

TRADING UPDATE FOR FIRST QUARTER ENDED 31 MARCH 2020

BUSINESS ENVIRONMENT

With a second successive drought looming in most Southern African countries whose economies are predominantly agro-based, together with weak demand for commodities on the international market, the positive and robust economic growth prospects projected at the end of 2019, began to fade in the first quarter of 2020. The dim prospects were more pronounced in Zimbabwe whose economy was already fragile. Year on year inflation was at 676.39% in March 2020 thereby increasing pressure to constantly to review rentals and sums insured upwards and implementation of strict management of operating costs.

PERFORMANCE UPDATE

Overall Performance

In the first quarter of 2020, the Group was on course to achieve its performance targets for the year. However, the unexpected outbreak of the Covid-19 global pandemic in the last part of the quarter with its negative impact on business performance created a material uncertainty that would require extensive business re-strategizing for survival.

Reinsurance Operations

The Group reinsurance operations started the year on a positive note with increased treaty participation especially from top tier cedants in the domestic market on account of a relatively strong balance sheet, excellent service delivery and the increasing Emeritus brand equity. Accordingly, the Group expected both its domestic and regional entities to contribute the bulk of its total income in 2020. However, due to the tight liquidity situation and other challenges, premium collections were subdued thus slowing down investment portfolio growth across the Group.

General Insurance Operations

In the period under review, Credit Insurance Zimbabwe Limited (Creditsure) recorded above budget performance in most key result areas as well as significant growth compared to the same period last year. The improvement is credited to its focus on offering specialized products to the market especially to the tobacco sector and infrastructure development projects through underwriting management agents. In historical cost terms profit for the period was 439% above budget on account of the significant growth in topline performance, favourable claims experience (15% claims ratio) and controlled operating expenses.

Due to the depreciating local currency against the United States Dollars (USD), the company is experiencing an increase in the demand for cover in harder currencies. The industry is working with IPEC to reintroduce USD denominated policies following their suspension in 2019 (IPEC Circular 13 of 2019).

Property Operations

Rental income performance for Zimre Property Investments Limited (ZPI) was on budget on account of the quarterly rental reviews being implemented, reconfiguration of existing rental space for other uses in line with market demand and move towards turnover based leases. The Company obtained a waiver to charge for some of its services in hard currencies. However, the reduced capacity of tenants to service lease contracts due to the mounting economic challenges which became more pronounced in March 2020 with the outbreak of the Covid-19 pandemic, resulted in increases in void space and debtors. The company remained profitable with sufficient cashflows on account of the continued and calculated disposal of its stock of residential stands, and the tight management of property operating and administrative costs. Due to the hyperinflationary conditions and the depreciating local currency, rental income declined in real terms translating into weakened property values in real terms.

Sound Capital Positions

The Group reinsurance operations' capital positions met or exceeded the minimum statutory levels in the first quarter. Some regional operations are within the transitional periods set by regulators for compliance with new minimum capitalization levels. The Group is on course to provide competitive capital to regional operations mostly from its internal resources in order to increase capacity and take advantage of business growth opportunities in those markets. Key among those markets is Mozambique with its growth prospects from the multi-billion USD natural gas projects which were at the verge of being commissioned. Creditsure was set to meet the ZWL\$37.5 million minimum capitalization level for short-term insurers through organic growth.

OUTLOOK AND STRATEGY

The outbreak of the Covid-19 pandemic which became more pronounced globally towards the end of the first quarter resulted in the downward revisions of global economic growth projections due to the severe disruptions to economic activity. Economic recovery is expected to be slow and protracted more so in developing economies where governments, in the absence of assistance from international financial institutions, have limited capacity to provide fiscal and monetary stimulus packages to protect businesses and revive economic growth.

The resilience of the Group and the Southern African Region shall be tested in the second half of 2020. ZHL shall lean heavily on its financial strength buttressed by its size-able property portfolio to weather the storm and preserve shareholder value. The strategic focus shall be responding to the effects of the Covid-19 pandemic and implementing short-term survival strategies including balance sheet preservation and cost control. The Group is also putting in place measures to ensure the safety of its employees and stakeholders without compromising the ease of doing business.

By order of the Board



Lovemore Madzinga
Group Company Secretary
6 May 2020.