1. Operating environment

Cost pressure, which started building up in the final quarter of 2018, has continued into 2019, with the annual inflation at the end of May 2019 closing at a high of 97.85%.

In the wake of a deepening income - price spiral and widening income disparities amongst economic agents, government resorted to aggressive currency reforms as follows:

a) The introduction of Statutory Instruments (SI) 32 and 33 of 2019 on 22 February, 2019 together with Exchange Control Directive RU28 of 2019, the effects of which were to formally recognise local unit monetary balances in the form of bank balances, balances on electronic payment platform and local bond notes as a currency distinct from the US$ as well as to introduce an interbank market through which the local currency would trade with any other currencies at a floating rate.
b) Through SI 142 of 2019 which was issued on 24 June, 2019 the termination of the multi-currency system, which had been in place since February 2009, in favour of a unitary currency system anchored on the local Zimbabwean Dollar.

General anxiety resulted in marked volatility across markets, with the first quarter 2019 performance at the Zimbabwe Stock Exchange exhibiting a bearish trend resulting in the market capitalization shedding off 17% from the beginning of the year before posting a recovery of 55% in the two months to end of May, 2019 as stocks presented an opportunity to hedge balance sheets against inflation.

2. Performance outturn for the first 5 months

2.1. Technical update

The Group's statement of financial position has been restated to recognize the change of functional and reporting currency from the United States Dollar to the Zimbabwean Dollar. This change was effected from 1 January, 2019 and had the effect of increasing the Group's equity by a provisional sum of Z$94.87 million which has been accounted for under Functional Currency Translation Reserve pending receipt of technical guidance in relation to the treatment of the uplift of previously foreign denominated balances.

The comparison of figures between corresponding periods in 2019 and 2018 has been done on a nominal basis. The conclusions reached in the analysis may differ depending on one's assessment of real value movements between the two periods.

2.2. Total income outturn

The Group's total revenue for the first 5 months of the year, at Z$57.82 million, was 78% higher than the Z$32.5m posted in the corresponding period in 2018 with the inflation pull-effect playing a significant part in the growth, in the midst of retreating customer transaction volumes, as household spending reduced.

Net earnings from lending and trading activities increased by 66% from Z$7.5 million for the 5 months up to May 2018 to Z$12.4million for the 5 months to May 2019. The increase was on the back of an increased earning asset portfolio which increased from Z$453 million as at 31 May 2018 to Z$625.84 million as at 31 May 2019. The relaxation of controls on lending rates by the Reserve Bank in April, 2019, and subsequent adjustment of interest rates by the Group from 1 May, 2019 impacted positively on interest and related income despite the achievement of interest margins which remained negative when compared to inflation.

Macro-level liquidity suppression measures have resulted in increased recourse to wholesale funding, resulting in an increase in interest expenses by 37% from Z$2.9 million for the 5 months up to May 2018 to Z$4.0 million for the 5 months to May 2019.

Banking commissions and fees only managed a 17% increase from Z$16.7 million for the 5 months to May 2018 to Z$19.5 million for the 5 months to May 2019. Growth in the early part of the period was constrained by the general controls that prevailed up to April 2019 when the requirement for the approval of fee increases by the Reserve Bank of Zimbabwe was lifted.

Fair value credits on investments made a profound contribution to total income at the level of Z$11.5m, being a 500% improvement on prior year. The sustainability of these credits will depend on the extent to which macroeconomic stability is achieved.

The combination of risk placements at higher levels in line with inflation, as well as a satisfactory claims outturn resulted in the technical outturn from reinsurance business contributing Z$2.1 million to total income, 77% above the contribution for the 5 months to May 2018 of Z$1.2 million.

On the other hand reassurance net resulted achieved a 32% growth from Z$2.8 million for the 5 months to May 2018 to Z$3.7 million for the 5 months to May 2019.

2.3. Expense analysis

Operating expenditure (OPEX) for the 5 months increased by 54% to Z$34.3 million in 2019 from Z$22.3 million reported in 2018, with cash based OPEX increasing by 40% whilst depreciation and amortisation costs increased by 176%, having been based on restated asset balances upon adoption of the Z$ as the new base currency. General expense expansion tracked inflation with aggressive cost curtailment having been implemented to result in a real cost contraction of 44% when compared to the inflation outturn over the two periods.

The cost efficiency ratio for the period shows an improvement at 59% compared to the comparative period level of 69%.

2.4. Net results

The Group's draft profit after tax of Z$17.6 million for the first 5 months in 2019 was 183% higher than the Z$6.2 million posted in the comparative period in 2018. The Group’s annualised return on equity stood at 22% for the period under review.

2.5. Statement of financial position

Against the backdrop of the translation of foreign denominated items on the statement of financial position as well as an inflation induced increase in funding sources, total assets increased by 45% from Z$663.2 million as at 31 Dec 2018 to Z$961.4 million as at 31 May 2019.

Total earning assets increased by 38% to Z$625.8 million from Dec 2018 level of Z$453 million whilst the ratio of earning assets to total assets came down to 65% from 68%.

Total deposits increased by 20% to Z$528 million at 31 May 2019, when compared to Z$439 million as at 31 December 2018.

The Life Fund stood at Z$66.4 million as at 31 May 2019, 77% above Z$37.4 million recorded as at 31 Dec 2018 with the movement being driven by the performance of underlying assets.

3. Strategy Update

3.1. Lines of Credit

Lines of credit increased during the period from US$30 million to US$40 million, with a corresponding increase in utilisation level from 19% to 25%. Efforts are underway to attract more customers in order to increase utilisation levels.

3.2. Channels and Products

a) The on-boarding of product partners for the Diaspora service offering has progressed satisfactorily. Market response has been encouraging.
b) The Group has experienced an upsurge in transaction volumes in its Money Transfer business. Promotion of the business line will be escalated.
c) The Group has continued to interrogate its footprint. As a result of such evaluation, presence is currently being established in Westgate and Chipinge.
d) Systems have generally delivered to expectation whilst investment has continued in order to improve customer experience whilst strengthening security.
e) The Group will shortly be setting up a bureau de change operation as well as a microfinance (MFI) operation to deepen its product range and strengthen its presence in the micro and small to medium enterprise (MSME) space.

3.3. Balance sheet management

The Group continues to explore opportunities to harden its balance sheet. Property remains a preferred investment option.

3.4. Digitalisation and Technologies

Satisfactory progress is being made in the Digitalisation program.

Summary Profit or Loss Statement

Line item	31 May 2019 Z$m	31 May 2018 Z$m	% Change
Total income	**57.82**	**32.45**	**78%**
Operating expenses	(34.25)	(22.29)	-54%
Profit from ordinary activities	**23.57**	**10.16**	**132%**
Transfer to Life Fund	(6.89)	(1.84)	-275%
Profit before tax	**16.68**	**8.32**	**101%**
Income tax expense	0.88	(2.12)	141%
Net profit for the period	**17.56**	**6.20**	**183%**

Composition of Total Assets

Line item	31 May 2019 Z$m	31 DEC 2018 Z$m	% Movement
Earning assets			
Treasury bills	203.89	194.35	5%
Money market investments	5.00	10.71	-53%
Loans and other advances	184.77	121.91	52%
Investment properties	76.51	33.36	129%
Investment securities	81.41	56.51	44%
Investment in associates	74.25	36.15	105%
Total earning assets	**625.84**	**452.99**	38%
Non-earning assets			
Cash and short term funds	193.55	143.87	35%
Other assets	17.48	12.06	45%
Property and equipment	124.52	54.32	129%
Total non-earning assets	**335.56**	**210.25**	60%
Total assets	**961.39**	**663.25**	45%
Earning assets contribution	**65%**	**68%**	-5%

Funding Sources

Line item	31 May 2019 Z$m	131 Dec 2018 Z$m	% Movement
Total equity	257.52	120.66	113%
Deposits and other accounts	527.98	438.95	20%
Life assurance funds	66.35	37.44	77%
Trade and other payables	94.59	51.56	83%
Long term loan	14.95	14.64	2%
Total	**961.39**	**663.25**	**45%**

Key Ratio Analysis

	31 May 2019	31 Dec 2018	Change
Cost-to-income	59%	68%	↓
Return on equity - annualised	22%	20%	↑
Return on assets - annualised	5%	4%	↑
Earning assets to total assets	65%	68%	↓
Total equity to total assets	27%	18%	↑
Loans to deposits ratio	40%	35%	↑