

# Trading Update: Q3 2022



This Trading Update for the third quarter ended 30 September 2022 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.

## Operating Environment

During Q3 2022, the economy registered a significant contraction of COVID-19 cases which resulted in the progressive lowering of COVID-19 restrictions. The economy started to open up during the period under review with the Tourism sector being the major beneficiary of this development. The review period saw an increase in exchange rate volatility which resulted in a 69.69% depreciation of the local currency on the official Foreign Exchange Auction market from ZW\$366.27 per US\$1 as at 30 June 2022, to ZW\$621.53 as at 30 September 2022. Annual inflation worsened by 88.8 percentage points from 191.6% recorded as at 30 June 2022 to 280.4% which was recorded as at 30 September 2022.

It is against this background that the Government has maintained interest rates at around 200% per annum so as to control the money supply in the economy. In addition, the Government introduced gold coins on 25 July 2022 as an alternative stable financial asset for a store of value to support the tight monetary policy stance. Meanwhile, in the equities market, market capitalisation contracted by 33%, from ZW\$2,273.75 billion at the beginning of Q3 2022 to ZW\$1,522.70 billion at the end of September 2022. On a year-on-year basis, market capitalisation increased by 76%, against annual inflation of 280.4% as at 30 September 2022. Going forward, we anticipate that the current tight monetary policy, use of gold coins and effective monitoring of activity in the financial sector by the authorities will go a long way towards promoting stability in the economy.

## Third-quarter Performance Out-turn

The analysis is based on inflation-adjusted numbers based on principles contained in IAS 29: Financial Reporting in Hyperinflationary Economies. Inflation-adjusted revenue for the nine months ending 30 September 2022 improved by 97% to ZW\$51.375 billion compared to the nine months of 2021. The growth was on the back of an improvement in both interest and non-interest income. Net interest and trading income of ZW\$12.406 billion is up 41% year-on-year, supported by loan book growth and the margin benefit of rising interest rates. For the quarter, an average annual interest margin of 35.55% was attained, up from Q3FY21's annual average margin of 26.16%. However, the increase reflects only a partial offset against inflation. Non-interest income rose by 127% to ZW\$43.031 billion year-on-year and was mainly composed of insurance premiums, fair value, foreign exchange gains and commissions.

Net insurance premium increased by 44% in Q3 FY22 compared to Q3FY21, supported by the underwriting of new business and improvement in risk selection. Banking commission income grew by 12% and was supported by improving transaction banking volumes. However, for the better part of 2022, the earning rates were at similar levels to the base recorded in the prior year. Non-trading income increased significantly by 263% and the growth was underpinned by 1600% increase in foreign exchange income driven by the substantial depreciation in the official

exchange rate as policymakers attempted to stabilize the market. However, there is a 25% reduction in fair value credits for Q3FY22 from ZW\$5.291 billion posted in Q3FY21 as listed equities experienced a bearish movement during Q3FY22. Operating costs of ZW\$22.995 billion, up 41% compared to the nine months of 2021, in part due to costs associated with business transformation costs coupled with inflationary cost pressures. The annualised cost-to-income ratio for the nine months to 30 September 2022 was 77%, and it was, in line with the prior year, against increased cost commitments, reflecting effective cost containment measures. Total assets increased by 16% from ZW\$161.390 billion at the end of 2021 to ZW\$186.453 billion as at 30 September 2022, of which 60% (31 December 2021: 62%) of total assets were interest-earning assets. The Group kept its overall liquidity ratio over 60% versus a benchmark ratio of 30%.

The Group continues to enhance its involvement in fostering economic growth through lending to the productive sectors of the economy. The loan book increased by 7% to ZW\$41.780 billion and maintained a strong asset quality, with a non-performing loans ratio as at 30 September 2022 of 0.28% (December 2021: 3.60%). Deposits and other funding accounts increased by 24%, from ZW\$62.870 billion at the end of 2021 to ZW\$77.743 billion as at 30 September 2022, with growth in both retail and wholesale funds. The Group equity increased by 24% in the third quarter of FY22, closing at ZW\$79.792 billion as of 30 September 2022. With the exception of ZB Building Society, all Group entities with prescribed capital levels were in compliance with regulatory requirements as at 30 September 2022.

## Future Capital Requirements

The Group believes that the Building Society's noncompliance will be addressed positively by December 31, 2022. There are strategic options under consideration to resolve the matter.

## Dividend

No dividend has been declared for the quarter under review.

## Outlook

Despite the challenging economic outlook ahead of Q3 FY22, based on current performance trends, the Group expects to meet its performance targets for FY22. Furthermore, the Group also expects to complete the digital transformation program in Q4FY22. Q3FY22 success rate was 72% as the program continued to stimulate efficiencies in its operations, and deliver a seamless and delightful customer journey.

By order of the Board

A handwritten signature in black ink, appearing to read 'Tinashe F. A. Masiwa'.

Tinashe F. A. Masiwa

Group Company Secretary

ZBFH\_2036

ZB Financial Holdings Limited, 21 Natal Road, Avondale, Harare, Zimbabwe

CALL FOR FREE Econet 08080 555 • NetOne 08010 555 • TelOne 08004 555

@zbforyou @zbforyou @zb\_foryou @zb\_foryou ZB Financial Holdings

for you