

UNAUDITED INTERIM FINANCIAL RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

LIFE | HEALTH | INSURANCE | REINSURANCE | SAVINGS | PROPERTY



Bringing Economic dignity to our customers

CHAIRMAN'S STATEMENT

ECONOMIC OVERVIEW

The Zimbabwe economic environment remained challenging during the period under review, with persistent liquidity constraints and declining industry competitiveness. The banking sector has been characterised by cash shortages arising from the lack of fiscal space and the current account deficit. Year on year inflation for the month to June 2016 stood at a negative 1.4% compared to a negative 2.8% in June 2015. The equity market performance was subdued reflecting the general economic trends in the country. The property market remained constrained during the first half of 2016 due to low demand for rental space, increasing voids mainly from voluntary space surrenders and evictions, growing arrear levels and downward rental review requests. Bank lending and deposit rates continued to decline during the period.

FINANCIAL RESULTS

The financial highlights for the period ended 30 June 2016 (compared to June 2015 for the statement of comprehensive income items and 31 December 2015 for the statement of financial position) are shown below:

INCOME STATEMENT HIGHLIGHTS

	Unaudited 30-June-16 US\$000	Unaudited 30-June-15 US\$000	Change %
Total Gross Premium Written ("GPW")	60 588	60 206	1%
GPW - Health insurance	26 046	25 849	3%
GPW - Life assurance and pensions	19 983	17 764	9%
GPW - Property and casualty insurance and reinsurance	14 559	16 593	-12%
Net premium earned	53 600	52 671	2%
Technical result	11 573	10 231	13%
Operating profit	4 865	1 845	164%
Profit before taxation	2 558	809	216%
Profit after tax for the period	2 633	442	496%

FINANCIAL POSITION HIGHLIGHTS

	Unaudited 30-June-16 US\$000	Audited 31-Dec-15 US\$000	Change %
Investment property	118 515	122 027	-3%
Held to maturity investments - prescribed assets	18 355	14 730	25%
Financial assets at fair value through profit or loss	11 050	11 483	-4%
Total assets	212 607	209 019	2%
Insurance contract liabilities	93 405	90 743	3%

STATEMENT OF CASH FLOWS HIGHLIGHTS

	Unaudited 30-June-16 US\$000	Unaudited 30-June-15 US\$000	Change %
Cash generated from operating activities	8 302	5 330	56%
Cash and balances with banks	32 123	28 140	14%

FINANCIAL PERFORMANCE

Statement of comprehensive income

Gross premium written ("GPW") for the six months ended 30 June 2016 at US\$60.6 million was 1% above the prior period figure of US\$60.2 million on the back of improved performance from the health, life assurance and pension business segments.

Consolidated rental income decreased by 5% from US\$3.7 million in 2015 to US\$3.5 million in 2016, reflecting the current challenges faced by tenants and the resultant decline in occupancy levels and rentals per square metre. The average rental per square metre decreased from US\$7.3 in 2015 to US\$7.0 in 2016. The occupancy rate for the period was 72% compared to 77% in the prior period.

Operating profit, before the outturn on the investment portfolio, improved to US\$4.9 million compared to prior period profit of US\$1.9 million largely due to the lower claims in the insurance businesses for the shareholder, US\$0.9 million reduction in administration expenses and a US\$0.8 million reduction in the provision for credit losses.

The Group incurred a net investment loss of US\$0.3 million for the period compared to net investment losses of US\$2.7 million in 2015 mainly due to the decrease in fair value losses on quoted equities relative to prior period, increased interest income from money market investments and held to maturity investments.

The Group achieved an overall profit of US\$2.6 million for the period compared to US\$0.4 million in the previous period. The total comprehensive income attributable to the equity holders of the parent company for the period was US\$3.2 million (2015: US\$0.2 million loss).

Statement of financial position

The Group's total assets increased by 2% from US\$209.0 million at 31 December 2015 to US\$212.6 million at 30 June 2016 largely attributable to an increase in cash and balances with banks (US\$4.0 million) and held to maturity investments (US\$3.6 million) as a result of the improved cash generation from operations. This increase in assets was despite the fact that there was a decrease in investment property of US\$3.7 million due to fair value losses on the investment property portfolio as at 30 June 2016.

FIRST MUTUAL IN THE COMMUNITY

The First Mutual Foundation, whose objective is to raise the standard of living of communities in which it operates, continues to support selected children from throughout the country with educational assistance and necessary ancillary services as well as supporting tertiary education. As the Foundation continues to gain momentum, its aim is to increase its support in the education arena. In line with this, the First Mutual Foundation has committed support to the Reformed Church University by availing bursary funds amounting to US\$20 000 over a three year period.

OUTLOOK

The macro-economic environment is projected to remain tough as evidenced by the adverse balance of trade position, deflationary pressures and the debt overhang. However, the Board is determined to preserve and create value for the stakeholders through further process efficiencies, robust cost management and continued innovation.

Renewed focus has been placed on the risk management framework across the Group in view of vulnerabilities in key sectors of the economy to protect stakeholder value.

The individual life assurance sector is expected to register flat to modest growth benefitting from demand on retail products. Employee benefits insurance is projected to see negative growth on account of reduced formal employment and economic contraction. Similarly, the short-term insurance will be adversely affected by the current economic challenges.

The Group will maintain a cautious approach in the management of its investments portfolio with core focus on value preservation. Fair value gains are expected to come under pressure owing to bearish trends on the Zimbabwe Stock Exchange reflecting general trends in the economy, as well as potential downward revision of investment property values. Furthermore, money market interest rates are expected to decline as banks move to contain cost of funds in the wake of reduced lending and decline in fee and transactional income. The fixed interest market is expected to partially counter the pressure on investment income as interest rates have remained relatively high.

DIRECTORATE

There were no changes to the Board for the period to 30 June 2016. Gareth Baines was appointed as non-executive director, effective 9 September 2016. On behalf of the Board, I welcome him and look forward to his positive contribution.

DIVIDEND

In view of the need to focus on current initiatives and consolidate the operations of Group companies, the directors recommend that no dividend be paid from the profit of the Group for the half year ended 30 June 2016.

APPRECIATION

On behalf of the Board of Directors, I would like to convey my profound gratitude to our clients, management and staff, the regulatory authorities and other stakeholders for their continued support and confidence in us to deliver sustainable value. I would like to thank my fellow Directors for their continued support.

Oliver Mtasa
Chairman

9 September 2016

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS

First Mutual remains committed to availing economic dignity in a complex environment by nurturing talent, optimising systems and process efficiencies geared at providing sustainable financial solutions underpinned by robust corporate governance. This is in line with our brand strategy to impact the lives of individuals and institutions by being the financial partner preparing for a better tomorrow. First Mutual remains focused on risk management, wealth creation and wealth management. The relevance of these pillars is becoming increasingly vital in our current economic environment and its prevailing challenges. In an environment that is characterised by increased choice for consumers, we place great importance on innovation that is relevant and geared to bringing greater convenience to our customers and have launched a formal employee innovation framework. Our customers are the cornerstone of our business and customer engagement and experience initiatives have gained momentum within the Group through training and related activities.

During the period under review, the Group achieved improved financial performance for the period of US\$2.6 million, compared to a profit of US\$0.4 million in 2015, as a result of improvement in claims management and cost containment strategies.

Systems and processes

First Mutual is committed to maintaining optimal, efficient and secure Information and Communication Technology ("ICT") capability to support its business processes and customer service. To that end, upgrading of the network infrastructure was initiated to ensure high-performing wired and wireless networks that optimise and better secure connectivity over the Group's network infrastructure. This allows the Group to leverage on technology for effective engagement with our customers.

OPERATIONS REVIEW

Except where indicated, the commentary below refers to unconsolidated figures.

HEALTH INSURANCE

First Mutual Health Company (Private) Limited

The GPW for First Mutual Health Company (Private) Limited grew by 1% to US\$26.0 million (2015: US\$25.8 million). Valid membership at 30 June 2016 was 111 314 compared to 119 644 members in the prior period. The average monthly premium per member for the period of US\$39.0 was higher than the prior period average monthly premium of US\$37.6. Total claims incurred during the period decreased from US\$22.6 million to US\$20.4 million, resulting in the claims ratio decreasing to 78% (2015: 85%).

The company will continue to seek new business through providing quality service, demonstrated claims paying ability, wellness campaigns, innovative products and competitive pricing.

LIFE AND PENSIONS BUSINESS

First Mutual Life Assurance Company (Private) Limited

The business achieved GPW of US\$18.4 million which was a growth of 18% relative to the comparative prior period. The shareholder risk business GPW, comprising Group Life Assurance and Individual Life Assurance products, declined by 3% to US\$6.8 million compared to the prior period figure of US\$7.0 million. The decline in shareholders risk business was mainly a result of group life assurance schemes lost as businesses failed to remit premiums. This was however mitigated by an increase in premium collected from the individual funeral business. The policyholder business achieved GPW of US\$11.6 million, a growth of 34% from the prior period amount of US\$8.6 million. The policyholder gross premium growth was driven by new business acquired and persistence of recurring business in the Individual Business Cash Accumulation products as well as an increase in single premiums of Employee Benefits policyholders. Claims and benefits at US\$8.6 million went up by 39% compared to 30 June 2015 due to an increase in retrenchment claims and benefits.

FMRE Life and Health (Private) Limited

GPW decreased by 29% to US\$1.4 million (2015: US\$1.9 million). Health business premium was 55% below prior period due to the reduction in business generated from the region. The company took a deliberate decision to reduce its exposure to regional health business mainly due to higher than expected claims and difficulties in collecting premiums. Regional business went down by 57% from US\$1.3 million in June 2015 to US\$0.6 million. The business had a 21% positive growth on local business due to increased treaties and treaty shares for the company.

PROPERTY AND CASUALTY INSURANCE

Tristar Insurance Company Limited

The GPW decreased by 32% to US\$2.1 million (2015: US\$3.2 million). The decrease from prior period was a result of deliberate non-renewal of some policies as part of portfolio restructuring following non-payment. The dominant classes continue to be motor, fire and accident, contributing 51%, 26% and 10% respectively.

FMRE Property and Casualty (Private) Limited (Zimbabwe)

The GPW declined to US\$10.5 million (2015: US\$ 12.1 million) as premium was lost on major accounts mainly due to increased retentions by cedants following increase in minimum capital levels and lower rates by cedants due to the deteriorating economy and increased competition. Claims and expenses were contained within expectations resulting in an underwriting profit for the period. Regional business grew by 48% and contributed 21% of the total GPW compared to 12% in 2015. The business continues to focus on the regional market to ensure that premium levels are sustained.

FMRE Property and Casualty (Proprietary) Limited (Botswana)

The GPW for the period at US\$2.6 million (BWP27.6 million) was 31% above the prior period figure of US\$2 million (BWP21 million) in spite of the depreciation of the Botswana Pula against the United States Dollar. The regional market contributed the bulk of the premium at 55% with the balance coming from the Botswana market. The growth in premium from the region was attributable to an increase in agriculture business from both Zambia and Zimbabwe. The business continues to be prudent in underwriting local business to ensure rates are consistent with risk exposure and claims experience. Claims and expenses were contained within expectations leading to a significantly improved operating profit for the period.

PROPERTY

Pearl Properties (2006) Limited

Revenue for the period ended 30 June 2016 declined by 2% to US\$4.2 million (2015: US\$4.3 million) mainly due to rental income declining by 5% to US\$4.0 million (2015: US\$4.2 million). The decrease was driven by a decline in the occupancy level and reduced rental rates across the property portfolio. The occupancy level declined to 72% (2015: 77%) with voids occurring largely within properties in the Central Business District. Tenant arrears were flat at US\$2.4 million (2015: US\$2.6 million) with the business providing for all doubtful debts.

A directors' valuation of the investment property portfolio was conducted as at 30 June 2016 resulting in a fair value loss of US\$3.7 million. The impairment is driven by rising vacancies that have added pressure on rentals, increasing tenant defaults and an illiquid property sales market. An independent valuation will be done at the end of the year.

HUMAN CAPITAL DEVELOPMENT

It is our strong belief that investing in our human capital will enable us to achieve our business strategies and deliver service excellence. This will be achieved by ongoing talent nurturing effected through training across the Group to capacitate employees to deliver value through various developmental programmes.

LOOKING AHEAD

The Group achieved an overall improved performance with a 2% growth in net premium earned from prior period and attained an overall profit for the period of US\$2.6 million from a profit position of US\$0.4 million. We expect little change in the difficult economic environment and this will demand greater resilience from the Group as well as increased focus on customer service excellence, system efficiencies, cost containment and a prudent investment philosophy.

Douglas Hoto
Group Chief Executive Officer

9 September 2016

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CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	Note	UNAUDITED Group 30-June-16 US\$000	AUDITED Group 31-Dec-15 US\$000	UNAUDITED Company 30-June-16 US\$000	RESTATED Company 31-Dec-15 US\$000	RESTATED Company 1-Jan-15 US\$000
ASSETS						
Property, plant and equipment	4	9 119	9 749	90	316	652
Investment property	5	118 515	122 027	-	-	-
Intangible assets		74	85	-	-	-
Investment in subsidiaries		-	-	24 970	20 793	17 751
Financial assets:						
- Equity securities at fair value through profit or loss	6	11 050	11 483	84	93	327
- Debt securities held to maturity investments	7	18 355	14 730	-	-	-
Deferred acquisition costs		1 191	1 134	-	-	-
Income tax asset		350	558	-	-	-
Inventory	8	3 223	3 082	32	28	29
Loans and receivables including insurance receivables	9	14 233	13 431	672	449	381
Non-current assets classified as held for sale	10	4 374	4 600	-	6	-
Cash and balances with banks	11	32 123	28 140	36	111	116
TOTAL ASSETS		212 607	209 019	25 884	21 796	19 256
EQUITY AND LIABILITIES						
Equity attributable to equity holders of the parent						
Share capital		380	380	380	380	380
Share premium		7 958	7 958	7 958	7 958	7 958
Non-distributable reserves		2 119	2 095	291	291	291
Retained profits		7 733	3 515	8 858	4 423	3 480
Total equity attributable to equity holders of the parent		18 190	13 948	17 487	13 052	12 109
Non-controlling interests		51 209	53 411	-	-	-
Total equity		69 399	67 359	17 487	13 052	12 109
Liabilities						
Life insurance contracts liabilities	12	93 405	90 743	-	-	-
Investment contract liabilities:	13	6 008	5 662	-	-	-
Borrowings	14	4 907	5 548	2 065	2 157	379
Non-life insurance liabilities	15	24 059	25 007	-	-	-
Trade and other payables	16	4 961	3 865	6 332	6 587	5 825
Deferred income tax		9 863	10 597	-	-	943
Current income tax liabilities		5	17	-	-	-
Liabilities associated with assets classified as held for sale		-	221	-	-	-
Total liabilities		143 208	141 660	8 397	8 744	7 147
TOTAL EQUITY AND LIABILITIES		212 607	209 019	25 884	21 796	19 256

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2016

Note	UNAUDITED 30-June-16 US\$000	UNAUDITED 30-June-15 US\$000
INCOME		
Gross premium written	17	60 588
Reinsurance	17	(6 435)
Net premium written	17	54 153
Unearned premium reserve		(553)
Net premium earned	53 600	52 671
Rental income		3 520
Fair value adjustments - investment property	5	(3 737)
Gain on disposal of a subsidiary	22	334
Investment loss	18	(279)
Fee income		555
-Insurance contracts		1 269
-Investment contracts		466
Other income		580
Total income	55 728	55 840
EXPENDITURE		
Insurance claims and benefits expenses	19	(33 289)
Insurance claims and benefits expenses recovered from reinsurers	19	310
Net insurance claims and benefits	19	(32 979)
Movement in insurance liabilities		(3 739)
Investment loss on investment contract liabilities		(38)
Acquisition of insurance and investment contracts expenses		(3 932)
Administration expenses		(11 835)
Impairment allowances	20	(373)
Finance cost on borrowings		(274)
Total expenditure	(53 170)	(54 663)
Profit before share of loss of associate	2 558	1 177
Share of loss of associate		(368)
Profit before income tax	2 190	809
Income tax credit/(expense)		75
Profit for the period	2 265	884
Other comprehensive income		
Other comprehensive income to be reclassified to statement of comprehensive income in subsequent periods		
Available for sale reserve reclassified to statement of comprehensive income		-
Exchange differences on translating foreign operations		24
Share of associate's other comprehensive income		-
Other comprehensive income to be reclassified to statement of comprehensive income in subsequent periods	24	24
Total comprehensive income for the period	2 289	908
(Loss)/profit attributable to:		
Non-controlling interest		(506)
Equity holders of the parent		3 139
Profit for the period	2 633	441
Comprehensive (loss)/income attributable to:		
Non-controlling interest		(506)
Equity holders of the parent		3 139
Total comprehensive income for the period	2 633	441
Basic profit/(loss) per share (US cents)		0.83
Diluted profit/(loss) per share (US cents)		0.83

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Share capital US\$000	Share premium US\$000	Non distributable reserves US\$000	Retained profits US\$000	Total equity for parent US\$000	Non - controlling interest US\$000	Total equity US\$000
For the year end 31 December 2015 as at 1 January 2015							
Transfer to solvency reserve	-	-	50	(50)	-	-	-
Share based payments	-	-	24	-	24	-	24
Acquisition of non-controlling interest	-	-	-	2	2	(3)	(1)
Dividend declared and paid	-	-	-	-	-	(296)	(296)
	-	-	(88)	272	184	(209)	(25)
Profit/(loss) for the period	-	-	-	340	340	(209)	131
Other comprehensive income	-	-	(88)	(68)	(156)	-	(156)
For the half year end 30 June 2016 as at 1 January 2016							
Shareholder gain/(loss) on acquisition of Pearl shares	-	-	-	1 079	1 079	(1 379)	(300)
Dividend declared and paid	-	-	-	-	-	(317)	(317)
	-	-	24	3 139	3 163	(506)	2 657
Profit/(loss) for the period	-	-	-	3 139	3 139	(506)	2 633
Other comprehensive income	-	-	24	-	24	-	24
As at 30 June 2016	380	7 958	2 119	7 733	18 190	51 209	69 399

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2016

Note	UNAUDITED 30-June-16 US\$000	UNAUDITED 30-June-15 US\$000
Profit before income tax	2 558	809
Total non-cash and separately disclosed items	6 429	5 794
Operating cash flows before working capital changes	8 987	6 603
Working capital changes	(685)	(1 273)
Cash generated from operations	8 302	5 330
Finance costs on borrowings	(274)	(263)
Interest received	1 256	984
Income tax paid	(462)	(539)
Net cash flows from operating activities	8 822	5 512
Cash utilised in investing activities	(4 424)	(850)
Cash flows utilised in financing activities	(959)	(719)
Net increase in cash and cash equivalents	3 439	3 943
Cash and cash equivalents at the beginning of the period	13 466	9 866
Effects of exchange rate changes on cash and cash equivalents	-	-
Cash and cash equivalents at the end of the period	11 16 905	13 809

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

1 Corporate information

The main business of First Mutual Holdings Limited ("the Company") and its subsidiaries (together the "Group") is that of provision of short-term insurance, life and funeral assurance, reinsurance, property management and development and wealth management. First Mutual Holdings Limited is a public company, incorporated and domiciled in Zimbabwe whose shares are publicly traded on the Zimbabwe Stock Exchange.

The ultimate parent of the Company is National Social Security Authority ("NSSA") which owns 51% (2015: 51%) directly and an additional 20% (2015: 20%) indirectly through Capital Bank Limited (under liquidation). NSSA owns 84% (2015: 84%) of Capital Bank Limited.

The registered office is located at Second Floor, First Mutual Park, 100 Borrowdale Road, Borrowdale, Harare, Zimbabwe.

The consolidated historical financial statements of the Company and the Group for the period ended 30 June 2016 were authorised for issue in accordance by a resolution of the Directors' at a meeting held on 9 September 2016.

2 Statement of compliance

The Group's interim financial results have been prepared in accordance with IAS 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB") and in a manner required by the Zimbabwe Companies Act (Chapter 24:03) and the Zimbabwe Insurance Act (Chapter 24:07).

3 Accounting policies

The principal accounting policies adopted in the presentation of these financial statements are consistent with those of the previous financial year except for changes in 3.1 below:

3.1 Change in accounting policy

The Company changed its accounting policy during the year in respect of the investments in subsidiaries. In the separate financial statements of the Company, the investments in subsidiaries were previously accounted for at cost. During the year the Group changed the accounting policy to use the equity method to account for the investment, in line with amendments to IAS27, "Separate financial statements." The change was effected to ensure fairer presentation of the subsidiaries in the separate financial statements of the Company.

The effect of the change in accounting policy is as follows

	30-June-16 US\$000	31-Dec-15 US\$000	1-Jan-15 US\$000
Statement of financial position			
Increase in investments in subsidiaries	11 809	7 460	1 581
Increase/(decrease) in deferred tax	-	-	-
Increase in equity	11 809	7 460	1 581

