

TRADING UPDATE FOR THIRD QUARTER ENDED 30 SEPTEMBER 2019

The Company presents below, the Trading Update for the Third Quarter ended 30 September 2019.

OPERATING ENVIRONMENT

Most Southern African economies in which the ZHL Group operates recorded mixed economic performances but generally displayed stable macro-economic conditions in the first 9 months of 2019. However, the IMF in its October 2019 World Economic Outlook, continued to flag Zimbabwe as one of the countries on the African Continent with a fragile economy with negative growth estimated at -7,1% in 2019. The Government is implementing a cocktail of monetary and fiscal reforms aimed at stabilizing the economy, stimulating growth and creating employment.

The reforms being implemented in the domestic economy have had a significant impact on the Group businesses including challenges in securing external reinsurance business due to perceived heightened foreign exchange risk, buildup of retrocession creditors due to limited access to foreign currency on the interbank market and depressed salary purchasing power. The continued and incessant power cuts have also resulted in rising property operating costs as backup power supplies are generated at considerably higher cost. Local prices were also tracking the parallel market exchange rate thereby pushing claims and operating expenses upwards.

INSURANCE SECTOR DEVELOPMENTS

On 30 September 2019, the Insurance and Pensions Commission of Zimbabwe ("IPEC") issued Circular Number 13 of 2019 in which it directed among other measures, that existing foreign currency denominated policies be run-off to their natural expiry date. The insurance industry is expected to face challenges especially in discharging foreign currency denominated insurance claims and related liabilities as insufficient foreign currency reserves had been accumulated when the directive to stop issuing foreign currency denominated insurance policies for local risks was issued in June 2019 following the gazetting of Statutory Instrument 142 of 2019 on the introduction of the Zimbabwean Dollar as the functional currency for all domestic transactions. The Group reinsurance operations are implementing strategies to mitigate the effects of this potential exposure and have adequate retrocession arrangements with international reinsurance companies to absorb this risk.

PERFORMANCE UPDATE

Post the third quarter of 2019, inflation statistics continued to exhibit an upward trend thereby triggering the announcement in October 2019 by the Public Accountants and Auditors Board ("PAAB") for entities operating in Zimbabwe to adopt IAS29 (Financial Reporting in Hyper-inflationary Economies) hyperinflationary reporting when presenting financial statements. Conditions to fully comply with and implement the Standard had not yet been fully met at the time of this publication.

Profit for the period

Profit for the 9 months to September 2019 was 2992% above budget owing to gains from property and foreign currency revaluations following the change of functional currency, increased share of profits from associates, turnaround in the performance of the rental income revenue line following the commissioning and release of high value rental space at Sawanga Mall in Victoria Falls and Bulawayo Nicoz House student accommodation.

Total comprehensive income was 5949% above budget mainly due to exchange differences on translation of foreign operations and investments.

Total Revenue

Total Revenue was 14% below budget mainly due to:-

- (i) The muted performance of some regional operations based in Malawi and Zambia owing to low capital bases and existence of soft insurance markets. However, the operations in Botswana and Mozambique continued to record strong performance and it is expected that their full potential will be realized once competitive capital has been injected into the businesses. The trend in the Zimbabwe reinsurance operations remained upward notwithstanding the mounting challenges in the domestic business environment. Emeritus Reinsurance Zimbabwe's Credit rating was upgraded from BBB to A- by Global Credit Rating ("GCR") underscoring the sustained upward trajectory in financial performance, the impact of mono rebranding and financial strengths of the entity. The regional operations contributed 69% of the premium written thus emphasizing the positive hedging effect of these operations in the light of weakening economic fundamentals in Zimbabwe.
- (ii) The deliberate slowdown in stand sales at ZimRe Property Investments ("ZPI") in order to minimize the recovery of less than fair value for its properties following the change of functional currency, also contributed to the regression in total revenue.

Cashflows from Operations

Overall, the Group recorded positive cashflows from its operations.

WITHDRAWAL OF CAUTIONARY STATEMENT

Post the reporting period, the Cautionary Statement published by ZHL in relation to the capital raising transaction at Emeritus International Reinsurance Company Limited Botswana "Emeritus International" was withdrawn on 3 October 2019 to allow time to restructure the transaction taking into account views expressed by potential investors engaged so far in particular accommodating their preference to invest in preferred geographical locations. The ZHL Group is also now considering a cocktail of financing options for its regional subsidiaries including but not limited to the use of internally generated resources and mezzanine financing structures with international financial institutions.

OUTLOOK

ZHL is confident that it is able to withstand the challenges in the complex domestic environment and any headwinds that might arise in the regional economies and continue to deliver profitable growth through leveraging on its solid financial strength built over the years, sizeable regional operations and investments providing a sound hedge, cost control, underwriting discipline, excellent service delivery and making prudent investment decisions.

By order of the Board



L. Madzinga
Group Company Secretary
14 November 2019