



Introductory Remarks

by

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on the occasion of the Institute of Chartered Accountants of Zimbabwe Seminar
for Chief Financial Officers on Non-Performing Loans,

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Good morning, ladies and gentlemen,

1. It is a great pleasure and an honour to speak to you this morning.
2. I am indeed thankful to the Institute of Chartered Accountants of Zimbabwe for organizing the seminar on this very topical subject in the banking system.
3. I wish to commend this initiative by the ICAZ in organizing this seminar, particularly at a time when the increasing levels of non-performing loans are not only impacting negatively on the banking sector but are also a drag to the economy.
4. In fact, this programme itself, which has been tailor made for the Chief Finance Officers of banking institutions, signifies the importance of the accounting profession to sensitising the top management of the banks to the conceptual constructs underpinning their operations.
5. Ladies and gentlemen, the Reserve Bank believes that the effective collaboration between the accounting fraternity and the supervisory authorities as epitomized by the seminar we have is fundamental in our pursuit for financial sector stability. It is important to note that financial reporting forms the basis of various elements of prudential supervision.
6. Ladies and gentlemen, the safety and soundness of the Zimbabwe financial sector is a central to the economic turnaround process. The banking sector has exhibited general resilience against the background of and adverse macroeconomic environment.
7. Asset quality, which is a key theme of this seminar, is one of the most critical areas in determining the overall condition of a bank. The primary factor affecting overall asset quality is the quality of the loan portfolio and the credit administration programs in the banks.
8. Loans typically comprise a majority of a bank's assets and carry the greatest

- amount of risk to their capital.
9. Management often expends significant time, energy, and resources administering the loan portfolio and it significantly impact most other facets of a bank's operations including, but not limited to, operating, market, reputation, strategic, or compliance risks.
 10. Ladies and gentlemen, as you would know, credit risk as reflected by the level of nonperforming loans remains a significant risk in the banking sector.
 11. The banking sector has experienced a significant increase in the level of NPLs since the adoption of the multi-currency regime in February 2009, from 1.80% as at 31 December 2009 to a peak of 20.45% in September 2014 and to 15.91% as at 31 December 2014.
 12. It is widely understood that the problem of non-performing loans has a mechanism to drag on the economy in a number of ways including:
 - a) disintermediation of bank-system lending caused by the erosion of banks' profitability
 - b) a deterioration of bank assets and erosion of their capital
 - c) efficiency problem for banking sector;
 - d) at the government level, asset quality deterioration can pose challenges to the pursuit of macroeconomic stability and growth objectives;
 13. Given the foregoing, the Reserve Bank keenly follows all developments on the international area in respect of the accounting and supervisory standards.
 14. We recognize and applaud the International Accounting Standards Board (IASB) for including the expected loss notion in their new financial instruments standard, IFRS 9 which we hope will be discussed here, among others.
 15. As announced in the Monetary Policy Statement of August 2014, the Reserve Bank has taken a number of initiatives to deal with the NPLs issue. These

include the establishment a Special Purpose Vehicle known as ZAMCO whose primary objective is the acquisition or resolution of non-performing loans.

16. In addition, the Reserve Bank created a unit within its structures to operationalise a credit reference system.

Conclusion

17. In conclusion I wish to urge all officers of banking institutions here present to work towards a lasting solution to the NPLs challenge we are currently faced with. The starting point for such a resolution is to ensure strict and consistent adherence with minimum asset classification and provisioning requirements.
18. The banks with better risk management skills would not only have competitive advantage in the market place but would also be better positioned to capitalise on the opportunities for organic and inorganic growth.
19. Asset quality merits particular attention given its vital role in economic growth and ensuring the safety and soundness of the banking system. As such, there is need to ensure that banks' loan classifications and provisions are not only sufficient but also timely.
20. With respect to the accounting and auditing professionals, I urge you to remain vigilant and alert to compliance issues. There is need to ensure that banking institutions **comply** with both **regulatory requirements** and **the accounting principles**.
21. I am confident that the deliberations at this seminar would provide participants with valuable insights into the relevant issues. I wish the deliberations at the seminar all success.

Thank you.