-bank foreign exchange market where the exchange rate will be determined by market forces. The interbank market opened trading at a rate of US$1 to RTGS$ 2.5 on 22 February 2019.

The monetary policy announcement was followed by the publication of Statutory Instrument 33, 'Presidential Powers (Temporary Measures) (Amendment of Reserve Bank of Zimbabwe Act and Issue of Real Time Gross Settlement Electronic Dollars (RTGS Dollars)) Regulations of 2019 ("SI33")' on 22 February of 2019. The Statutory Instrument gave effect to the Introduction of the RTGS$ as legal tender and prescribed that "for accounting and other purposes" certain assets and liabilities and the effective date would be deemed to be RTGS dollars at a rate of 1:1 to the US$ and would become opening RTGS$ values from the effective date. The Directors, based on their interpretation of IFRS had considered the MPS of 20 February 2019, and the subsequent emergence of an interbank exchange rate to be an adjusting event in terms of IAS 10 "Events After the Reporting Period" as it was considered as reflective of underlying conditions as at the reporting date of 31 December 2018. In particular the promulgation of RTGS$ as currency, in the opinion of the Directors, was legal confirmation of market practice which had come to regard RTGS balances and transactions as representing an underlying de-facto currency. However given the restrictions imposed by SI33, the post balance sheet events have not been adjusted for to take into account these pronouncements. This results in an inconsistency between financial statements and IFRS.

Sensitivity of financial statements to application of different exchange rates

As disclosed in note 2, the determination of functional and presentation currency became a matter of significant judgement in Zimbabwe. The Public Accountants and Auditors Board ("PAAB") came up with recommended disclosures to provide users of financial statements with more information assuming the application of different exchange rates to the statement of financial position and statement of comprehensive income for US$ business written during the period 1 October 2018 to 31 December 2018.

Shown below is a sensitivity analysis on the statements of financial position and comprehensive income based on variances on exchange rates.

Sensitivity analysis for events after the reporting date

STATEMENT OF FINANCIAL POSITION

ASSETS	Component of reported amounts: Nostro FCA US$ USD$000	Component of reported amounts: RTGS$ RTGS$000	Total USD$ @ 1:1 USD$000	Sensitivity analysis: Total RTGS$ @ 1:2.5 RTGS$000	Sensitivity analysis: Total RTGS$ @ 1:3.1277 RTGS$000
Monetary					
Financial assets:					
- equity securities at fair value through profit or loss	10,379	94,331	104,710	120,279	126,794
- debt securities held at amortised cost	-	29,799	29,799	29,799	29,799
Deferred acquisition costs	508	2,426	2,934	3,696	4,015
Income tax asset	-	622	622	622	622
Insurance receivables including loans and other receivables	4,259	23,157	27,417	33,806	36,479
Cash and balances with banks	3,701	57,383	61,084	66,635	68,957
Total Monetary	**18,847**	**207,717**	**226,566**	**254,837**	**266,666**
Non Monetary					
Property, plant and equipment	82	10,458	10,540	10,664	10,715
Investment property	-	145,170	145,170	145,170	145,170
Intangible assets	4	894	897	903	906
Investment in subsidiaries	-	-	-	-	-
Investment in associate	-	1,491	1,491	1,491	1,491
Inventory	-	804	804	804	804
Total Non-Monetary	**86**	**158,817**	**158,902**	**159,032**	**159,086**
TOTAL ASSETS	**18,933**	**366,534**	**385,468**	**413,869**	**425,752**
LIABILITIES					
Monetary			-	-	-
Borrowings	-	92	92	92	92
Insurance contract liabilities - short term	5,616	38,148	43,764	52,187	55,712
Insurance liabilities - life assurance	-	2,269	2,269	2,269	2,269
Other payables	3,770	5,676	9,446	15,101	17,467
Current income tax liabilities	-	55	55	55	55
Total Monetary	**9,386**	**46,240**	**55,626**	**69,704**	**75,595**
Non Monetary					
Life insurance contracts liabilities with DPF	-	13,155	13,155	13,155	13,155
Life insurance contracts liabilities without DPF	5,011	10,604	15,615	23,132	26,277
Investment contract liabilities:					
- with DPF	-	112,564	112,564	112,564	112,564
- without DPF	-	28,010	28,010	28,010	28,010
Shareholder risk reserve	-	11,670	11,670	11,670	11,670
Deferred income tax	92	16,344	16,436	16,574	16,632
Total Non-Monetary	**5,103**	**192,347**	**197,450**	**205,105**	**208,308**
TOTAL LIABILITIES	**14,489**	**238,587**	**253,076**	**274,809**	**283,903**
TOTAL EQUITY	**4,444**	**127,948**	**132,392**	**139,060**	**141,849**

STATEMENT OF COMPREHENSIVE INCOME

INCOME	Nostro FCA US$ (1 Oct-31 Dec) USD$000	RTGS$ (1 Jan-31 Dec) RTGS$000	Total USD$ @ 1:1 USD$000	Total RTGS$ @ 1:2.5 RTGS$000	Total RTGS$ @ 1:3.1277 RTGS$000
Gross premium written	4 522	176 106	180 628	187 412	190 250
Reinsurance	(1 774)	(22 168)	(23 942)	(26 604)	(27 718)
Net premium written	**2 748**	**153 938**	**156 686**	**160 808**	**162 534**
Unearned premium reserve	(320)	(2 518)	(2 838)	(3 317)	(3 518)
Net premium earned	**2 428**	**151 420**	**153 848**	**157 491**	**159 014**
Rental income	-	7 685	7 685	7 685	7 685
Fair value gain/ (loss) - investment property	-	6 841	6 841	6 841	6 841
Investment income	(80)	34 356	34 276	34 155	34 105
Fee income:	-	-	-	-	-
- insurance contracts	85	1 556	1 641	1 769	1 822
- investment contracts	-	3 698	3 698	3 698	3 698
Other income	74	1 192	1 266	1 377	1 424
Total income	**2 507**	**206 749**	**209 255**	**213 016**	**214 589**
EXPENDITURE					
Insurance benefits	(565)	(10 488)	(11 053)	(11 900)	(12 255)
Insurance claims and loss adjustment expenses	(937)	(84 170)	(85 107)	(86 512)	(87 100)
Insurance claims and loss adjustment expenses recovered from reinsurers	-	7 444	7 444	7 444	7 444
Net insurance benefits and claims	**(1 502)**	**(87 214)**	**(88 716)**	**(90 968)**	**(91 911)**
Movement in insurance liabilities	-	(36 226)	(36 226)	(36 226)	(36 226)
Movement in shareholder risk reserve	-	262	262	262	262
Investment profit on investment contract liabilities	-	(7 065)	(7 065)	(7 065)	(7 065)
Acquisition of insurance and investment contracts expenses	(121)	(12 573)	(12 694)	(12 875)	(12 951)
Administration expenses	(352)	(38 954)	(39 306)	(39 834)	(40 055)
Impairment allowances	(141)	(549)	(690)	(901)	(989)
Finance cost on borrowings	-	(53)	(53)	(53)	(53)
Total expenditure	**(2 115)**	**(182 372)**	**(184 487)**	**(187 660)**	**(188 988)**
Profit before share of profit of associate	**392**	**24 377**	**24 768**	**25 356**	**25 601**
Share of profit of associate	-	47	47	47	47
Profit before income tax	**392**	**24 423**	**24 815**	**25 403**	**25 648**
Income tax expense	(28)	(6 632)	(6 660)	(6 702)	(6 719)
Profit for the year	**364**	**17 791**	**18 155**	**18 701**	**18 929**

The deferred tax impact of applying diffenent exchange rate has not been taken into account in both the Satetment of Comprehensive Income and the Statement of Financial Position.

For the purposes of sensitivity, two different exchange rates were used as following rates were used;

- 1:2.5 US$ to RTGS$ being the official interbank exchange rate on 22 February 2019 when SI33 was issued;
- 1:3.1277 US$ to RTGS$ being the official interbank exchange rate on 10 April 2019 when the financial statements were approved by the Board

24 Going Concern

The Directors have assessed the ability of the Group to continue operating as a going concern, including the impact of SI33, and believe that the preparation of these financial statements on a going concern basis is still appropriate.

To the Shareholders of First Mutual Holdings Limited

Our adverse opinion

In our opinion, because of significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the consolidated and separate financial statements do not present fairly, in all material respects, the consolidated and separate financial position of First Mutual Holdings Limited (the Company) and its subsidiaries (together the Group) as at 31 December 2018, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Zimbabwe Companies Act (Chapter 24:03).

What we have audited

First Mutual Holdings Limited's financial statements, set out on pages xx to xx, comprise:

- the consolidated statement of financial position as at 31 December 2018, and the statement of financial position of the Company standing alone as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for adverse opinion

The Reserve Bank of Zimbabwe issued a monetary policy statement on 1 October 2018, which directed a separation of FCA Accounts into two categories, Nostro FCA and RTGS FCA and these would be denominated at parity i.e. an exchange rate of 1:1. As described in Note 2.2, during the year ended 31 December 2018, the Group and Company transacted using a combination of the Nostro FCA (US$) and RTGS FCA (electronic payment) as well as mobile money, bond notes and bond coins) and therefore the statements of operations, comprehensive income and cash flows have a mix of these transactions denominated at parity; i.e. at an exchange rate of 1:1. As at 31 December 2018, the statements of financial position for the Group and Company has a mix of balances denominated owing and receivable in US$ and RTGS FCA, mobile money, bond notes and bond coins also at parity. This has resulted in transactions and balances bearing similarities to what one would expect with transactions that are undertaken in different currencies to which IAS 21 *The Effects of Changes in Foreign Exchange Rates* (IAS 21) would apply. Had the financial statements been prepared in accordance with the requirements of IAS 21, we believe that it would have had a material and pervasive effect on the s consolidated and separate financial statements.

The directors have performed a sensitivity analysis of how different exchange rates would have impacted the consolidated and separate financial statements as at 31 December 2018 and disclosed this sensitivity analysis in note xx to the financial statements.

In February 2019, an electronic currency called the RTGS Dollar was introduced through Statutory Instrument 33 of 2019 (S.I 33) with an effective date of 22 February 2019 and the currency commenced trading at a rate of RTGS dollar 2.5 to the US$ 1. In addition S.I. 33 fixed the exchange rate between the RTGS dollar and the US$ at a rate of 1:1 for periods before the effective date. The rate of 1:1 is consistent with the rate mandated by the Reserve Bank of Zimbabwe (RBZ) at the time it issued the bond notes as currency and the time that the bank account balances were split between RTGS FCA bank balances and Nostro FCA bank balances in October, through 22 February 2019. .

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 Consolidated and Separate the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.In addition to the matter described in the Basis for Adverse Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Independence
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview

Overall group materiality

US$1 824 710, which represents 1% of consolidated revenue.

Group audit scope

We performed statutory audits of the Company and its ten subsidiaries, the most significant of which are:

- First Mutual Life Assurance Company (Private) Limited;
- NicozDiamond Insurance Limited;
- First Mutual Health (Private) Limited; and
- First Mutual Properties Limited.

The Group operates mainly in Zimbabwe and has operations in Botswana through its subsidiary, FMRE Property and Casualty (Proprietary) Limited.

Key audit matters

Applicable to the consolidated financial statements,

- Valuation of investment property; and
- Valuation of policyholder insurance and investment contract liabilities

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	US$1 824 710
How we determined it	1% of consolidated revenue.
Rationale for the materiality benchmark applied	We chose revenue as the benchmark because, in our view, it is a benchmark against which the performance of the Group can be consistently measured in circumstances of volatile year-on year earnings. This benchmark has remained a stable and key driver of the Group's business. We chose 1% based on our professional judgement and after consideration of the range of quantitative materiality thresholds that we would typically apply when using revenue to compute materiality.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Due to statutory audit requirements, the Company and all ten of its subsidiaries were subject to full-scope audits. These subsidiaries are incorporated in Zimbabwe, except for FMRE Property and Casualty (Proprietary) Limited, which is incorporated in Botswana. The most significant of the subsidiaries are First Mutual Life Assurance Company (Private) Limited, First Mutual Health (Private) Limited, NicozDiamond Insurance Limited and First Mutual Properties Limited. All subsidiaries were audited by PwC teams.

In establishing the overall approach to the group audit, we determined the extent of the work that needed to be performed by us, as the group engagement team, and component auditors from other PwC network firms, operating under our instruction, in order to issue our audit opinion on the consolidated financial statements of the Group. Where the work was performed by component auditors, we determined the level of involvement necessary in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the group financial statements as a whole.

Key audit matters

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

We have determined that there are no key audit matters relating to the separate financial statements to communicate in our report.

Key audit matter	How our audit addressed the key audit matter
Applicable to the consolidated financial statements	
Valuation of investment properties	
The valuation of investment property was considered a matter of most significance to our audit due to the magnitude of the investment property balance and the significant judgement applied by management to determine the fair values of the investment properties at reporting date.	Our audit addressed the valuation of investment property as follows: We evaluated controls over the valuation of the investment property, including the management committee's recommendation for approval by the audit committee of the independent property valuer ("management's expert"), and the assessment and

All the investment properties have been categorised as level 3 in the IFRS 13 - *Fair value measurement* hierarchy. This implies that the fair value is determined with reference to unobservable inputs. These unobservable inputs include rental per square metre, capital rate/prime yield and vacancy rates.

For investment properties classified as land and residential properties, the group applies the income capitalisation valuation technique to determine the fair value. For all other classes of investment property, the group applies market comparable valuation techniques to determine their fair values.

The group engages an independent property valuer to determine the fair values of all classes of investment property at reporting date.

The relevant disclosures are provided in Notes xx and Note x to the financial statements.

approval of the valuation results.

We evaluated the competence, capabilities, independence and objectivity of management's expert and obtained an understanding of their work. We inspected the company profile of management's expert and the *curricula vitae* of the individuals involved in performing the valuation in order to assess their experience and competence.

We obtained the valuation report directly from management's expert and performed the following procedures to assess the appropriateness of the valuation techniques adopted by management's expert in determining the fair values of the investment properties:

- we met with management's expert to obtain an understanding of the assumptions used in applying the respective valuation techniques, and
- we assessed whether the valuation techniques are considered to be generally accepted valuation methodologies for valuing investment properties.
  No inconsistencies were identified.

We assessed the reasonableness of the assumptions applied by management's expert in determining the unobservable inputs used in both valuation methods with reference to prevailing market rentals, market yields and for land, the prevailing market price per square metre. Our audit procedures also included comparing these assumptions to those used by other external property valuers for similar property types. No material differences were noted.

On a sample basis, we agreed the key assumptions applied by management's expert to supporting evidence, as follows:

- agreeing rentals noted on the tenancy schedule to the underlying lease agreements;
- agreeing occupancy levels to the tenancy schedule; and
- for land, price per square metre was agreed to prevailing market prices.

On a sample basis, we also performed an independent calculation of potential annual rental income using average rentals per square metre and lettable space, and prime yield using an interpolation formula. We recomputed the market value by capitalising the potential annual income by the yield. No material differences were noted.

Valuation of policyholder insurance and investment contract liabilities We considered the valuation of policyholder insurance and investment contract liabilities as an area of most significance in our audit due to the magnitude of these liabilities and the determination involves complex calculations, significant judgements, estimates and assumptions. Valuation assumptions include mortality, lapses, and economic and expense assumptions. Most of the assumptions by management have remained unchanged in 2018 and are based on the experience investigation conducted in 2017. Disclosure is provided in the consolidated financial statements with respect to the policyholder insurance and investment contract liabilities valuation methodology. Refer to the accounting policy note xxx for insurance contract liabilities, note xxx on critical accounting estimates and judgements and note xxx to the financial statements.	Through discussions with management we obtained an understanding of the process over data extraction and approval of the assumptions used in the valuation. We assessed the independence, experience and competence of the statutory actuary, through inquiry with the actuary and management and inspecting their *curricula vitae* in order to assess their experience and competence. We inspected the actuary's curriculum vitae to assess his experience and competence. We understood and evaluated controls over the valuation model changes of the policyholder insurance and investment contract liabilities including the selection of the valuer ("management expect"), and the assessment and approval of the valuation results. On a sample basis, we tested the underlying data used in the valuation of the reserves for accuracy and completeness through tracing data to the audited balances. We made use of our actuarial expertise to evaluate the significant assumptions and estimates, the actuarial computations and the actuarial valuation report for adequacy and reasonableness. We also performed the following: -an assessment of the proposed valuation basis through discussion with the statutory actuary, and an assessment of the appropriateness thereof given the nature of the business as well as actuarial good practice; -an assessment of the proposed valuation methodology for compliance with Standard of Actuarial Practice 104; and, -an assessment of the valuation results by performing spot checks and model cashflow checks and considering the high level reasonability of the output to determine whether the application of the selected methodology and assumptions was accurate. We also inspected the actuarial report for 2018 prepared by the statutory actuary and compared it with the prior year signed actuarial report in order to identify any significant changes in assumptions and methodology.

	We did not note significant changes in assumptions relating to lapse, mortality, expense, investment returns and changes to other assumptions as the assumptions were consistent with the prior year valuation.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report 2018 but does not include the consolidated and separate financial statements on pages xx to xxx 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 identified above 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. As described in the *Basis for Adverse Opinion* section above, the group and company have not applied IAS 21 in preparing the consolidated and separate financial statements. We have concluded that the other information is materially misstated for the same reason, with respect to the amounts or other items as described in the Basis of adverse opinion section above.

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 for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or 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 judgment and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and 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 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- 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 audit. We remain solely responsible for our audit opinion.

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

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

Pricewaterhouse Coopers

Clive K Mukondiwa
Registered Public Auditor
Partner for and on behalf of
PricewaterhouseCoopers Chartered Accountants (Zimbabwe)
Public Accountants and Auditors Board, Public Auditor Registration Number 0439
Institute of Chartered Accountants of Zimbabwe, Public Practice Certificate Number 253168

Date
Harare, Zimbabwe