First Capital BANK

FCB8855

Q3 2023

TRADING UPDATE

Operating Environment

Global economic performance remained weak against the backdrop of continued geo-political tension with the war in Ukraine and the Middle East disrupting trade flows. This was made worse by the weakening of commodity prices at the global stage. Locally, the Zimbabwean economy has experienced relative stability with the blended inflation rate easing down to 18.4% at the end of September 2023 from 30.9% as of 30 June 2023. The official exchange rate to the United States of America's dollar (USD) closed at ZWL5,467 on 30 September 2023, posting a reduction of 4% from the ZWL 5,740 reported at 30 June 2023. This followed liquidity sterilization measures implemented by regulatory authorities to contain money supply growth. These measures included a hike in statutory reserve ratios for both the USD and local currency, an aggressive mopping up of excess ZWL liquidity into non-negotiable certificates of deposit and a high interest rate regime which was maintained for ZWL borrowings. The tightening of liquidity directly resulted in a slowdown in asset creation activities with credit risk becoming more prominent across the banking sector.

Performance Review

During the period under review, the Bank's total income grew by 29% on a year-on-year basis to USD48.7m which compares to USD37.9m for the same period in 2022. This was driven by strong performance in both net interest and non-funded income which increased by 22% and 33% respectively. Interest income growth was driven by year-to-date loan growth of 32% to USD89m at Q3 2023 with 12% having been funded by offshore lines of credit. The increased usage of the USD on the local market has also been reflected in customer balances with 85% of customer deposits being foreign denominated whilst foreign currency loans constituted 90% of total advances. The currency mix on the balance sheet has impacted on the income generation pattern for both interest income and transactional fees with foreign earnings accounting for 70% of total income.

Operating expenses increased by 18% to USD28.6m for the nine months ended 30 September 2023 compared to USD24.2m incurred during the same period in 2022. Cost stabilization remains a critical strategic imperative in the short-term to guarantee the sustainability of operations against the background of tightening interest margins.

The Bank increased its impairment coverage ratio by 320 basis points from 4.5% reported on 30 June 2023 to 7.7% on 30 September 2023 to reflect the adverse effects of the operating environment on the business prospects of selected borrowers. The resultant charge to the income statement amounted to USD5.7m at 30 September 2023 with further refinement being expected towards year end.

Despite a strong rally in foreign currency balances, total asset growth for the nine months to 30 September 2023 was restricted to 3.6%. This followed the devaluation of the local currency during the period by 696% to September 2023 which affected the underlying value of that component on the balance sheet. However, capital increased by 12% to 30 September 2023 with the capital adequacy ratio being 25.6%, well above the regulatory threshold of 12%. Core Capital remains comfortably above the regulatory threshold of USD30m whilst liquidity ratios were maintained above the minimum requirements of 30%.

Dividends

The Directors have not declared a dividend for the quarter under review.

Outlook

Prospects for economic growth in the medium term remain strong. However, the forecast El-Nino induced drought and the continued pressure on exports from depressed mineral commodity prices will pose downside risk. Certainty around the subsistence of the multicurrency system up to 2030 as confirmed through Statutory Instrument 218, will have a positive impact in increasing confidence in the business sector.

Directors are cautiously optimistic about the Bank's prospects in the medium term. The creation of offshore lines of credit will continue to be a priority in the short term to give impetus to balance sheet growth and mitigate downside risks associated with the tight liquidity regime. The Bank will continue to position itself to play a part in supporting growth in key sectors of the economy which include mining, agriculture, tourism, and the industrial sector.

By order of the Board.

Sarudzai Binha
Company Secretary
13 November 2023