



ZB FINANCIAL HOLDINGS

(A public company incorporated in the Republic of Zimbabwe under registration number (1278/89))

This Trading Update for the first quarter ended 31 March 2020 is issued in terms of the Zimbabwe Stock Exchange (ZSE) Practice Note 9 as a substitute for the requirement to publish quarterly interim financial reports as mandated by section 35(5) of the ZSE Listing Requirements, Statutory Instrument 134 of 2019.

Financial information referred to in this Trading Update is based on historical accounting principles. Inflation adjusted financial information in compliance with International Accounting Standard (IAS) 29 – *Financial Reporting in Hyperinflationary Economies* will be provided in the half year financial results to 30 June 2020.

Operating Environment

The Zimbabwean economy continued to underperform, saddled by a number of negative factors chief amongst which were:

- a) A continued upward inflation trajectory with month-on-month inflation for the 3 month period averaging 14.11% whilst year-on-year inflation at 31 March 2020 was reported at 676.39%;
- b) The continued shortage of foreign currency and the widening differential between exchange rates on the inter-bank market and the exchange rates obtaining in the informal market;
- c) An acute shortage of basic commodities; and
- d) Fuel and energy supply constraints which have affected industry performance.

First Quarter 2020 Performance Out-turn

The Group posted a profit of ZW\$204.2m for the 3 months ended on 31 March 2020, an increase of 1 785% compared to ZW\$10.8m achieved in the corresponding period in 2019.

Total income increased by 1 278% from ZW\$28.0m for the 3 month period up to 31 March 2019 to ZW\$120.7m for the corresponding period in 2020. This is underpinned

by a 17 064% increase in fair value credits and foreign exchange income, a reflection of asset value adjustments in sympathy with a vastly changed operating environment. Regular income sources increased by much lower rates as follows:

- 315% for net earnings from lending activities;
- 763% for banking commissions and fees;
- 445% for net re-insurance income; and
- 150% for net life assurance income.

The foregoing reflects revenue performance pressure during the period under review.

Total expenses increased by 667% from ZW\$19.1m for the 3 months to 31 March 2019 to ZW\$146.8m for the corresponding period in 2020, a trend in line with the inflation outturn over the period.

Total assets for the Group as at 31 March 2020 stood at ZW\$4.4bn, having increased by 26% from the total of ZW\$3.5bn as at 31 December, 2019. Deposits and other accounts increased from ZW\$1.4bn at 31 December 2019 to close at ZW\$2.1bn as at 31 March 2020.

The Group continued to maintain a significant liquidity buffer with an aggregate liquidity ratio above 80% being maintained throughout the period.

Asset quality remained good with non-performing loans at 31 March 2020 having been computed at 1.33%.

The Group's total equity increased from ZW\$1.5bn as at 31 December 2019 to ZW\$1.7bn as at 31 March 2020 driven by the period's profit performance.

The capital position for regulated entities as at 31 March 2020 was as follows:

| Entity | Regulator | Minimum Capital Required (ZW\$) | Minimum Capital Achieved (31 March 2020) (ZW\$) |
|-------------------------|-----------|---------------------------------|---|
| ZB Bank Limited | RBZ | 25 000 000 | 886 091 795 |
| ZB Building Society | RBZ | 20 000 000 | 185 351 880 |
| ZB Reinsurance | IPEC | 75 000 000 | 128 569 498 |
| ZB Life Assurance | IPEC | 75 000 000 | 299 797 295 |
| ZB Transfer Secretaries | SECZ | 150 000 | 533 894 |

Dividend

No dividend has been declared for the period under review.

COVID-19 Impact on Business Operations

The advent of the novel coronavirus disease of 2019 (COVID-19) has since been declared a global health and societal emergency by the World Health Organisation and a state of national disaster by the Government of Zimbabwe. This has worsened economic performance as nations implemented lockdown measures to stem the spread of the virus, thereby halting business activity whilst placing a significant strain on the nations' fiscal positions as authorities deployed critical health interventions to save lives.

In response to the virus pandemic, the Government, through Statutory Instrument (SI) 83 of 2020 (Public Health (COVID-19 Prevention, Containment and Treatment) (National Lockdown) Order, 2020) implemented a nationwide lockdown for an initial period of 21 days from 30 March, 2020 to 19 April 2020. Two further statutory instruments, SI 93 of 2020 and SI 99 of 2020 were issued with the effect of extending the lockdown for a further 28 days to 17 May 2020. Businesses in the formal commercial and industrial sectors were allowed to resume operations from 4 May 2020 after meeting minimum safety and health conditions prescribed in SI 99 of 2020.

The Group's banking and insurance operations were classified as essential services during the lockdown period. Following guidance from the regulatory authorities, operations in the early part of the lockdown were restricted to serving clients through digital platforms.

The Group has resumed operations in all business units with effect from 4 May 2020.

The Group activated its Business Continuity Plans to manage issues related to the virus pandemic. Regular interactions between the Board and other stakeholders are ongoing.

Some of the measures taken by the Group to mitigate the immediate implications of the virus pandemic involved the following:

- a) Safety and Health:
 - i. De-congestion of all workspaces;
 - ii. Provision of relevant personal protective equipment (PPE) to all staff;

- iii. Capacitation of key staff through technology to enable them to work remotely; and
 - iv. Enabling of customers to transact through digital platforms.
- b) Performance Stress Mitigation:
- i. Curtailment of non-critical expenditure; and
 - ii. Aggressive working capital management.

Costs related to safety and health interventions have been significant and are expected to rise if the virus pandemic is not contained soon. The Group has so far spent a total of ZW\$7.2m against an interim budget of ZW\$12m for these interventions up to the end of June, 2020.

Additionally, a total of ZW\$1.3m has been utilized in the Group's corporate social investment (CSI) program towards capacitating health institutions countrywide in the fight against the virus pandemic.

The future impact of the virus pandemic on the Group's operations will depend on the extent to which its partners and customers have been affected. Early signs in this respect are only expected from the month of April 2020. The Group experienced a reduction of 35% in the aggregated volume of transactions processed through its banking operations in April 2020.

Whilst the full COVID-19 impact is yet to unravel, risks in the following areas have been assessed as having increased:

- a) Credit Risk – changed operating models and market dynamics may affect the ability of borrowers to service their obligations. The Group may consider loan forbearance to mitigate against the risk of loss;
- b) Liquidity Risk – mismatches may arise between assets and liabilities due to changed business models for the suppliers of critical funding. The Group is forced to maintain a significant liquidity buffer in the short-term and this may affect asset creation activities;
- c) Insurance Risk – funeral insurance claims may increase beyond normal levels as a result of COVID-19-related deaths. Current claims levels have been in line with expected trends.

Future Capital Requirements

The Monetary Policy Committee of the Reserve Bank of Zimbabwe, at its meeting of 17 January 2020, revised minimum capital requirements for banking institutions with effect from 31 December 2020. The revised limit for Tier 1 Banks is the ZW\$ equivalent of US\$30m, reckoned with reference to the exchange rate ruling at that time. The Group desires to continue operating a Tier 1 banking business and every effort will be put towards achieving this.

The continued devaluation of the Zimbabwe Dollar and performance risks related to COVID-19 are likely to have a negative impact on the Group's capital plan.

Outlook

The operating environment is expected to remain challenging. Government has rolled out a stimulus package of ZW \$18 billion to kick-start the economy in the post-COVID-19 period. The Group will play its part in supporting the recovery process.

Whilst performance risk is currently amplified, preliminary assessment suggests that the Group is likely to achieve its targets for the year 2020.

Publication of Financial Results

The Group's 2019 full year financial results will be published by 29 May 2020. An extension was sought in order to allow the Group enough time to deal with the additional processes necessary to meet the requirements of International Accounting Standard 29 – *Financial Reporting in Hyperinflationary Economies*.

Half year financial results to 30 June, 2020 will be published before 31 August, 2020.

By order of the Board



Dorris Shomwe

Acting Company Secretary

15 May 2020