RESERVE BANK OF ZIMBABWE

BANK SUPERVISION DIVISION

BANKING SECTOR REPORT FOR THE HALF YEAR ENDED 30 JUNE 2023

1. EXECUTIVE SUMMARY

1.1. The banking sector continued to play a critical role in supporting the productive sectors of the economy. The sector has remained sound and stable, with strong capital and liquidity positions, as well as strong risk management practices.

1.2. During the period under review, the sector has demonstrated resilience to adverse shocks emanating from the dynamic operating environment.

1.3. For the period ended 30 June 2023, the banking sector was adequately capitalised with average capital adequacy and tier 1 ratios of 35.35% and 40.48%, respectively.

1.4. All banking institutions were in compliance with the prescribed capital adequacy and tier 1 ratios of 12% and ratio of 8%, respectively. Banking sector capitalisation levels were driven mainly by retained earnings, largely emanating from revaluation gains from investment properties and monetary assets.

1.5. Total banking sector assets increased significantly to $27.28 trillion as at 30 June 2023 from $5.68 trillion as at 31 March 2023. Loans and advances (32.82%) remained the dominant assets on the bank balance sheets.

1.6. Aggregate banking sector loans and advances increased by 417.261% to $10.19 trillion as at 30 June 2023, from $1.97 trillion as at 31 March 2023.

1.7. Asset quality remained strong as evidenced by a non-performing loans to total loans ratio of 3.62% as at 30 June 2023 compared to the international recommended threshold of 5%.

1.8. The banking sector remains profitable, with reported aggregate profits of $4.55 trillion, compared to $207.25 billion in 2022. The major driver of banking sector profitability was non-interest income which constituted 91.519% of total income amounting to $6.013 trillion. The total non-interest income mainly emanated from revaluation gains from investment properties (70.78%), fees and commissions (14.78%) and foreign exchange gains (14.45%).

1.9. The level of the banking sector financial intermediation marginally improved as reflected by the loans to deposits ratio of 55% as at 30 June 2023.

1.10. Banking institutions continued to maintain robust liquidity positions, providing a key source of strength in the face of a dynamic macroeconomic environment. As at 30 June 2023, the sector's average prudential liquidity ratio was 59.88%, largely reflecting high stock of liquid assets in the sector.

1.11. The Bank remained resolutely focussed on embedding sustainable banking practices in the banking sector. Sustainability principles are re-shaping the financial sector landscape as a key factor in creating strong, resilient and inclusive financial institutions and contributing to the attainment of social, economic, environmental and developmental goals in an economy.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. The composition of the banking sector as at 30 June 2023 is shown in Table 1 below.

Table 1: Architecture of the Banking Sector

The table below shows the composition of the banking sector as at 30 June 2023.

Type of Institution	Number
Commercial Banks	14
Building Societies	4
Savings Bank (POSB)	1
Total Banking Institutions	**19**
Other Financial Institutions Under the Supervision of Reserve Bank	
Credit-only-MFIs	**208**
Deposit-taking MFIs	**8**
Development Financial Institutions (SMEDCO, IDBZ, IDCZ and AFC Land & Development Bank)	**4**
Total Other Institutions	**220**
Total Number of Institutions	**239**

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

3. PERFORMANCE OF THE BANKING SECTOR

3.1. The banking sector registered satisfactory performance during the half year ended 30 June 2023, as depicted by the key financial soundness indicators shown in Table 2 below:

Table 2: Financial Soundness Indicators

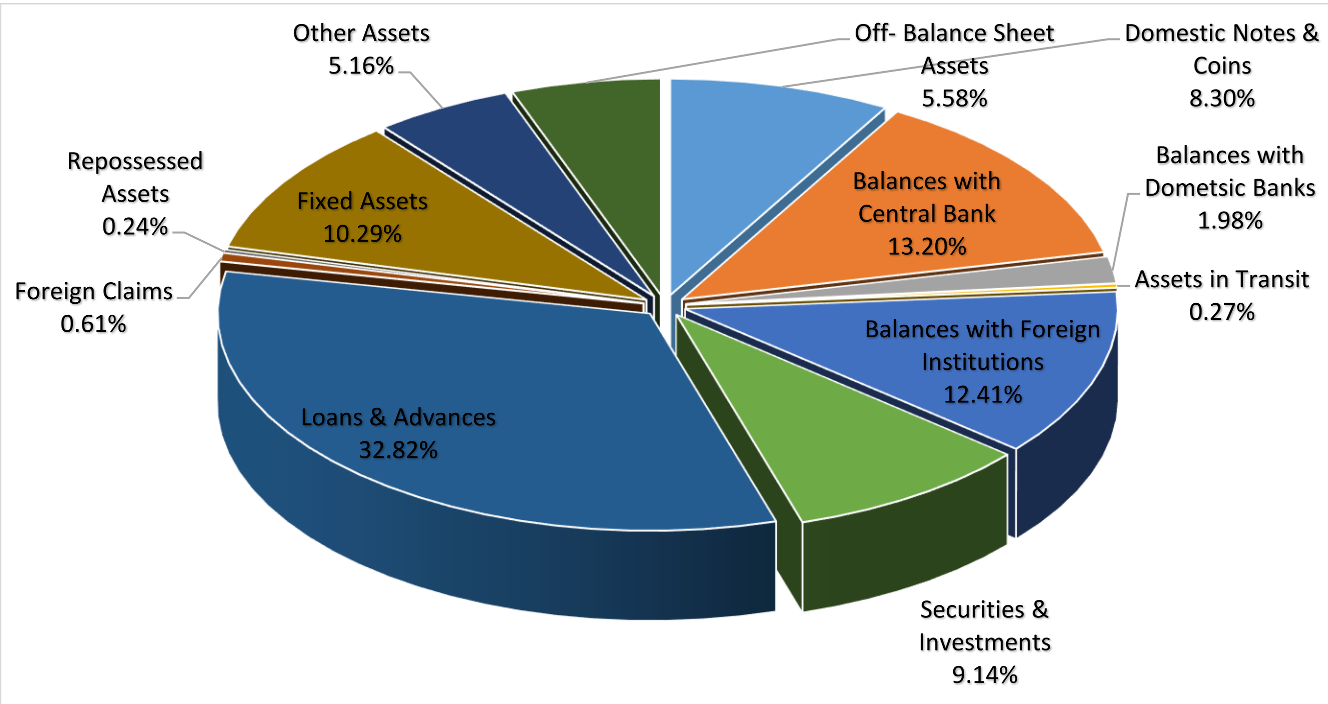
Key Indicators	Benchmark	June-22	Sep-22	Dec-22	March-23	June-23
Total Assets ($trillion)	-	1.94	3.11	3.81	5.68	**27.28**
Total Loans & Advances ($trillion)	-	0.60	1.01	1.29	1.97	**10.19**
Net Capital Base ($trillion)	-	0.35	0.54	0.75	1.01	**5.95**
Core Capital ($trillion)	-	0.28	0.44	0.61	0.80	**5.05**

Key Indicators	Benchmark	June-22	Sep-22	Dec-22	March-23	June-23
Total Deposits ($trillion)	-	1.12	1.91	2.29	3.17	**14.66**
Net Profit ($trillion)	-	0.18	0.34	0.50	0.21	**4.55**
Return on Assets	-	8.67%	16.48%	17.43%	4.92%	**26.11%**
Return on Equity	-	31.60%	53.19%	54.33%	16.62%	**74.60%**
Capital Adequacy Ratio	12%	33.87%	35.45%	37.15%	41.05%	**40.48%**
Tier 1 Ratio	8%	18.84%	23.97%	26.92%	27.85%	**35.35%**
Loans to Deposits Ratio	-	53.69%	52.83%	55.67%	56%	**55.%**
NPLs Ratio	5%	1.50%	1.41%	1.58%	3.30%	**3.62%**
Liquidity Ratio	30%	60.78%	59.51%	59.50%	57.65%	**59.88%**

Composition of Banking Sector Assets

3.2. As at 30 June 2023 banking sector total assets amounted to $27.28 trillion, representing a 380.69% increase from $5.68 trillion as at 31 March 2023 and largely comprised loans & advances which accounted for 32.82% of total banking assets, as shown in the figure 1 below:

Figure 1: Asset Mix as at 30 June 2023

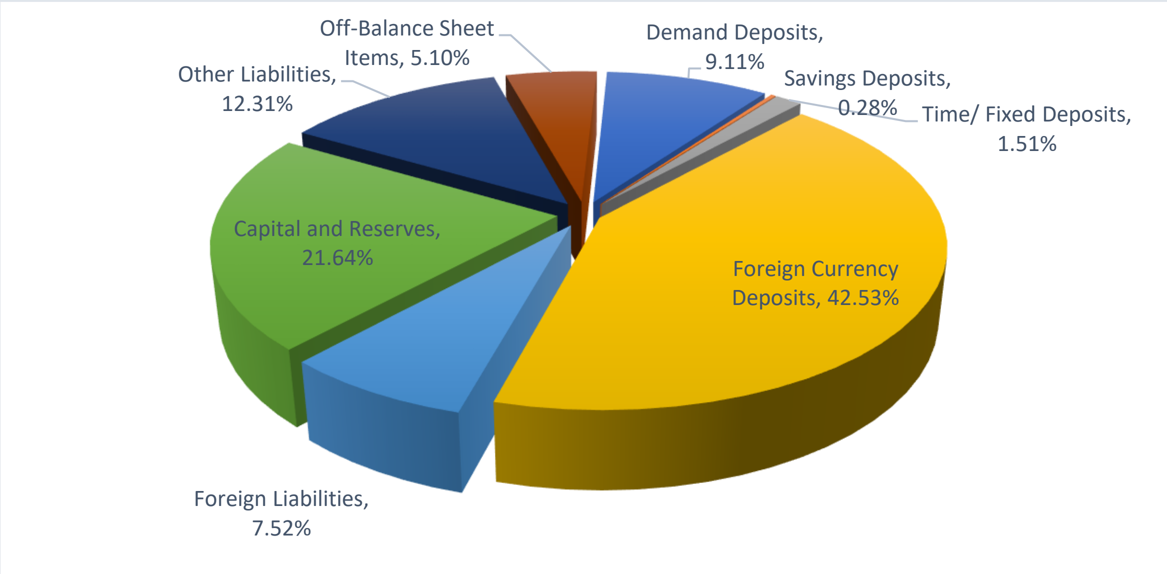


Liabilities Structure

3.3. Banking sector liabilities as at 30 June 2023 largely comprised foreign currency deposits (42.53%), capital and reserves (21.64%) and other liabilities (12.31)

3.4. Figure 2 shows the composition of banking sector liabilities as at 30 June 2023, as depicted below:

Figure 2: Decomposition of Liabilities as at 30 June 2023

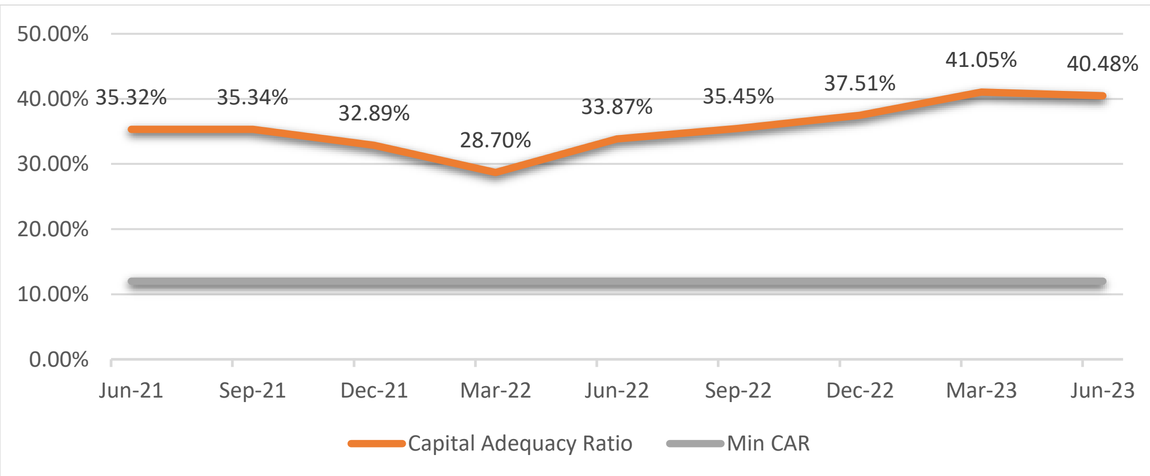


Capitalisation

3.5. As at 30 June 2023, the banking sector was adequately capitalised with reported capital ratios that were in compliance with the prescribed minimum tier 1 and capital adequacy ratio of 8% and 12%. The banking sector recorded average capital adequacy and tier 1 ratios of 40.48% and 35.35%, as at 30 June 2023, respectively.

3.6. The figure 3 below shows the trend in banking industry's average capital adequacy ratios from June 2021 to June 2023:

Figure 3: Capital Adequacy Ratio Trend



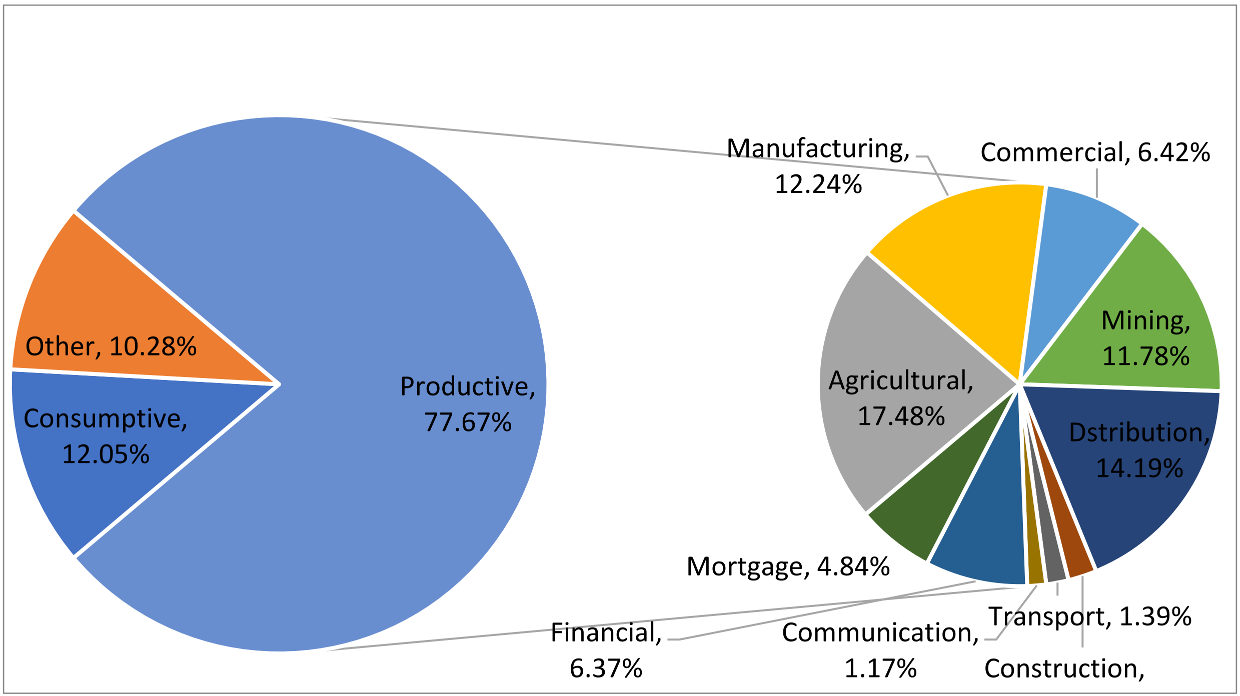
3.7. Banking sector core capital increased from $803.08 billion as at 31 March 3023 to $5.05 trillion as at 30 June 2023. The growth in core capital was largely attributed to capitalisation of retained earnings. The retained earnings from a number of banking institutions were mainly driven by revaluation gains from investment properties and translation gains from foreign exchange denominated assets.

Asset Quality

3.8. Total banking sector loans and advances amounted to $10.19 trillion as at 30 June 2023, a significant increase from $1.97 trillion recorded as 31 March 2023. This was attributable to growth in foreign currency denominated loans which constituted 93% of total banking sector loans. The growth in foreign currency loans also reflected the upward movement in the exchange rate.

3.9. The banking sector continued to support the productive sectors of the economy as evidenced by loans to the productive sectors constituting 77.67% of total loans as at 30 June 2023, as shown figure 4 below.

Figure 4: Sectoral Distribution of Loans as at 30 June 2023

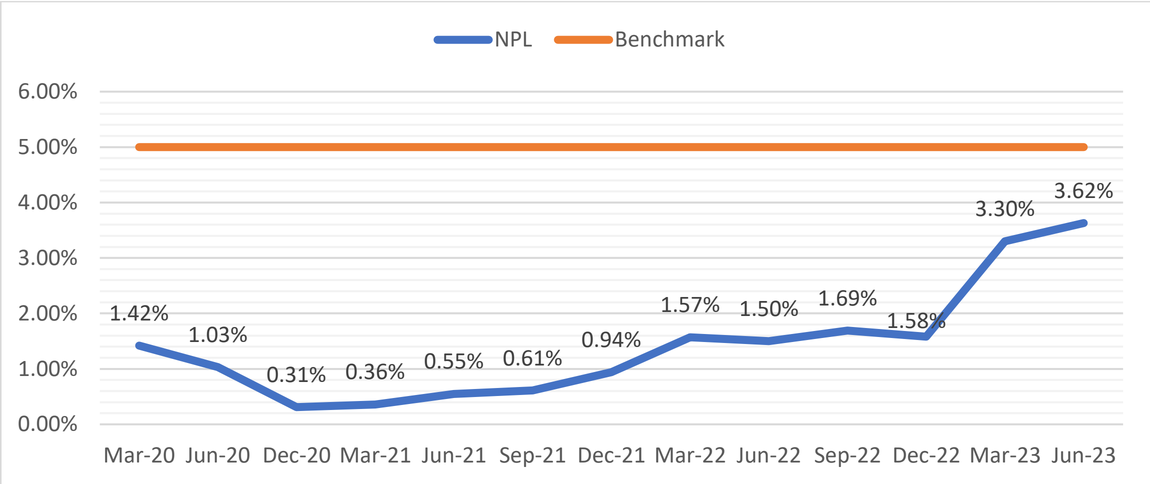


Loan Portfolio Quality

3.10. The banking sector asset quality remained satisfactory as reflected by aggregate non-performing loans to total loans ratio (NPL) of 3.62% as at 30 June 2023 up from 3.30% as at 31 March 2023. The ratio however, remained within the acceptable international threshold of 5%.

3.11. The trend in the level of non-performing loans to total loans ratio (NPL ratio) from June 2020 to June 2023 is shown in Figure 5 below.

Figure 5: Trend in Non- Performing Loans



3.12. The low NPL ratio is reflective of sound credit risk management systems and strong internal controls by banking institutions. Banking institutions continue to work constructively with obligors showing incipient signs of credit stress.

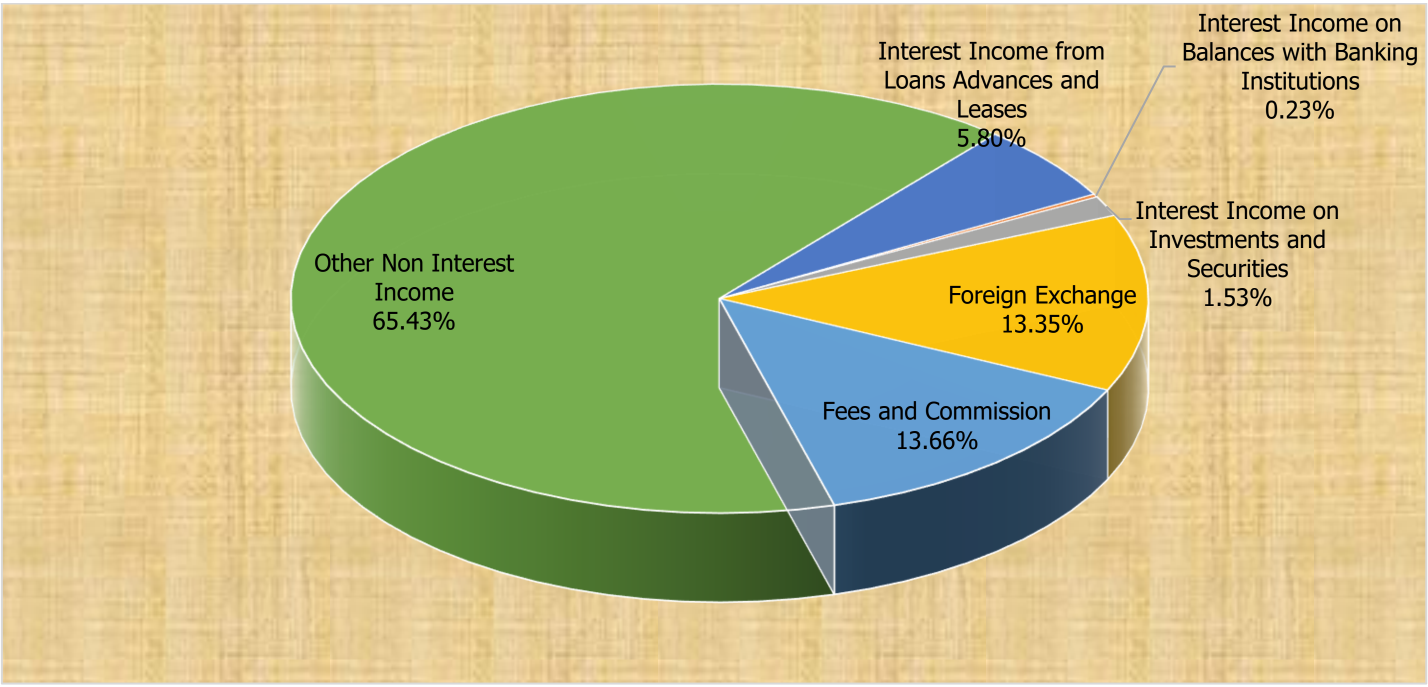
3.13. The Bank will continue to closely monitor developments in the banking sector's credit risk exposures.

Earnings Performance

3.14. During the period under review, the banking sector was profitable, with aggregate profit of $4.55 trillion for the half year ended 30 June 2023, compared to $181.25 billion reported in the corresponding period in 2022. Growth in banking sector income was largely spurred by non-interest income, which constituted 92.51% of total income [June *2022: 79.03%*].

3.15. Non-interest income comprised mainly of revaluation gains from investment properties (70.78%), fees and commissions (13.66%) and gains on revaluation of foreign currency denominated assets (13.35%). Figure 6 below shows banking sector income mix as at 30 June 2023.

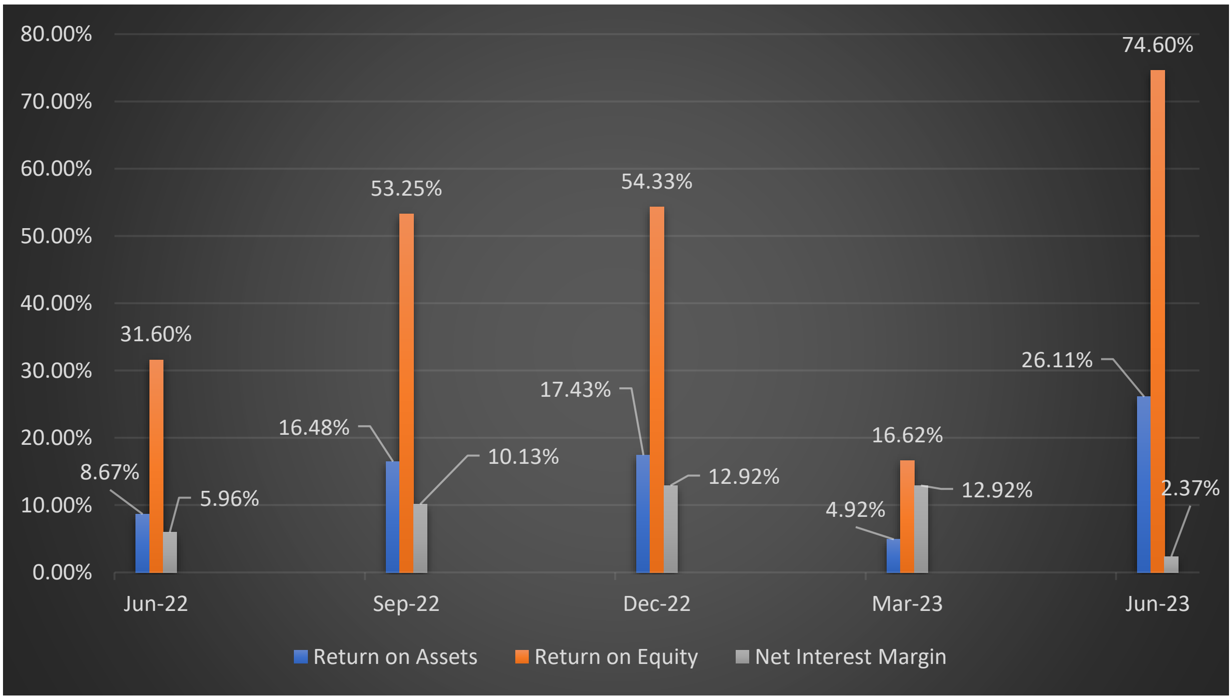
Figure 6: Banking Sector Income Mix as at 30 June 2023



3.16. As at 30 June 2023, banking sector profitability as measured by return on assets and return on equity ratios were 26.11% and 74.60%, compared 8.67% and 31.60% reported as at 30 June 2022, respectively.

3.17. The trend of banking sector performance over the period 30 June 2022 to 30 June 2023 is shown in the figure 7 below:

Figure 7: Trend of Banking Sector Performance



3.18. The banking sector reported a cost to income ratio of 53.53% as at 30 June 2023, a

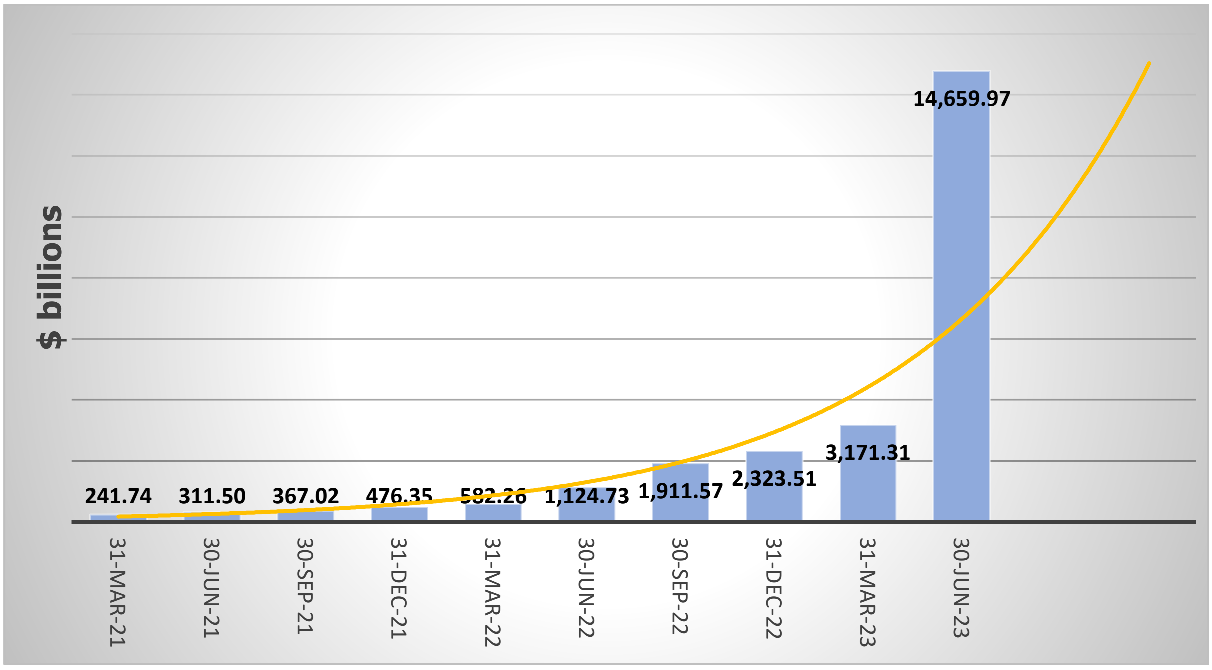
7.25% improvement from 60.78% recorded in the corresponding period in 2022. The banking institutions continue to implement cost containment measures including integrating digital technologies into business processes which optimises workflows and improves efficiency.

Liquidity and Funds Management

3.19. Total banking sector deposits increased significantly from $3.13 trillion reported as at 31 March 2023 to $14.66 trillion as at 30 June 2023 representing a growth of 368.37%. The growth in banking sector deposits was mainly attributed to growth in foreign currency deposits which accounted for 79.15% of total deposits.

3.20. The trend of banking sector deposits over the period 31 March 2021 to 30 June 2023 is shown in Figure 8 below.

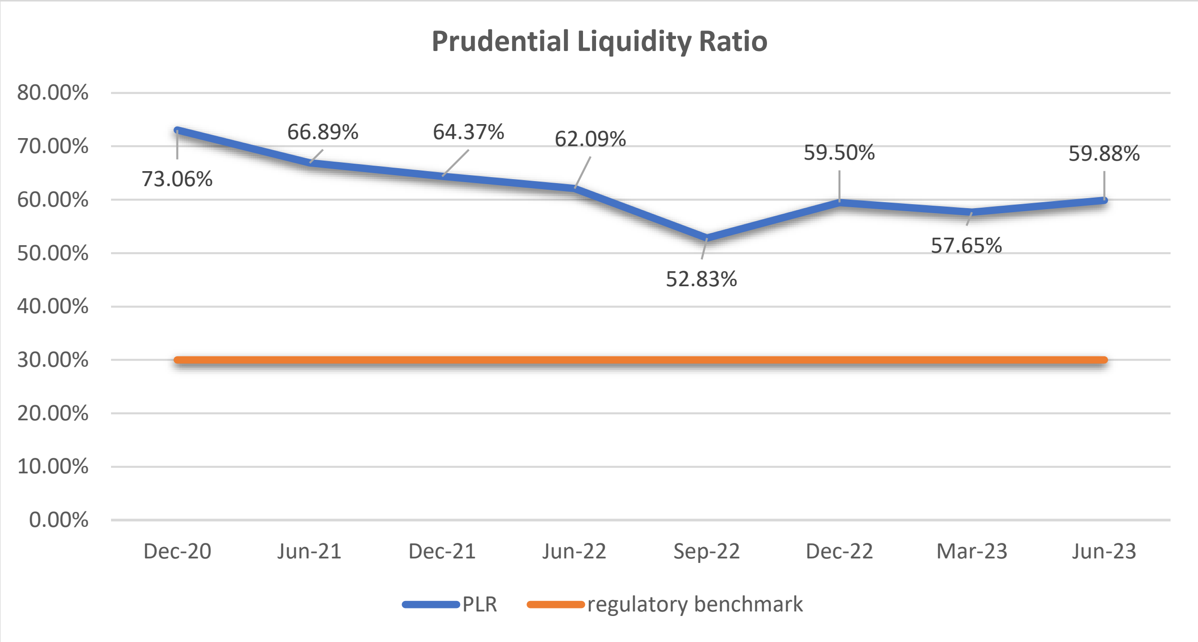
Figure 8: Trend of Banking Sector Deposits



3.21. The average prudential liquidity ratio remained stable and high at 59.88% as at 30 June 2023, largely reflecting high stock of liquid assets in the sector.

3.22. The trend in the prudential liquidity ratio for the period 31 December 2019 to 30 June 2033 is shown in the figure below.

Figure 9: Trend in Prudential Liquidity Ratio



Sensitivity to Market Risk

3.23. The banking sector had an overall asset sensitive book as at 30 June 2023, 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.

Outlook

3.24. In the outlook, the banking industry is expected to remain safe and sound with banks playing their critical intermediary role.

3.25. Banking institutions are expected to continuously evolve and build financial and operational resilience.

3.26. Asset quality is expected to remain satisfactory. The Bank will remain vigilant in monitoring the level of credit risk in the banking sector.

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