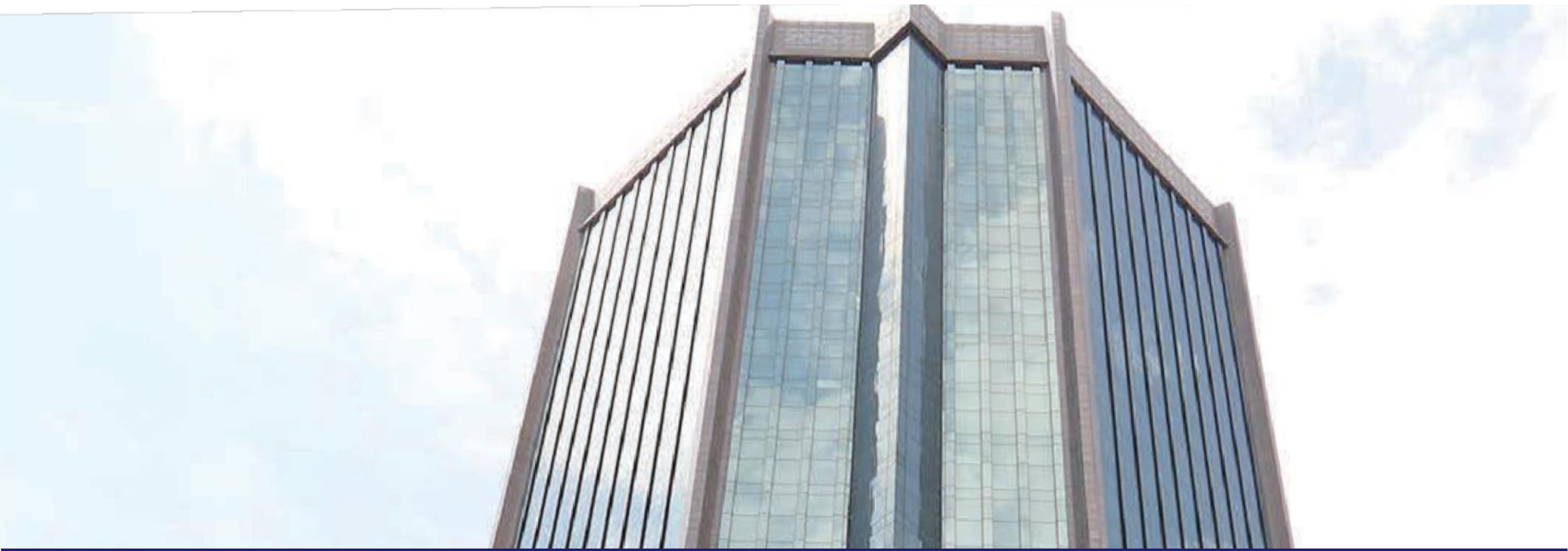


RESERVE BANK OF ZIMBABWE

BANK SUPERVISION DIVISION

BANKING SECTOR REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2022

1. EXECUTIVE SUMMARY

1.1. The banking sector remains safe and sound. The economic outlook is expected to remain positive on account of the current stability. Banking institutions will continue to play an important role in the efforts by monetary and fiscal authorities to sustain the current stability and to reinforce economic recovery.

1.2. The aggregate capital and liquidity positions of the banking sector remained strong, providing strong buffers for banking institutions to withstand shocks.

1.3. The banking sector was adequately capitalized with average capital adequacy and tier 1 ratios of 35.45% and 23.97%, respectively as at 30 September 2022.

1.4. The aggregate core capital amounted to $438.11 billion, up from $284.74 billion as at 30 June 2022. Retained earnings remained the major driver of capital growth for the banking sector, buoyed by non-interest income.

1.5. Total banking sector assets increased by 60.31%, from $1.94 trillion as at 30 June 2022 to $3.11 trillion as at 30 September 2022. The assets largely comprised loans and advances which constituted 29.58% of total assets.

1.6. Total banking sector loans and advances amounted to $1.1 trillion as at 30 September 2022, representing a 68.33% increase from $603.14 billion as at 30 June 2022. The increase was largely attributed to the translation of foreign currency denominated loans, which constituted 69.09% of total banking sector loans compared to 65.87% reported as at 30 June 2022.

1.7. The quality of the banking sector loan portfolio remained strong as measured by the non-performing loans (NPLs) to total loans ratio of 1.41% as at 30 September 2022, against the international threshold of 5%. The NPL ratio improved from 1.50% reported as at 30 June 2022.

1.8. During the period under review banking institutions were profitable, with an aggregate profit of $342.28 billion up from $25.39 billion recorded for the corresponding period in 2021 Profitability was largely driven by non-interest income which constituted 70.92% of total income.

1.9. The upward trajectory in total banking sector deposits continued, rising from $1.12 trillion as at 30 June 2022 to $1.91 trillion as at 30 September 2022.

1.10. The average prudential liquidity ratio for the banking sector was 59.51% as at 30 September 2022, and all banking institutions, with the exception of one (1), were compliant with the minimum prudential liquidity ratio of 30%.

1.11. During the period under review, the Bank approved the amalgamation of CBZ Bank Limited and CBZ Building Society into one entity CBZ Bank Limited, in terms of section 25 (5) of the Banking Act *[Chapter 24:20]*.

1.12. Following finalisation of the merger, the building society licence was cancelled effective 30 September 2022 in terms of section 14(3) of the Building Societies Act [*Chapter 24:02*].

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. The composition of the banking sector as at 30 September 2022 is as shown in Table 1 below.

Table 1: Architecture of the Banking Sector

Type of Institution	Number
Commercial Banks	13
Building Societies	4
Savings Bank (POSB)	1
Total Banking Institutions	**18**
Other Operational Institutions Under the Supervision of Reserve Bank	
Credit-only-MFIs	**188**
Deposit-taking MFIs	8
Development Financial Institutions (SMEDCO, IDBZ, IDCZ and AFC Land & Development Bank)	4
Total Other Institutions	**200**
Total Number of Institutions	**218**

IDBZ – Infrastructure Development Bank of Zimbabwe, IDCZ – Industrial Development Corporation of Zimbabwe and SMEDCO - Small and Medium Enterprise Development Corporation.

3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1. The banking sector registered satisfactory performance during the period ended 30 September 2022, as depicted by the key financial soundness indicators in Table 2 below:

Table 2: Financial Soundness Indicators

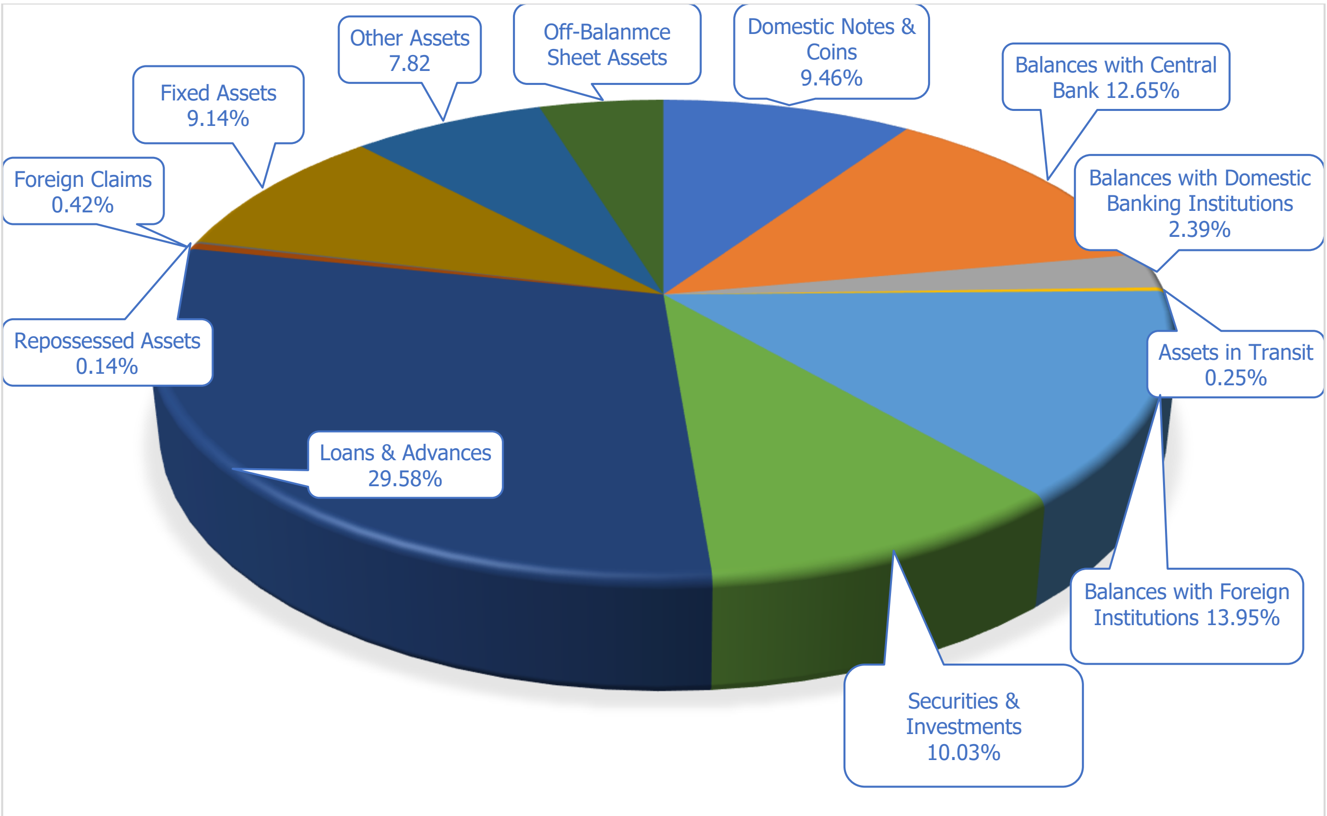
Key Indicators	Benchmark	Sept- 21	Mar-22	June-22	Sept-22
Total Assets	-	$569.99bn	$969.24bn	$1.94 tn	$3.11 tn
Total Loans & Advances	-	$175.60bn	$320.36bn	$603.14bn	$1.01 tn
Net Capital Base	-	$84.58bn	$170.00bn	$349.48bn	$535.96 bn

Key Indicators	Benchmark	Sept- 21	Mar-22	June-22	Sept-22
Core Capital	-	$63.39bn	$138.21bn	$284.74bn	$438.11 bn
Total Deposits	-	$367.02bn	$582.26bn	$1.12tn	$1.91 tn
Net Profit	-	$25.39bn	$27.05bn	$181.25bn	$342.28 bn
Return on Assets	-	8.23%	3.39%	8.67%	16.48%
Return on Equity	-	31.87%	12.43%	31.60%	53.19%
Capital Adequacy Ratio	12%	35.34%	35.16%	33.87%	35.45%
Tier 1 Ratio	8%	26.78%	26.97%	18.84%	23.97%
Loans to Deposits Ratio	70%	46.87%	55.02%	53.69%	52.83%
NPLs Ratio	5%	0.61%	1.57%	1.50%	1.41%
Liquidity Ratio	30%	62.87%	61.38%	60.78%	59.51%

Composition of Banking Sector Assets

3.2. Total banking sector assets amounted to $3.11 trillion as at 30 September 2022, up from $1.94 trillion as at 30 June 2022. The major assets on the banking institution's balance sheets were loans & advances (29.58%), balances with foreign institutions (13.95%) and balances with central bank (12.65%) as shown in Figure 1.

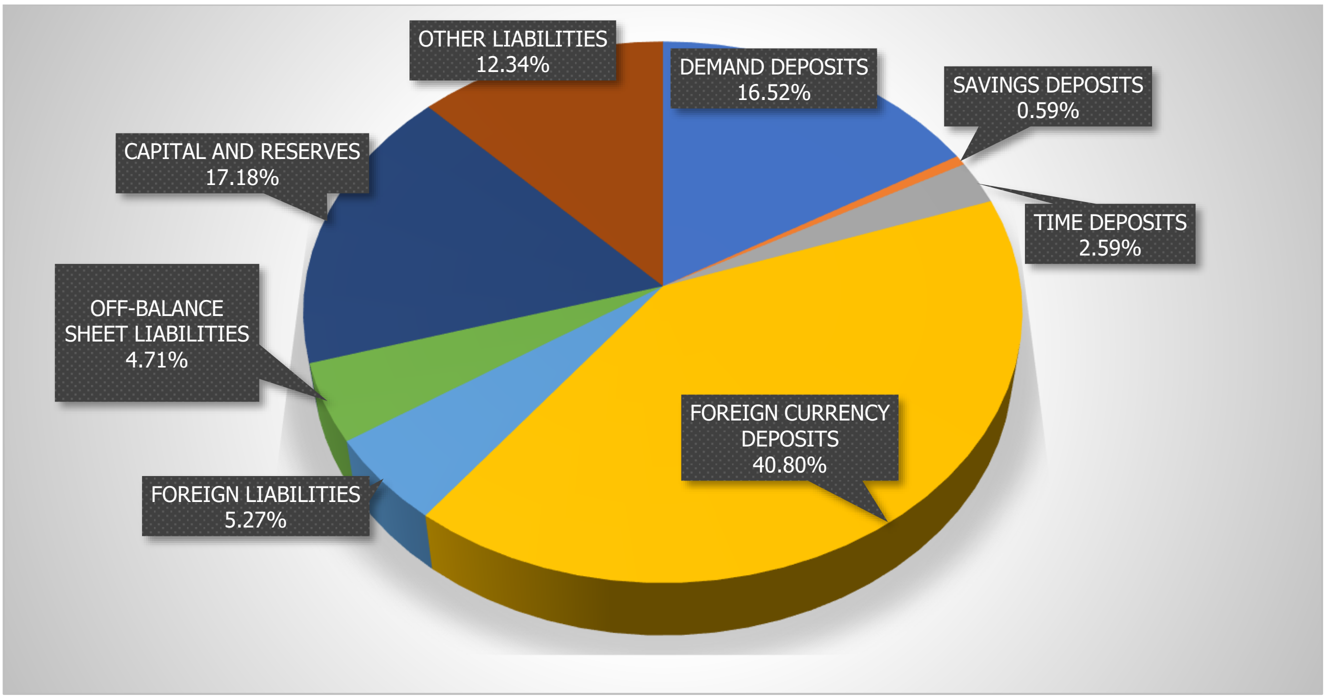
Figure 1: Asset Mix as at 30 September 2022



Liabilities Structure

3.3. As at 30 September 2022, banking sector liabilities largely comprised foreign currency deposits (40.80%), capital and reserves (17.18%), and demand deposits (16.52%), as shown in Figure 2 below.

Figure 2: Decomposition of Liabilities as at 30 September 2022



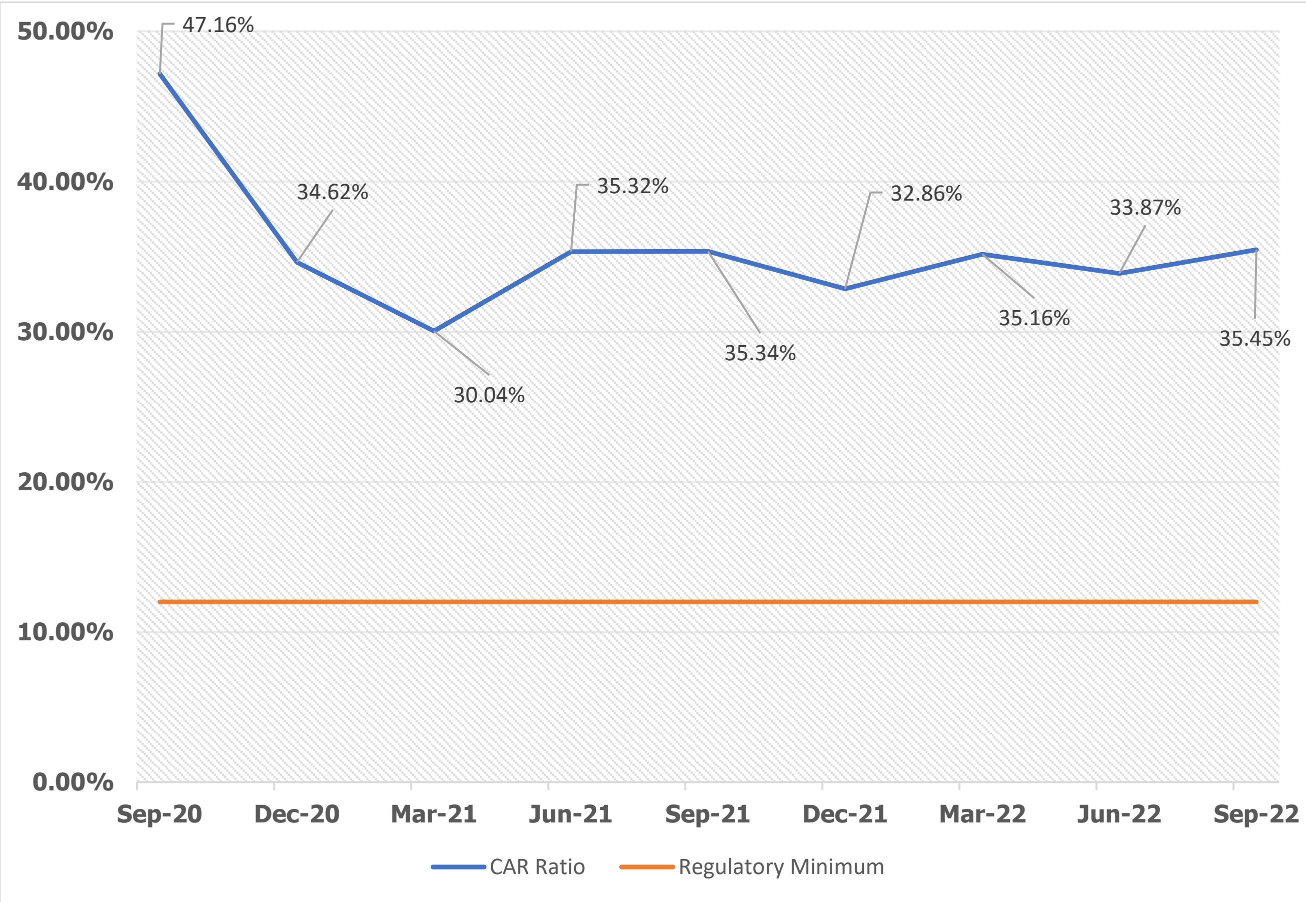
Capitalisation

3.4. Aggregate banking sector core capital increased by 53.86% from $284.74 billion as at 30 June 2022 to $438.11 billion as at 30 September 2022.

3.5. All banking institutions were adequately capitalised, with average tier 1 and capital adequacy ratios of 23.97% and 35.45%, which complied with the regulatory minima of 12% and 8%, respectively.

3.6. The average capital adequacy ratios have largely remained stable over the years as shown in Figure 3.

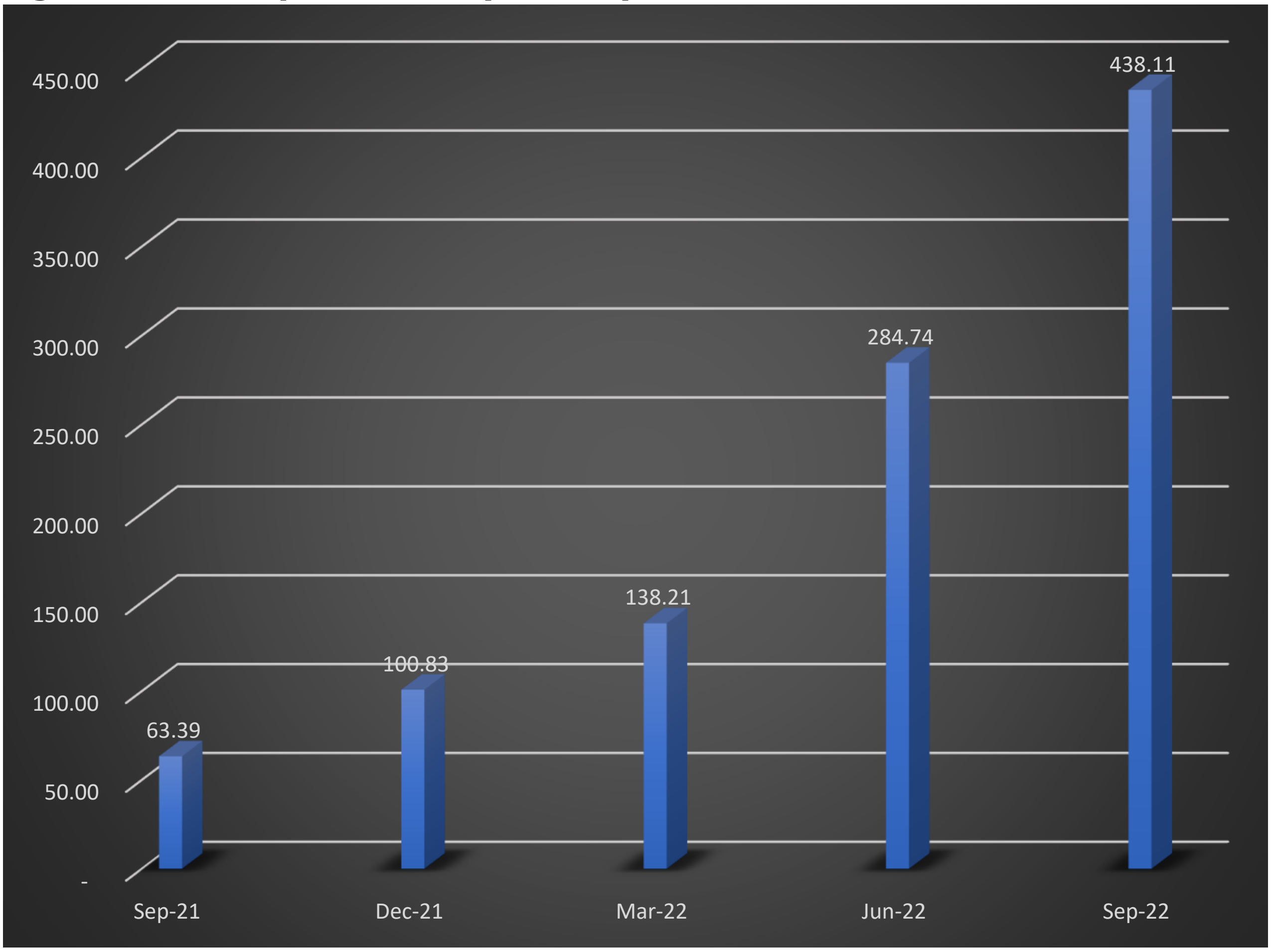
Figure 3: Capital Adequacy Ratios Trend



3.7. There has been an upward trend in the industry capital adequacy ratios, as core capital increased due to improved profitability by banking institutions over the period.

3.8. Figure 4 below shows core capital trends from September 2021.

Figure 4: Core Capital Trends ($ billion)

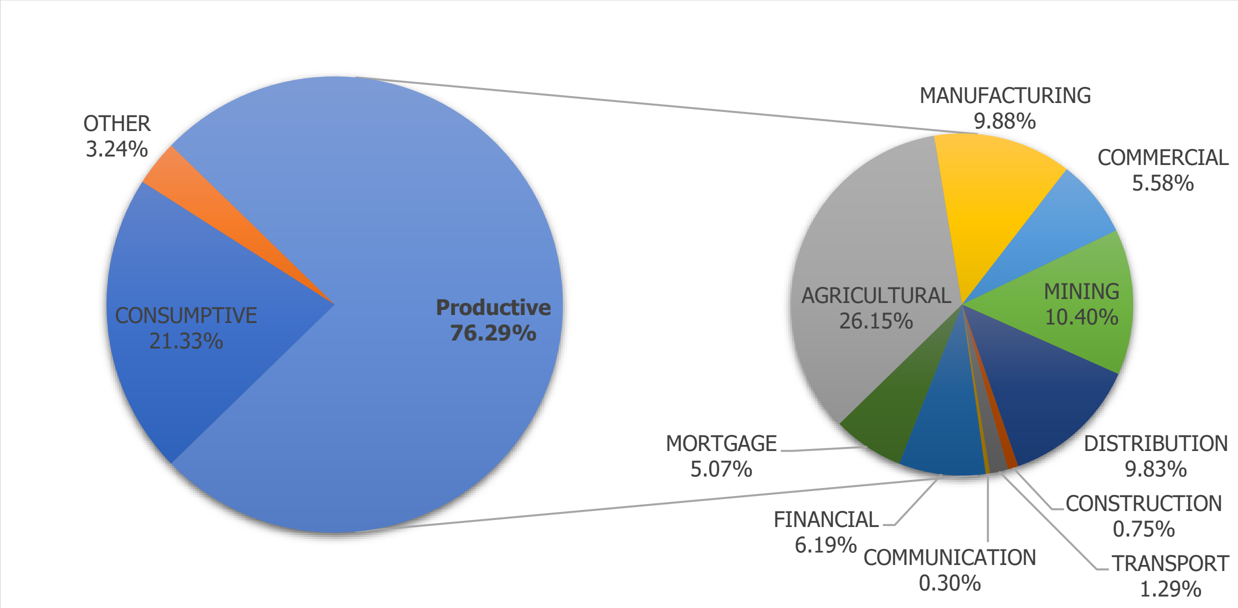


Asset Quality

3.9. Total banking sector loans and advances increased significantly to $1.1 trillion as at 30 September 2022 from $603.14 billion as at 30 June 2022. The growth was largely attributed to translation of foreign currency denominated loans amounting to $704.71 billion, which constituted 68.97% of total banking sector loans.

3.10. The banking sector continued to support the productive sectors of the economy as evidenced by loans to the productive sectors constituting 76.29% of total loans as at 30 September 2022 as shown in Figure 5 below.

Figure 5: Sectoral Distribution of Loans as at 30 September 2022

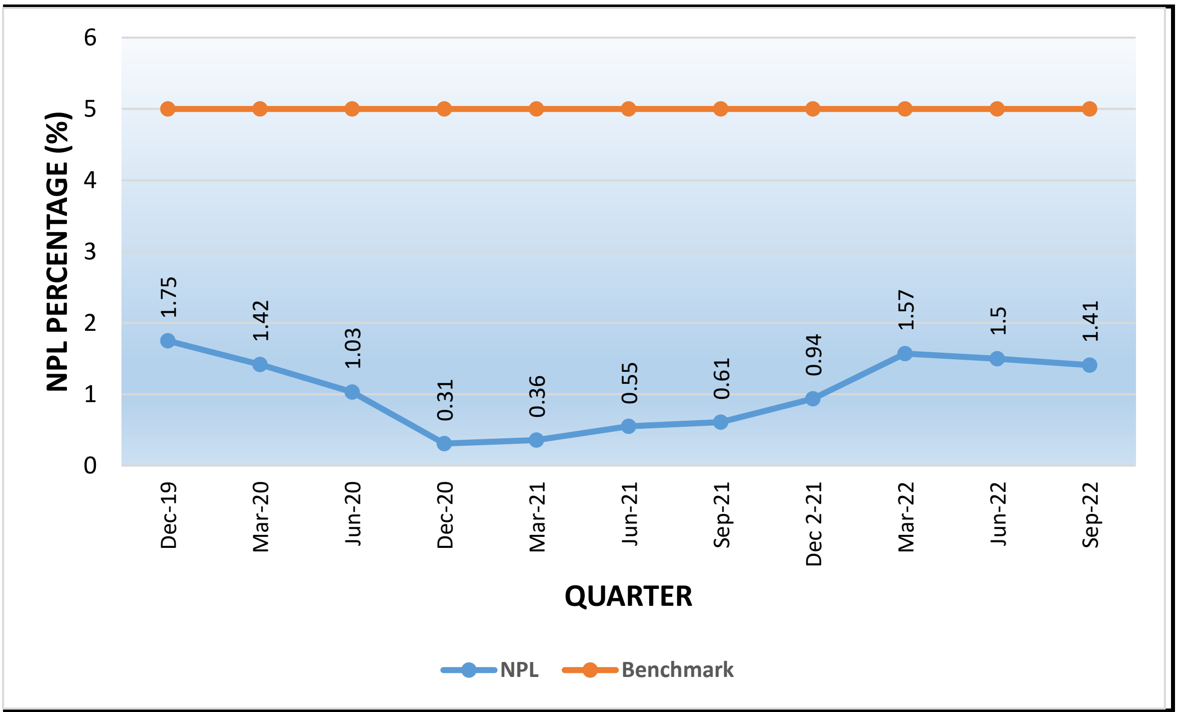


Loan Portfolio Quality

3.11. The portfolio quality of the sector remained satisfactory as measured by the non-performing loans (NPLs) to total loans ratio of 1.41% as at 30 September 2022, against the international benchmark of 5%.

3.12. The trend in the level of non-performing loans to total loans ratio (NPL ratio) from December 2019 to September 2022 is shown in Figure 6 below.

Figure 6: Trend in Non- Performing Loans



3.13. The low NPL ratio is reflective of sound credit risk management systems and strong internal controls by banking institutions.

3.14. The Bank continues to closely monitor developments in the banking sector's credit risk exposures on an ongoing basis.

Earnings Performance

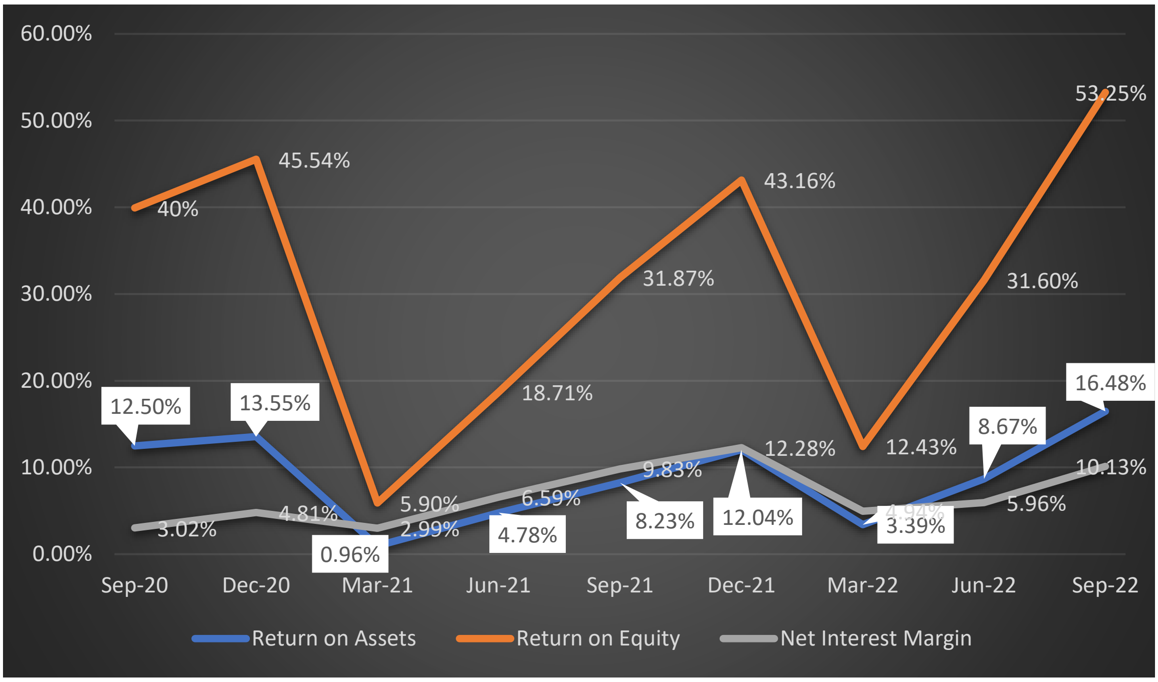
3.15. All banking institutions reported profits during the period under review, with aggregate profit of $342.28 billion for the nine-months ended 30 September 2022, a notable increase from $25.39 billion reported in the corresponding period in 2021.

3.16. Growth in banking sector income was largely spurred by non-interest income, which constituted 70.92% of total income [*2021: 54.35%*]. Non-interest income comprised mainly revaluation gains from investment properties (28.55%), translation gains on foreign currency denominated assets (27.17%) and fees and commissions (25.77%).

3.17. The return on assets and return on equity ratios were 16.48% and 53.25% as at 30 September 2022, compared to 8.23% and 31.87% as at 30 September 2021, respectively.

3.18. The trend of banking sector performance over the period 30 September 2020 to 30 September 2022 is shown in the Figure 7 below.

Figure 7: Trend of Banking Sector Performance



3.19. The cost to income ratio improved from 71.85% reported as at 30 September 2021 to 52.37% in the nine-months ended 30 September 2022.

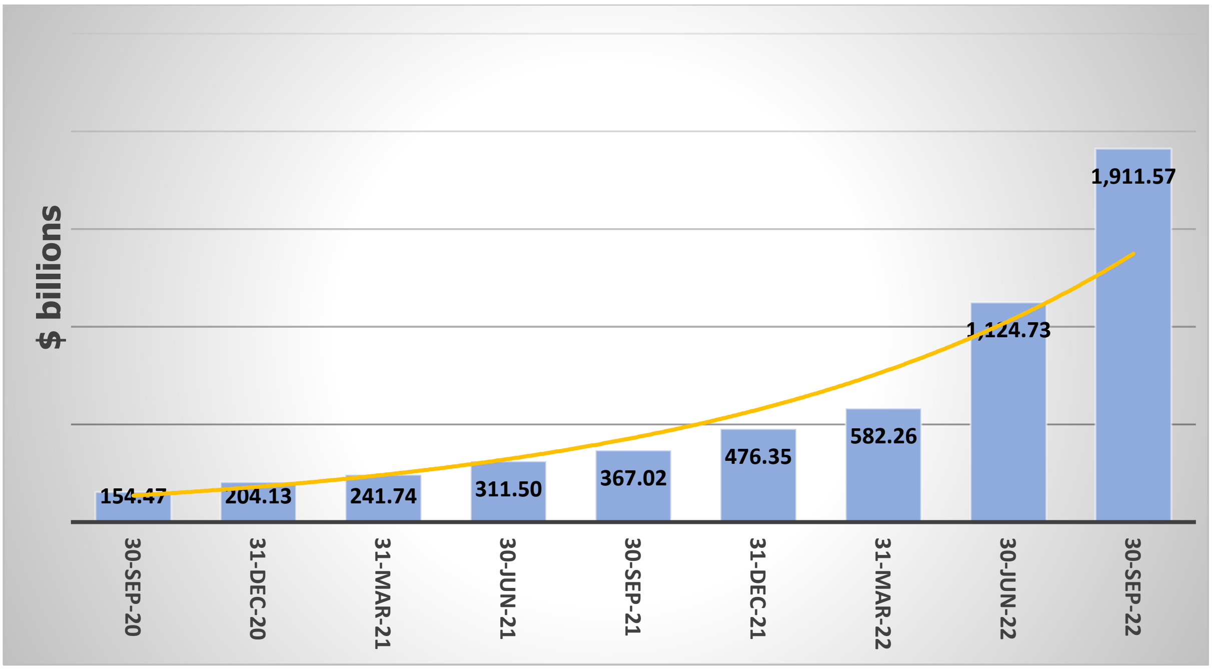
3.20. Salaries & employee benefits and administration expenses were the major cost drivers constituting 50.99% and 46.37%, respectively of the total banking sector operating costs of $174.46 billion.

Liquidity and Funds Management

3.21. Total banking sector deposits amounted to $1.91 trillion as at 30 September 2022 from $1.12 trillion reported as at 30 June 2022. The increase in the deposit base was mainly attributable to revaluation of foreign currency denominated deposits.

3.22. The trend of banking sector deposits over the period 30 September 2020 to 30 September 2022 is shown in the Figure 8 below.

Figure 8: Trend of Banking Sector Deposits

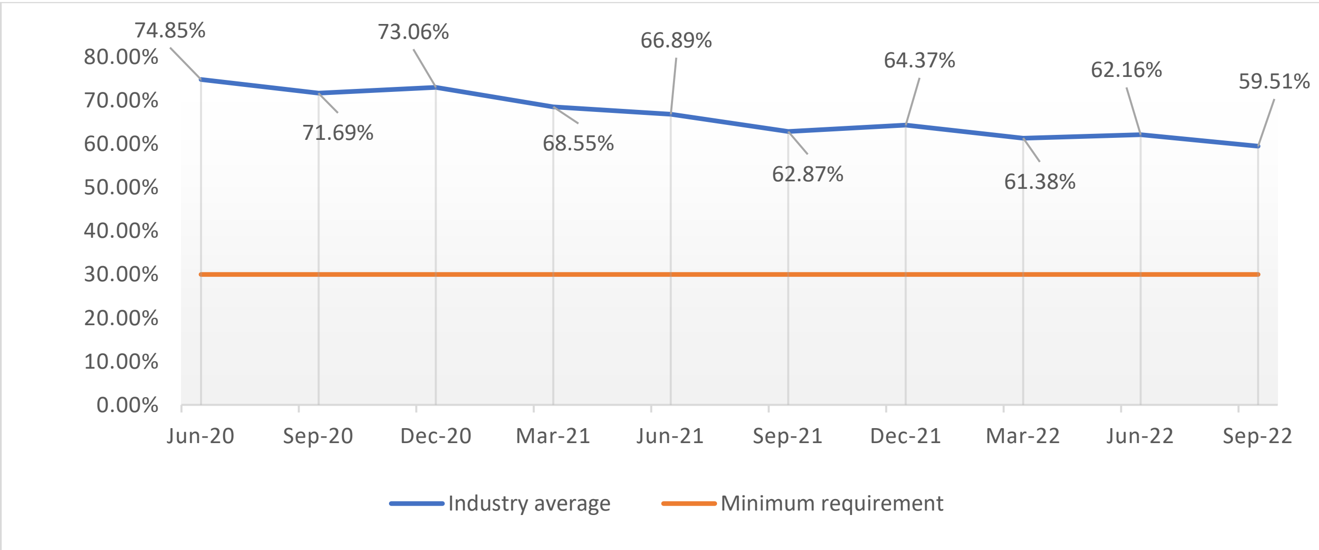


3.23. As at 30 September 2022, the average prudential liquidity ratio was high at 59.51% compared to the regulatory threshold of 30%, largely reflecting high stock of liquid assets in the sector.

3.24. The ratio has, however, been on a declining trend from a high of 74.85% in June 2020 as banking institutions are increasing their lending, as reflected by the gradual increase in the loans to deposits ratio from 44.16% in March 2021 to 52.83% in September 2022.

3.25. The trend in the average prudential liquidity ratio from June 2020 to September 2022 is shown in Figure 9 below.

Figure 9: Prudential Liquidity Ratio Trend (%)



3.26. As at 30 September 2022, 17 out of 18 operating banking institutions reported prudential liquidity ratios which were above the minimum regulatory requirement of 30%. The non-compliant banking institution is putting in place measures to regularise the breach.

Sensitivity to Market Risk

3.27. As at 30 September 2022, the banking sector had an overall asset sensitive book with positive cumulative re-pricing gaps in all time bands implying that most banks will gain if market interest rates remain on an upward trajectory.

3.28. During the quarter under review, sixteen (16) out of eighteen (18) banking institutions reported negative net open positions largely reflecting offshore borrowings not matched by corresponding foreign assets.

Outlook

3.29. In the outlook period, the increasing economic activity on the back of slowdown in inflation and stability of the local currency, as well as, the various monetary and fiscal policies being implemented by the Bank and the Government are expected to provide a stable environment for the banking sector.

3.30. The banking sector will continue to play an important role in supporting the funding requirements of the economy as recovery gains traction.