BANK SUPERVISION DIVISION

BANKING SECTOR REPORT FOR THE QUARTER YEAR ENDED 31 DECEMBER 2022

1. EXECUTIVE SUMMARY

1.1. The banking sector continues to play an important role in the development of the economy. The banking sector remains generally safe and sound. The economic outlook is expected to remain positive on account of the current macroeconomic stability.

1.2. 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 37.15% and 26.92%, respectively as at 31 December 2022.

1.4. Aggregate core capital amounted to $611.11 billion, up from $438.11 billion as at 30 September 2022. The growth in core capital was mainly attributed to capitalisation of retained earnings (includes revaluation gains from investment properties, translation gains from foreign exchange denominated assets) as well capital injection by shareholders.

1.5. Total banking sector assets increased by 22.51%, from $3.11 trillion as at 30 September 2022 to $3.81 trillion as at 31 December 2022. The assets largely comprised loans and advances which constituted 31.81% of total assets, followed by balances with foreign institutions and foreign cash at 17.12%.

1.6. Aggregate banking sector loans and advances increased by 27.72% from ZW$1.01 trillion as at 30 September 2022 to ZW$1.29 trillion as at 31 December 2022 and was largely attributed to an increase in foreign currency denominated loans.

1.7. Loan portfolio quality of the sector remained strong as measured by the non-performing loans (NPLs) to total loans ratio of 1.58% as at 31 December 2022, compared to 1.41% reported as at 30 September 2022. The ratio of non-performing loans was within the generally acceptable international threshold of 5%.

1.8. The banking sector was profitable recording an aggregate profit of ZW$503.13 billion for the year ended 31 December 2022, a 748.59% increase from ZW$59.29 billion reported in 2021. The growth in the banking sector income largely emanated from non-interest income, which constituted 67.82% of total income (revaluation gains from investment properties (62.88%), fees and commissions (29.15%) and translation gains on foreign currency denominated assets (7.98%), as at 31 December 2022, up from 54.35% reported in the corresponding period in 2021.

1.9. Total deposits increased by 198.95% from ZW$1.91 trillion as at 30 September 2022 to ZW$2.29 trillion as at 31 December 2022, mainly driven by growth in foreign currency deposits.

1.10. The average prudential liquidity ratio for the banking sector was 59.50% as at 31 December 2022, and all banking institutions, with the exception of one (1), were compliant with the minimum prudential liquidity ratio of 30%.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. The composition of the banking sector as at 31 December 2022 is as shown in Table 1.

Table 1: Architecture of the Banking Sector

Type of Institution	Number
Commercial Banks	14
Building Societies	4
Savings Bank (POSB)	1
Total Banking Institutions	**19**
Other Operational Institutions Under the Supervision of Reserve Bank	
Credit-only-MFIs	**198**
Deposit-taking MFIs	8
Development Financial Institutions (SMEDCO, IDBZ, IDCZ and AFC Land & Development Bank)	4
Total Other Institutions	**210**
Total Number of Institutions	**229**

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. Banking institutions registered satisfactory performance during the period ended 31 December 2022, as depicted by the key financial soundness indicators in Table 2:

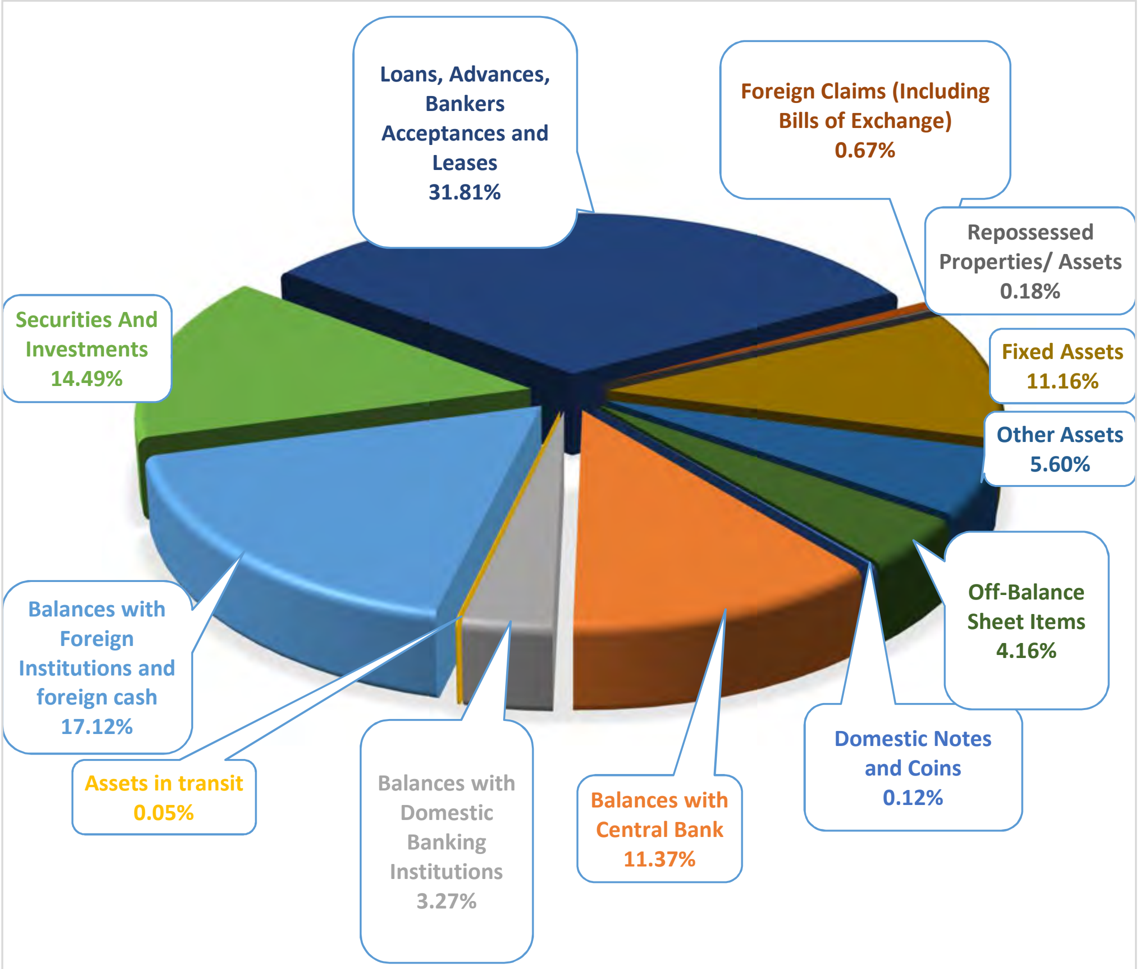
Table 2: Financial Soundness Indicators

Key Indicators	Benchmark	Dec- 21	Mar-22	June-22	Sept-22	Dec-22
Total Assets	-	$762.96 bn	$969.24 bn	$1.94 tn	$3.11 tn	$3.81 tn
Total Loans & Advances	-	$229.94 bn	$320.36 bn	$603.14 bn	$1.01 tn	$1.29 tn
Net Capital Base	-	$122.85 bn	$170.00 bn	$349.48 bn	$535.96 bn	$746.30 bn
Core Capital	-	$100.83 bn	$138.21 bn	$284.74 bn	$438.11 bn	$611.11 bn
Total Deposits	-	$476.35 bn	$582.26 bn	$1.12 tn	$1.91 tn	$2.29tn
Net Profit	-	$59.29 bn	$27.05 bn	$181.25 bn	$342.28 bn	$503.13 bn
Return on Assets	-	12.04%	3.39%	8.67%	16.48%	17.43%
Return on Equity	-	43.16%	12.43%	31.60%	53.19%	54.33%
Capital Adequacy Ratio	12%	32.86%	35.16%	33.87%	35.45%	37.51%
Tier 1 Ratio	8%	26.54%	26.97%	18.84%	23.97%	26.92%
Loans to Deposits Ratio	70%	48.27%	55.02%	53.69%	52.83%	55.67%
NPLs Ratio	5%	0.94%	1.57%	1.50%	1.41%	1.58%
Liquidity Ratio	30%	64.37%	61.38%	60.78%	59.51%	59.50%

Composition of Banking Sector Assets

3.2. As at 31 December 2022, total banking sector assets amounted to $3.81 trillion, up from $3.11 trillion as at 30 September 2022. The dominant assets on the bank balance sheets were loans & advances (31.81%), balances with foreign institutions and foreign cash (17.12%) and securities and investments (14.49%) as shown in Figure 1.

Figure 1: Asset Mix as at 31 December 2022

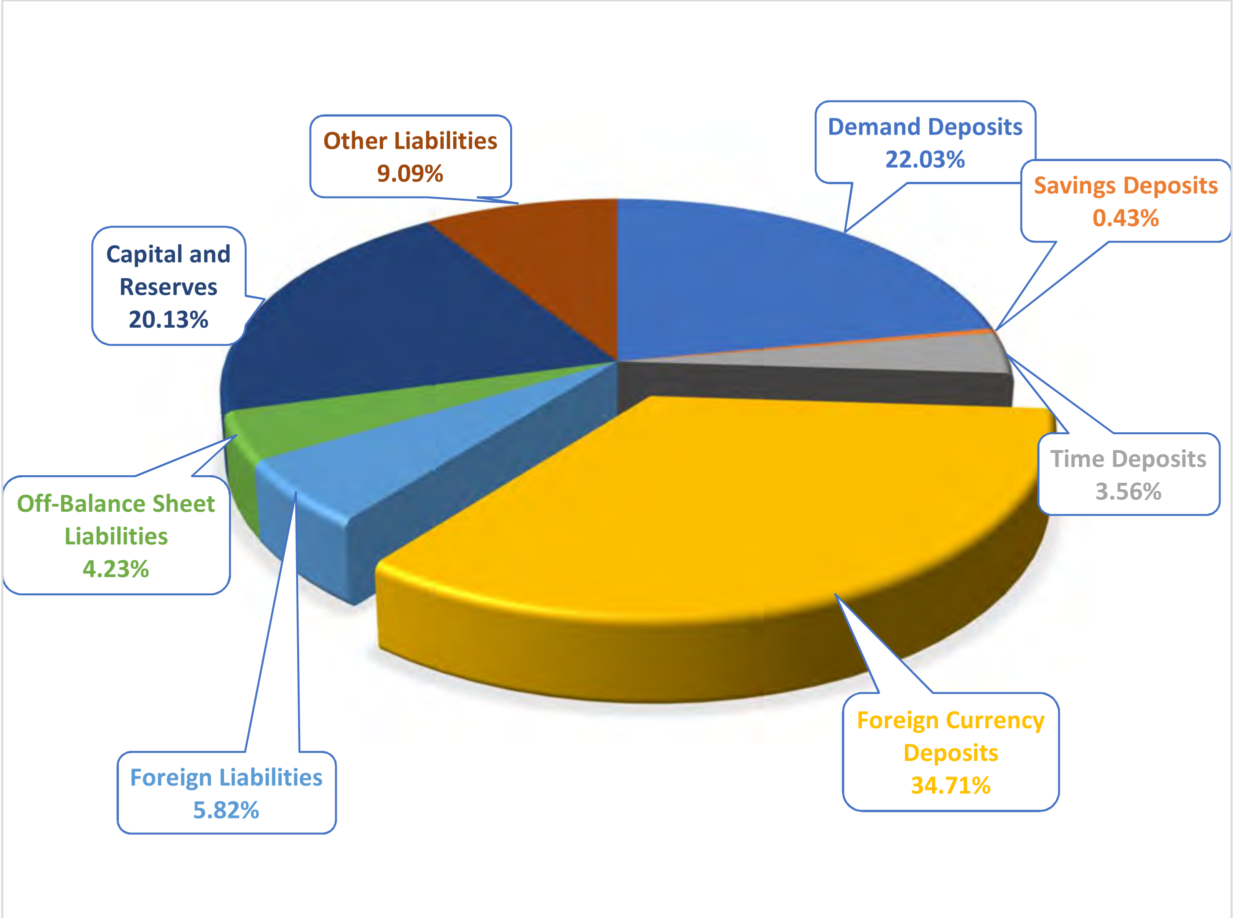


3.3. The larger proportion of loans and advances in the aggregate banking sector balance sheet is consistent with banking institutions' core business of lending.

Liabilities Structure

3.4. The banking sector liabilities largely comprised foreign currency deposits (34.71%), demand deposits (22.03%) and capital and reserves (20.13%), as shown in Figure 2.

Figure 2: Decomposition of Liabilities as at 31 December 2022



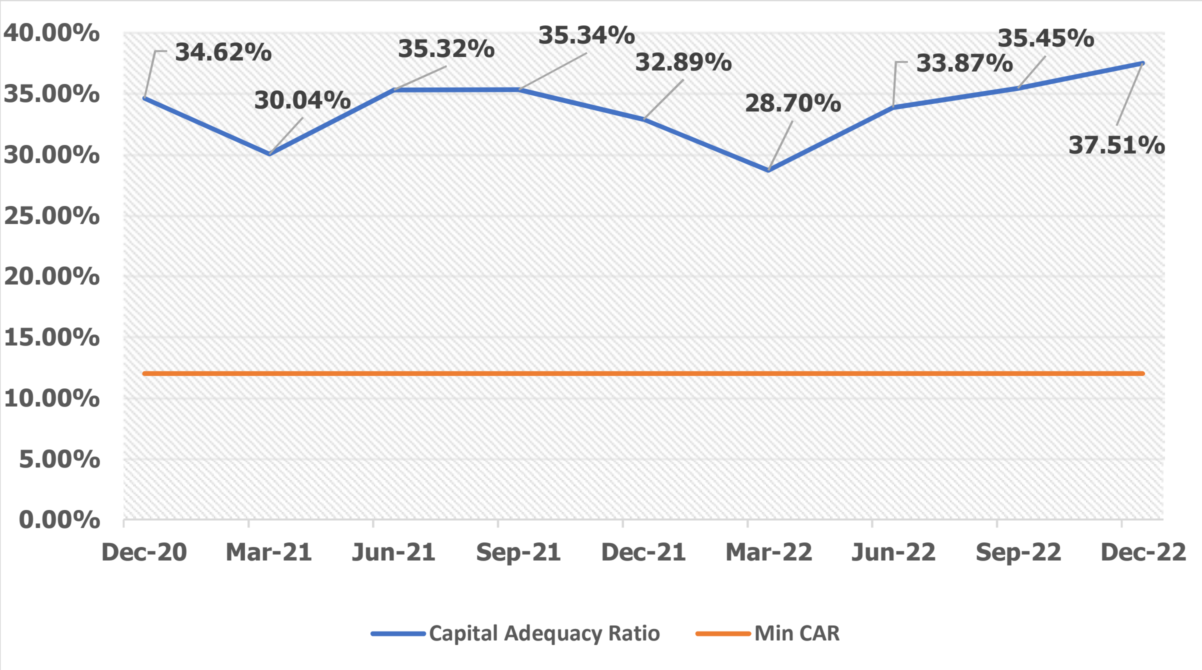
Capitalisation

3.5. The total aggregate banking sector core capital increased by 74.57% from $438.11billion as at 30 September 2022 to $611.11 billion as at 31 December 2022.

3.6. All banking institutions reported adequately capitalisation, with average tier 1 and capital adequacy ratios of 26.92% and 37.51% respectively. The prescribed regulatory minima for tier 1 and capital adequacy ratios of banking institutions is 12% and 8%, respectively.

3.7. The average capital adequacy ratios have largely remained stable over the year as shown in figure 3.

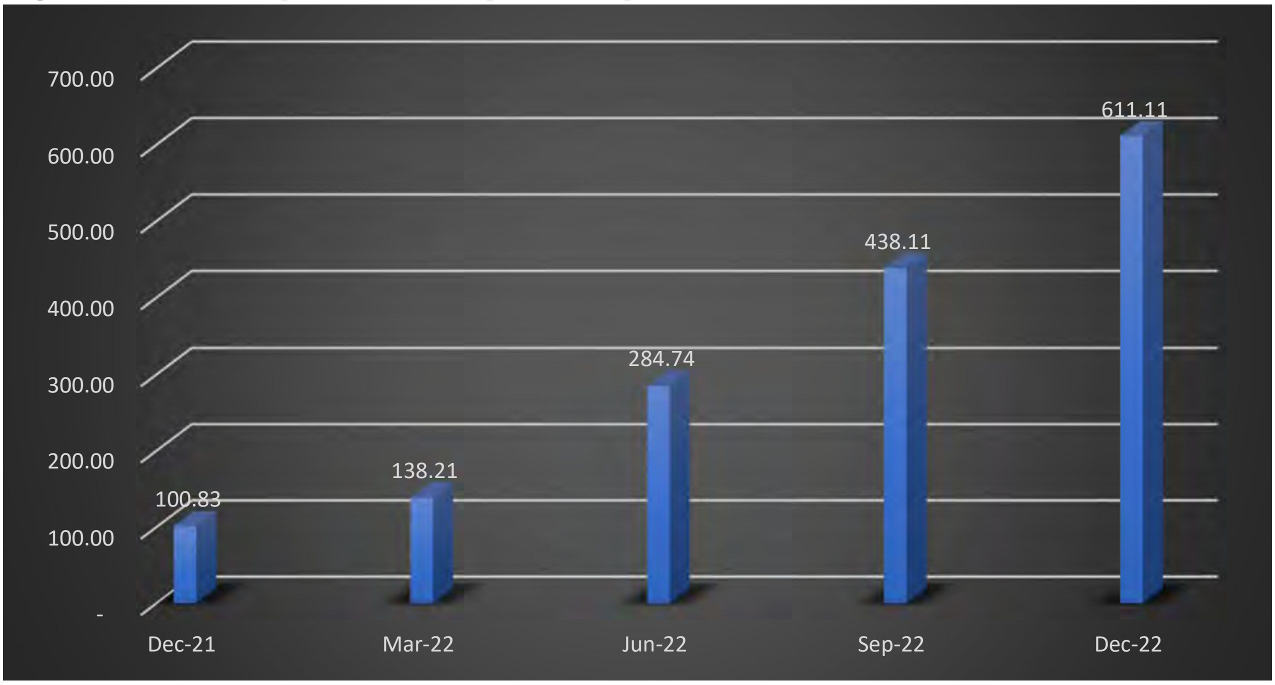
Figure 3: Capital Adequacy Ratios Trend



3.8. 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.

3.9. Figure 4 shows a trend of core capital trends from December 2021.

Figure 4: Core Capital Trends ($ billion)

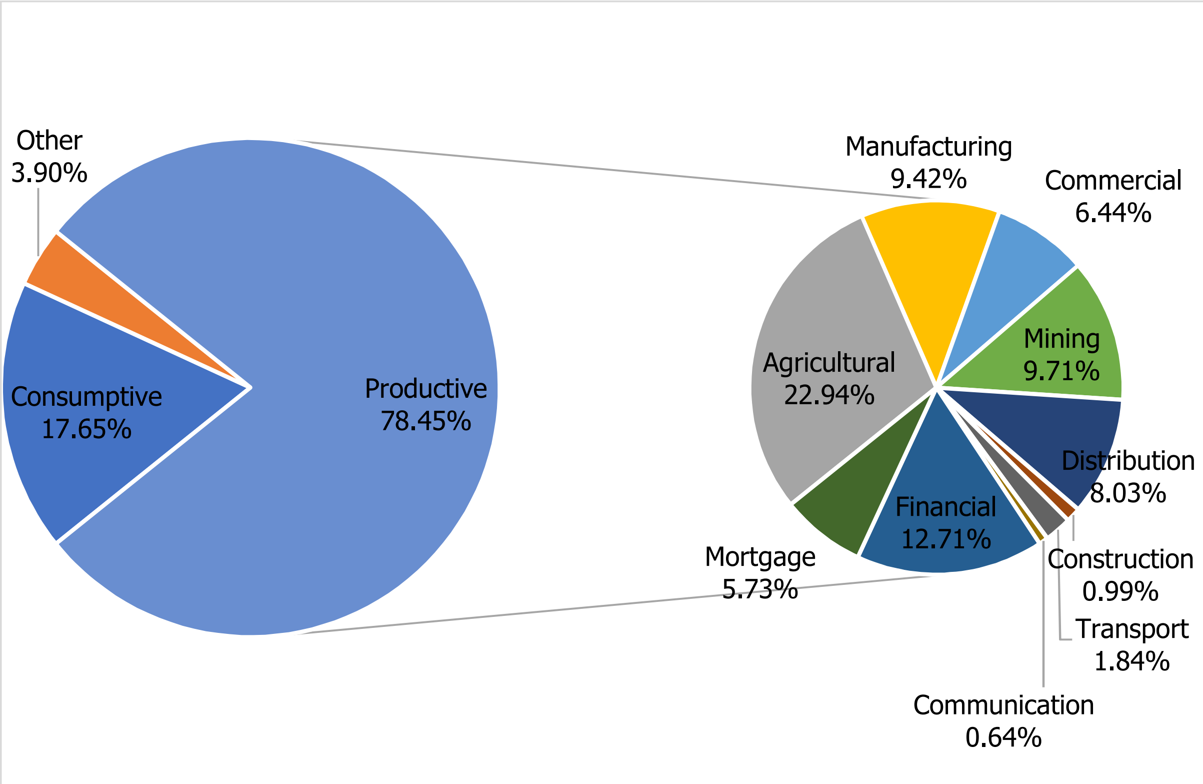


Asset Quality

3.10. Total banking sector loans and advances marginally increased from $1.1 trillion as at 30 September 2022 to $1.29 trillion as at 31 December 2022. The increase was largely attributed to an increase in foreign currency denominated loans.

3.11. The banking sector continued to support the productive sectors of the economy as evidenced by loans to the productive sectors constituting 78.45% of total loans as at 31 December 2022 as shown in Figure 5 below.

Figure 5: Sectoral Distribution of Loans as at 31 December 2022

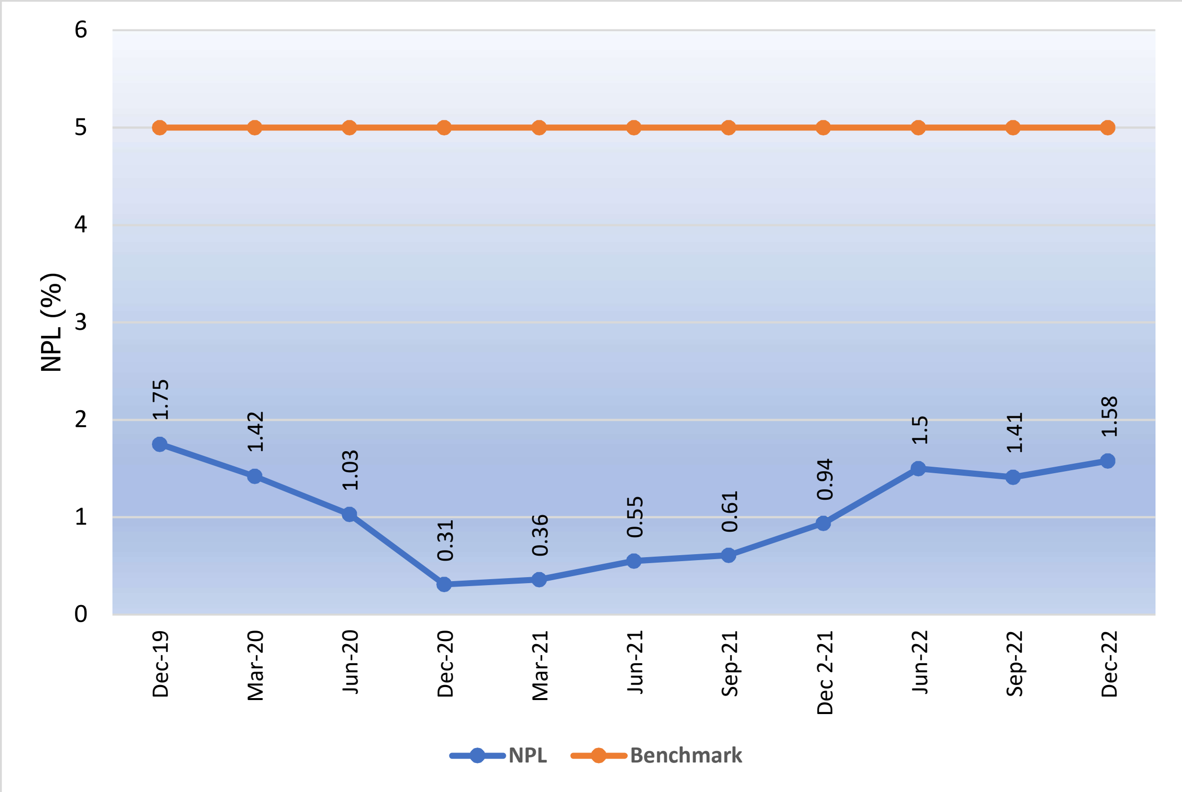


Loan Portfolio Quality

3.12. The portfolio quality of the sector remained strong as measured by the non-performing loans (NPLs) to total loans ratio of 1.58% as at 31 December 2022, against the generally acceptable international threshold of 5%.

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

Figure 6: Trend in Non- Performing Loans



3.14. The low NPL ratio is partly reflective of sound credit risk management systems, intensified loan collections efforts and strong internal controls by banking institutions.

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

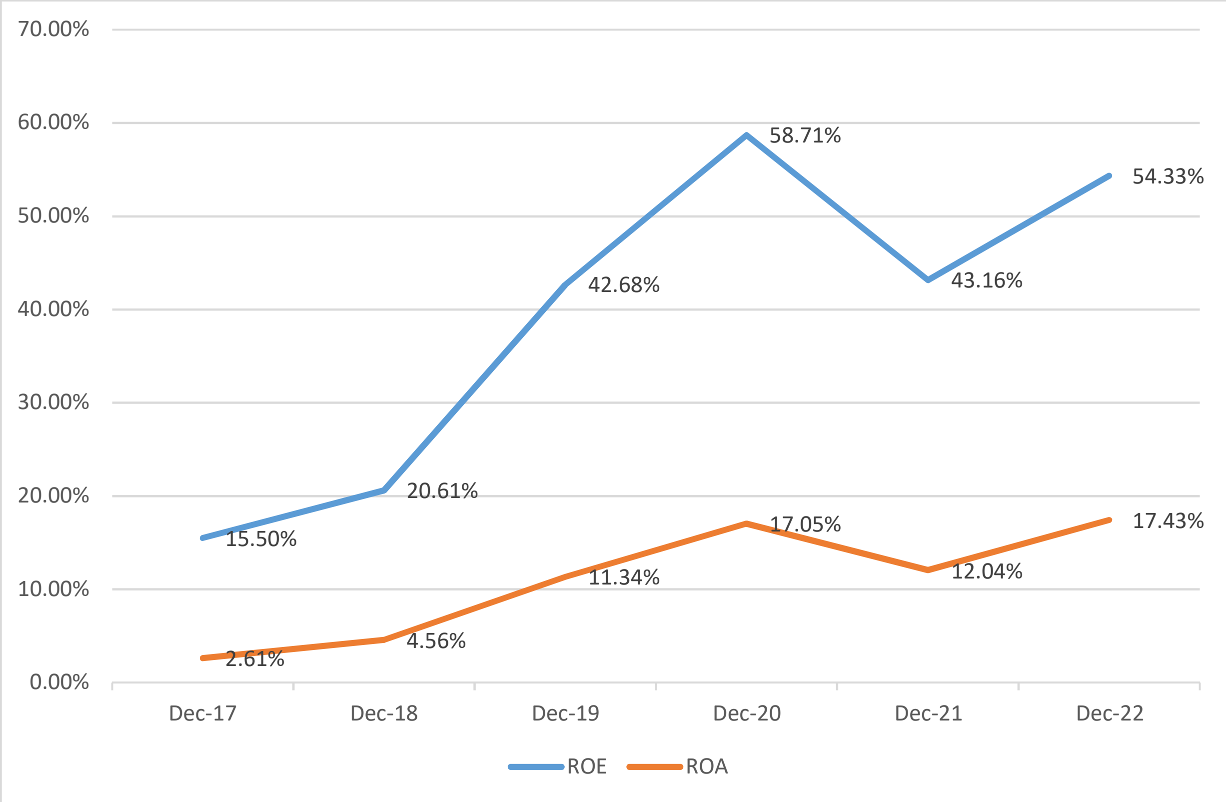
Earnings Performance

3.16. All banking institutions were profitable during the period under review, with aggregate profit of $503.13 billion for the year ended 31 December 2022, a notable increase from $59.29 billion reported in the corresponding period in 2021.

3.17. The growth in the banking sector income largely emanated from non-interest income, which constituted 67.82% of total income as at 31 December 2022, up from 54.35% reported in the corresponding period in 2021. The total non-interest income mainly consists of revaluation gains from investment properties (62.88%), fees and commissions (29.15%) and translation gains on foreign currency denominated assets (7.98%).

3.18. The return on assets and return on equity ratios were 17.43% and 54.33% as at 31 December 2022, compared to 12.04% and 43.16% as at 31 December 2021, respectively. The trend of the ratios over the period 31 December 2017 to 31 December 2022 is shown in the figure 7 below.

Figure 7: Trend of Return on Assets and Equity



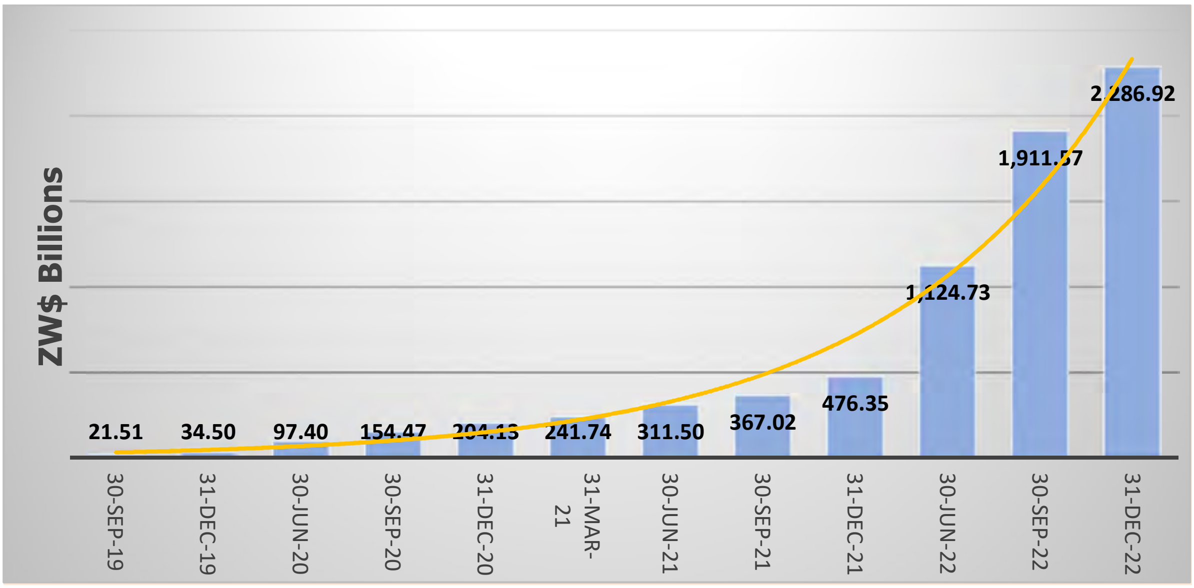
3.19. During the period under review, the cost to income ratio for the sector slightly improved from 71.38% in 2021 to 57.21% in 2022, mainly due to the improved operating income.

Liquidity and Funds Management

3.20. Total banking sector deposits amounted to $2.29 trillion as at 31 December 2022 from $1.91 trillion reported as at 30 September 2022. The increase in the deposit base was mainly attributable to revaluation of foreign currency denominated deposits.

3.21. The trend of banking sector deposits over the period 30 September 2019 to 31 December 2022 is shown in the figure 8 below.

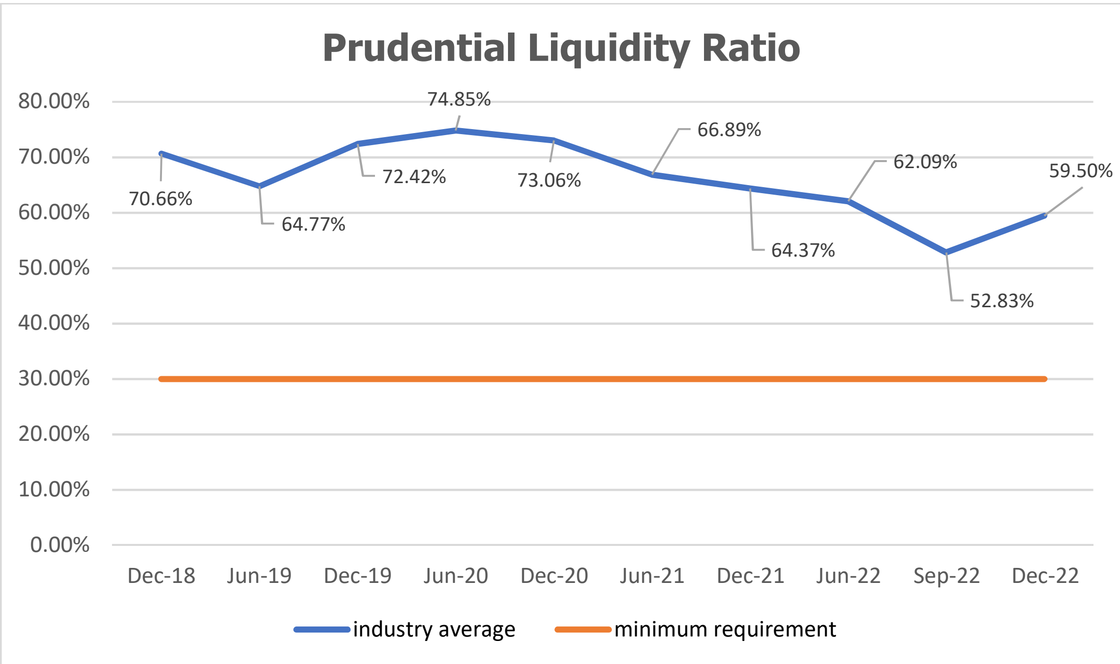
Figure 8: Trend of Banking Sector Deposits



3.22. As at 31 December 2022, the average prudential liquidity ratio was high at 59.50%, largely reflecting high stock of liquid assets in the sector.

3.23. The trend in the average prudential liquidity ratio from 31 December 2018 to 31 December 2022 is shown in figure 9 below.

Figure 9: Prudential Liquidity Ratio Trend (%)



3.24. As at 31 December 2022, 18 out of 19 operating banking institutions reported prudential liquidity ratios which were above the minimum regulatory requirement of 30%. One non-compliant institution has put in place strategies towards compliance and is under close monitoring.

Sensitivity to Market Risk

3.25. As at 31 December 2022, the banking sector had an overall liability sensitive book with a cumulative reprising gap of $17.47billion in the 1 to 365 days' time bucket implying that other things being equal, the bank's net interest income will decrease in an environment of rising interest rates.

3.26. During the quarter under review, nine (9) out of eighteen (18) banking institutions reported negative net open positions largely reflecting offshore borrowings not matched by corresponding foreign assets.

Outlook

3.27. In the outlook period, the macro economy is expected to remain stable in view of the projected lower inflation supplemented by sound monetary and fiscal policies.

3.28. The banking sector will continue to support the economy through lending to the productive sectors and funding the requirements of the economy.

3.29. The Bank will continue to closely monitor the overall financial condition and risks in banking sector as part of its supervisory toolkit inorder to maintain financial stability

BANK SUPERVISION DIVISION
MARCH 2023