



## Independent auditor's report

To the shareholders of Zimre Holdings Limited

### Our adverse opinion

In our opinion, because of the 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 the consolidated and separate financial position of Zimre Holdings Limited (the "Company") and its subsidiaries (together the "Group") as at 31 December 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Zimbabwe Companies Act (Chapter 24:03).

### What we have audited

Zimre Holdings Limited's consolidated and separate financial statements, set out on pages 16 to 92, comprise:

- the group and company statements of financial position as at 31 December 2019;
- the group and company statements of comprehensive income for the year then ended;
- the group and company statements of changes in equity for the year then ended;
- the group and company statements 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

On 1 October 2018, the Reserve Bank of Zimbabwe issued a Monetary Policy Statement ("MPS") that directed a separation of Foreign Currency Bank Accounts ("FCAs") into two categories, Nostro FCAs and the Real Time Gross Settlement ("RTGS") FCA. The Nostro FCAs were to hold individual foreign currencies permissible in Zimbabwe's multi-currency economy at the time. The RTGS FCA, mobile money, bond notes and coins would be held at the same value as the US\$. As described in note 2.1 of the consolidated financial statements, during the prior financial year, and for the period 1 January 2019 to 22 February 2019, the Group and Company transacted using a combination of the Nostro FCAs and RTGS FCA, mobile money, bond notes and coins. In terms of International Accounting Standard 21, 'The effects of changes in foreign exchange rates' ("IAS 21"), these payment methods would have been considered as separate currencies to be translated for financial reporting purposes to the functional and presentation currency of the Group and Company at appropriate exchange rates. However, in order to comply with the legislation as described in note 2.1 to the financial statements, the RTGS transactions and balances in the financial statements for the prior financial year, and the transactions in the current year financial statements from 1 January 2019 to 22 February 2019, are reflected at parity with the US\$. The Group and Company, as described in note 2.1, changed their functional currency on 22 February 2019 to comply with legislation, which is not in compliance with IAS 21, which would have required a functional currency change on 1 October 2018.

In addition, foreign denominated transactions and balances of the financial information for Credit Insurance Zimbabwe Limited, Zimre Property Investments Limited and Emeritus Reinsurance (Private) Limited (the 'Zimbabwean subsidiaries') were translated using the interbank exchange rate which is not considered an appropriate spot rate for translation as required by IAS 21.

Had the consolidated and separate financial statements been prepared in accordance with the requirements of IAS 21, many elements in the accompanying consolidated and separate financial statements would have been materially restated. It was not practicable to quantify the financial effects on the consolidated and separate financial statements.

As described in note 2.1 to the financial statements, the Public Accountants and Auditors Board issued a pronouncement that required companies to apply the requirements of IAS 29, 'Financial reporting in hyperinflationary economies' in the preparation and presentation of its financial statements for financial periods ending on or after 1 July 2019. The misstatements described in the paragraph above affect the historical amounts which enter into the calculation of the inflation adjusted amounts. Had the underlying historical consolidated and separate financial statements been prepared in accordance with the requirements of IAS 21, and then inflation adjusted in accordance with IAS 29, many elements in the accompanying consolidated and separate financial statements would have been materially restated. It was not practicable to quantify the financial effects on the consolidated and separate financial statements

Furthermore, as disclosed in note 2.6, note 3.6 and note 10, the Group performed a valuation of investment property as at 31 December 2019. Valuations rely on observable and sufficiently frequent historical transactional market evidence. Monetary policy changes, specifically Statutory Instrument 142 of 2019, which introduced the Zimbabwe

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dollar (“ZWL”) as the sole legal tender effective 24 June 2019, resulted in a limited period for observable transactional evidence. Unobservable inputs include capitalisation rates and vacancy rates. In addition, the valuation was undertaken in an unstable economic environment which is characterised by rising inflation, liquidity problems, hard currency shortages and frequent monetary policy changes, and presented the limitations explained below.

Market evidence for capitalisation rates in ZWL did not exist at 31 December 2019 for purposes of the valuation of commercial and industrial properties using the income capitalisation method. For residential properties and land, in order to determine the ZWL values of the investment property at 31 December 2019, US\$ inputs were used and then translated into ZWL using the closing interbank exchange rate. The application of a conversion rate to US\$ valuation inputs to calculate ZWL property values is not an accurate reflection of market dynamics, as the risks associated with currency trading do not reflect the risks associated with property trading.

There were no further audit procedures that we could have performed to obtain sufficient and appropriate audit evidence regarding the valuation of the investment properties. As a result, we were unable to determine whether any adjustments would be required in respect of the recorded fair value of investment properties.

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 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.

**Independence**

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) issued by the International Ethics Standards Board for Accountants and other independence requirements applicable to performing audits of financial statements in Zimbabwe. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and other ethical requirements applicable to performing audits of financial statements in Zimbabwe.

**Our audit approach**

**Overview**

	<p><b>Overall group materiality</b></p> <p>ZWL 4 965 081 which represents 1% of consolidated gross written premium. The inflation adjusted amounts were used in determining materiality.</p>
	<p><b>Group audit scope</b></p> <p>We performed a group scoping assessment and determined that three of the Group’s nine components were financially significant and therefore required full scope audits. None of the components were determined to be significant based on significant risks identified at the Group. In order to comply with the Group’s statutory reporting requirements, full scope audits were performed on all nine components.</p>
	<p><b>Key audit matters</b></p> <p>Applicable to the consolidated financial statements</p> <ul style="list-style-type: none"> <li>• Adequacy of allowance for credit losses on trade and other receivables.</li> <li>• Valuation of insurance contract liabilities.</li> </ul>

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 group materiality for the consolidated 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.

<b>Overall materiality</b>	ZWL 4 965 081
<b>How we determined it</b>	1% of consolidated gross written premium. The inflation adjusted amounts were used.
<b>Rationale for the materiality benchmark applied</b>	A benchmark of consolidated gross written premium was selected. In our view, it is a benchmark against which the performance of the Group can be consistently measured in circumstances where the earnings are volatile year on year. This benchmark has remained a stable and key driver of the Group's business. We chose 1% based on our professional judgment and after consideration of the range of quantitative materiality thresholds that we typically apply when using total revenue (represented by consolidated gross written premium) 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 industries in which the Group operates.

The Group has nine reporting components, operating in Zambia, Zimbabwe, Malawi, Mozambique and Botswana. We performed a group scoping assessment and determined that three of the Group's nine components were financially significant and required full scope audits, whilst none of the components were determined to be significant based on significant risks identified at the Group. Due to statutory audit requirements, the Company and all nine of its subsidiaries were subjected to full scope audits.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, or component auditors from other firms operating under our instructions. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those operations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis of our opinion on the consolidated financial statements as a whole. The group engagement team inspected certain component auditors' working papers.

**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 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. In addition to the matters described in the *Basis for adverse opinion* section, we determined the matters described below to be key audit matters to be communicated in our report.

Except for the matters described in the *Basis for adverse opinion* section, we have determined that there are no other key audit matters to communicate in our report in respect of the separate financial statements.

Key audit matter	How our audit addressed the key audit matter
<p><b>Adequacy of allowance for credit losses on trade and other receivables</b></p> <p>The Group adopted International Financial Reporting Standard (“IFRS”) 9: Financial instruments (IFRS 9) for the first time in the 2018 reporting period. The insurance receivable balances are also subject to the IFRS 9 impairment requirements based on the voluntary change in accounting policy that was adopted by the entity in 2018.</p> <p>IFRS 9 requires the recognition of expected credit losses (“ECL”) on all financial assets within the scope of its impairment model. Management assessed the ECL on trade and other receivables using a simplified approach which requires expected lifetime losses to be recognised from initial recognition of the trade and other receivables.</p> <p>The application of the standard required management to exercise significant judgment and apply estimates in the determination of the ECL. Significant judgment was required in the determination of loss rates and the use of forward looking economic expectations affecting the ability of the customers to settle the trade and other receivables.</p> <p>As at 31 December 2019, insurance receivables amounted to ZWL177 487 568 for the Group and non-insurance receivables amounted to ZWL 7 256 780. Management provided an ECL of ZWL 32 347 505.</p> <p>We considered the ECL on trade and other receivables to be a matter of most significance to our current year audit due to the following:</p> <ul style="list-style-type: none"> <li>the judgement and estimates applied by management in determining the loss rates and the use of forward looking economic expectations affecting the ability of the customers to settle the trade and other receivables; and</li> <li>the significance of the trade and other receivables to the consolidated financial statements.</li> </ul> <p>Refer to the following notes to the financial statements for disclosure relating to this matter:</p> <ul style="list-style-type: none"> <li>note 2.10, accounting policy: trade and other receivables;</li> <li>note 6.2.4, significant accounting judgments and estimates: allowances for credit losses on financial assets measured at amortised cost;</li> <li>note 3.3, credit risk; and,</li> <li>note 16, trade and other receivables.</li> </ul>	<p>Our procedures to audit the expected credit losses on trade and other receivables included the following:</p> <ul style="list-style-type: none"> <li>We obtained an understanding of management’s process for determining the ECL on trade and other receivables;</li> <li>We considered the appropriateness of the accounting policies implemented and evaluated the impairment methodologies applied by management against the requirements of IFRS 9;</li> <li>We assessed whether the financial statement disclosures appropriately reflected the Group’s exposure to credit risk in accordance with the requirements of IFRS 7: <i>Financial instruments: disclosures</i>;</li> <li>We assessed the design of management’s models, including assessing the appropriateness of the forward looking economic expectations applied by management by comparing them to independent sources;</li> <li>On a sample basis, we assessed the accuracy of historical data used by management in determining the loss rates, through recomputation of historical credit loss rates and agreeing the inputs used to calculate historical data to prior year working papers and financial statements;</li> <li>We evaluated the appropriateness of adjustments for forward looking information by assessing the applied economic scenarios against the publicly available economic forecasts on Zimbabwe;</li> <li>On a sample basis, we tested the ageing of the trade and other receivables balances by recalculating the days past due; and</li> <li>We tested the mathematical accuracy of the ECL calculation through recomputations.</li> </ul>
<p><b>Valuation of insurance contract liabilities</b></p> <p>As at 31 December 2019 insurance contract liabilities amounted to ZWL 130 052 961, comprising short term insurance contract liabilities amounting to ZWL 123 566 461 (note 21) and life reinsurance contract liabilities amounting to ZWL 6 486 500 (note 22.2)</p>	<p>We assessed the independence, experience and competence of the statutory actuaries used by management for all the entities. We inspected the actuaries’ <i>curricula vitae</i> and held discussions with them and management.</p>

Key audit matter	How our audit addressed the key audit matter
<p>We considered the valuation of insurance contract liabilities to be a matter of most significance to our current year audit due to the following:</p> <ul style="list-style-type: none"> <li>the valuation of the Group insurance contract liabilities involves complex calculations, significant judgements, and long and short term estimates and assumptions. The methodology involves judgements about future events, both internal and external to the Group; and the value of the Group insurance contract liabilities is significant to the consolidated financial statements.</li> </ul> <p>The main valuation assumptions include mortality, expenses, expense inflation, discount rates and lapses, previous experience in claim patterns, claim settlement patterns, trends in claims frequency .</p> <p>Disclosure is provided in the following notes;</p> <ul style="list-style-type: none"> <li>note 2.17, accounting policy: reinsurance contract liabilities;</li> <li>note 6.2.1, significant accounting estimates and judgements: insurance contract liabilities;</li> <li>note 5, insurance risk management;</li> <li>note 21, short term insurance contract liabilities; and;</li> <li>note 22, life reinsurance contract assets and liabilities.</li> </ul>	<p>We utilised our actuarial expertise to evaluate the reasonableness of significant assumptions and estimates and the actuarial computations, and to evaluate the actuarial valuation report obtained from management for adequacy and reasonableness. In doing so, the following procedures were performed:</p> <p>We compared the Group's mortality tables against the standard actuarial mortality tables to assess the reasonableness of the assumption.</p> <ul style="list-style-type: none"> <li>We assessed whether the expenses and lapse rate assumptions were based on the Group's internal experience.</li> <li>We assessed the reasonableness of the expense inflation by comparing to external sources such as external industry research reports.</li> <li>We assessed whether discount rates used reflected the nature of the assets backing the insurance contract liabilities and also whether they reflected the conditions of the market in which these assets are held.</li> <li>We compared the actual emerging claims for prior years against the provision for the same period to assess the reasonableness of management's previous provisions.</li> <li>We tested data used in the valuation by agreeing a sample of that data to supporting evidences;</li> <li>We assessed the valuation basis (including chain ladder methodology, run off analysis on historical loss experience, 1/365 method and 1/8 method) through discussion with the statutory actuaries and assessing its appropriateness, given the nature of the business as well as actuarial best practice.</li> <li>We assessed the valuation results by rerunning the models, on a sample basis, to consider accurate application of the selected methodology and assumptions. We inspected the actuarial report for 2019 prepared by the statutory actuary and compared it to the prior year signed actuarial report in order to identify any significant changes in assumptions and methodology.</li> <li>We compared the mortality, expenses, expense inflation, discount rates and lapses, previous experience in claim patterns, claim settlement patterns and trends in claims frequency to the prior year valuation in order to test whether they were consistently applied by management.</li> </ul>

#### Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Zimre Holdings Limited 2019 Annual Report". The other information does not include the consolidated or the 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 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 consolidated and separate financial statements contain material misstatements with respect to the application of IAS 21 and its consequent effects on the hyperinflationary adjustments made in terms of IAS 29, as well as the valuation of investment properties. We have concluded that the other information is materially misstated for the same reasons, with respect to the amounts or other items in the other information affected by these matters.

#### Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and in the manner required the Zimbabwe Companies Act (Chapter 24:03), 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 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 has 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, conclude 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



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

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Harare  
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