

TRADING UPDATE

For three months ended 31 March 2020



FIDELITY LIFE

ASSURANCE OF ZIMBABWE

Economic landscape

The COVID-19 pandemic has adversely impacted economic activity across the globe and the world economy is expected to suffer its worst decline since the Great Depression of the 1930's. Locally, the first quarter ended with the beginning of a lock-down that resulted in economic activity being limited to essential services raising fears of another sharp decline in national output (Gross Domestic Product) for the second consecutive year. Hyperinflation persisted during the quarter with year-on-year inflation rising to 676% in March 2020. The local currency continues to lose ground against the United States Dollar (USD) and other major currencies. The Central Bank has fixed the rate at ZWL\$ 25/USD though it is trading at significant premium on the parallel market. Government has stepped in with a ZWL\$18 billion rescue package for distressed companies which is expected to stimulate production and ease the negative impact of the COVID-19 pandemic

Financial performance (inflation adjusted)

The Group closed the three-month period to 31 March 2020 with a 45% growth in core revenues, which closed at ZWL\$48m, compared to ZWL\$33m recorded in the three months ended 31 March 2019. Total revenue performance was further boosted by net investment income, resulting in a 45% growth in total revenue, which closed at ZWL\$180m compared to ZWL\$124m in the comparative period. All companies in the Group recorded a steady growth on the top line for the first quarter ended 31 March 2020. The Malawi business and balance sheet growth in Fidelity Life Assurance of Zimbabwe continue to be key drivers of the Group's revenue performance

Profit before tax decreased by 25% from ZWL\$86m as at 31 March 2019, to ZWL\$64m as at 31 March 2020. The decrease in profit is due to a sharp increase in total expenses largely driven by inflationary pressures currently being experienced in the operating environment and continuing to be weighed down by re-estimation of foreign denominated project completion costs for Southview water works amounting to ZWL\$49m (42% of total expenses) driven by the weakening of the local currency. The increase in this provision is, to some extent, offset by increases in value of assets held to hedge this risk, thus enabling the Group to still record a profit

These results have been presented under the current cost basis as per the provisions of IAS 29 Financial Reporting in Hyper inflationary Economies

Impact of COVID 19

The impact of COVID-19 on financial performance is not reflected in this first quarter Group trading update. The impact post lock-down is currently under further assessment and is expected to be reflected in the second quarter trading update.

The business implemented a robust Business Continuity Framework that allowed the Group to successfully continue all operations allowing clients and stakeholders to remotely access our services and systems online through various digital and electronic platforms. During the period, the Group continued to receive premiums and incoming client payments, and was also able to settle claims and outbound payments.

Solvency position

The business remained solvent during the reporting period. Insurance companies are now required to hold minimum regulatory capital of ZWL\$75 million. The Company had excess assets of ZWL\$131.3 million as at 31 March 2020, implying a healthy minimal capital solvency level of 1.75 times.

Outlook

The pandemic has compounded woes on Zimbabwe's fragile economy and there are fears that GDP may suffer double digit decline in 2020. In the absence of foreign credit and significant foreign direct investment, the ZWL is expected to depreciate against major currencies leading to worsening inflation. A combination of dwindling disposable incomes due to hyperinflation and job losses due to the COVID-19 lock-down, will result in a decline in aggregate demand.

The economic environment is forecast to be harsh in the remainder of the year. Our strategic focus remains on value preservation for our key stakeholders which includes policyholders, clients, shareholders and employees. We continue to explore and pursue opportunities in the region for geographical diversification and minimizing country risk

By order of the board
C. Matongo
Company Secretary
14 May 2020

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