BANK SUPERVISION DIVISION

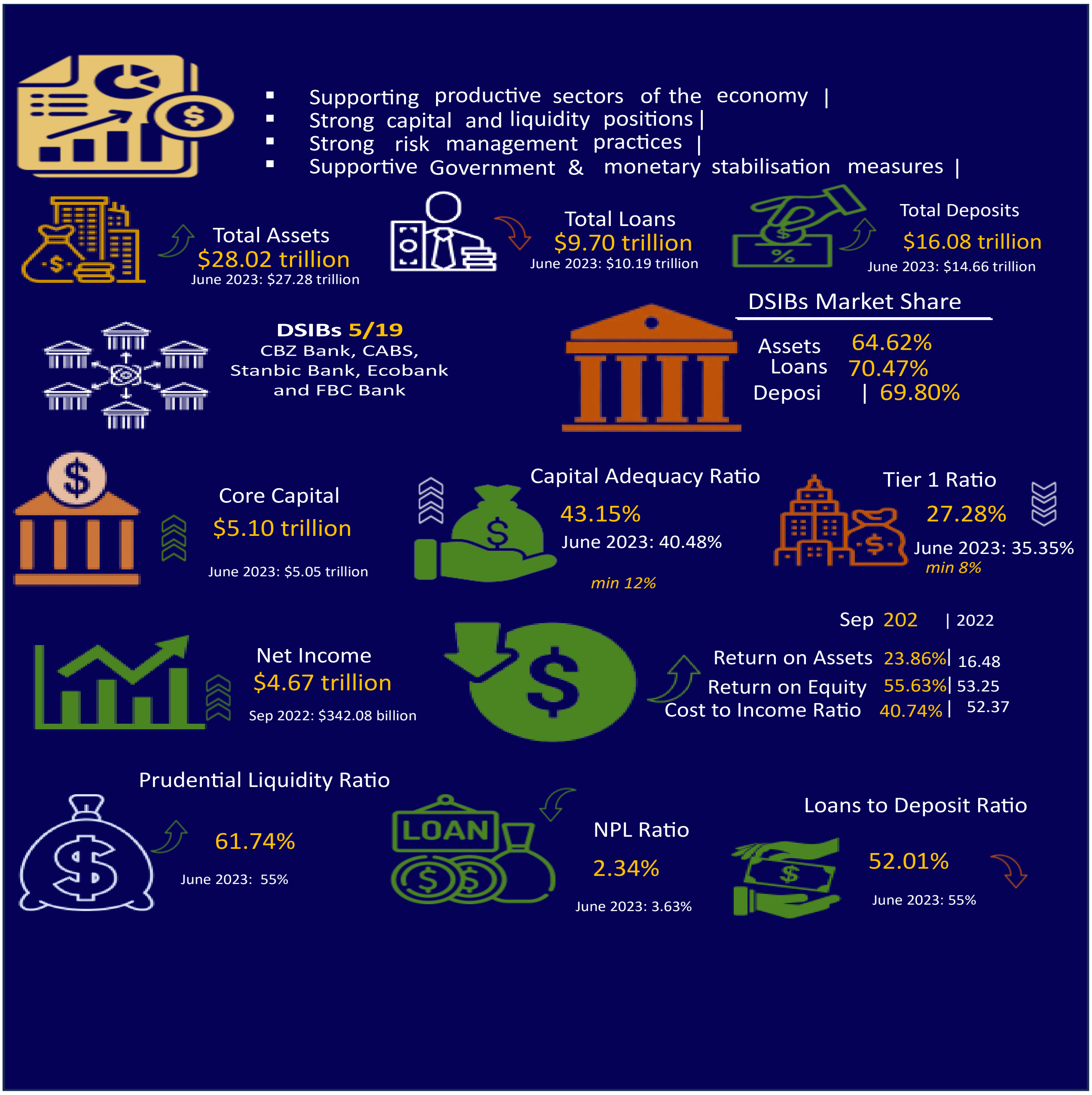
BANKING SECTOR REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2023

1. EXECUTIVE SUMMARY

1.1. The banking sector remained largely sound and stable and had displayed remarkable resilience to shocks emanating from the dynamic operating environment.

1.2. The sector's resilience is attributable to the strong risk management practices, capital and liquidity positions, in the context of the dynamic operating landscape.

1.3. Salient features of the sector are as summarised in the dashboard below.



2. ARCHITECTURE OF THE BANKING SECTOR

2.1. The architecture of the banking sector remained unchanged with 14 commercial banks, 4 building societies and 1 savings bank. In addition, there were 219 credit-only microfinance institutions, 8 deposit-taking microfinance institutions (DTMFI) and 4 development financial institutions.

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

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 Financial Institutions Under the Supervision of Reserve Bank	
Credit-only-MFIs	**219**
Deposit-Taking MFIs	**8**
Development Financial Institutions (SMEDCO, IDBZ, IDCZ and AFC Land & Development Bank)	**4**
Total Other Institutions	**231**
Total Number of Institutions	**250**

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 performance of the banking sector remained satisfactory as evidenced by strong capital and liquidity positions, low levels of non-performing loans and satisfactory earnings performance. The banking sector key financial soundness indicators are shown in Table 2 below:

Table 2: Financial Soundness Indicators

Key Indicators	Benchmark	June-22	Dec-22	March-23	June-23	Sep-23
Total Assets	-	$1.94tn	$3.81tn	$5.68tn	$27.28tn	$28.36tn
Total Loans & Advances	-	$603.14bn	$1.29tn	$1.97tn	$10.19tn	$9.62tn
Net Capital Base	-	$349.48bn	$746.30bn	$1.01tn	$5.95tn	$6.32tn
Core Capital	-	$284.74bn	$611.11bn	$803.08bn	$5.05tn	$5.10tn

Key Indicators	Benchmark	June-22	Dec-22	March-23	June-23	Sep-23
Total Deposits	-	$1.12tn	$2.29tn	$3.13tn	$14.66tn	$16.08tn
Net Profit[1]	-	$181.25bn	$503.13bn	$207.25bn	$4.55tn	$4.67tn
Return on Assets	-	8.67%	17.43%	4.92%	26.11%	23.69%
Return on Equity	-	31.60%	54.33%	16.62%	74.60%	55.63%
Capital Adequacy Ratio	12%	33.87%	37.51%	41.05%	40.48%	43.15%
Tier 1 Ratio	8%	18.84%	26.92%	27.85%	35.35%	27.28%
Loans to Deposits Ratio	70%	53.69%	55.67%	62.09%	55.96%	52.01%
NPLs Ratio	5%	1.50%	1.58%	3.30%	3.63%	2.34%
Liquidity Ratio	30%	60.78%	59.50%	57.65%	59.88%	61.74%

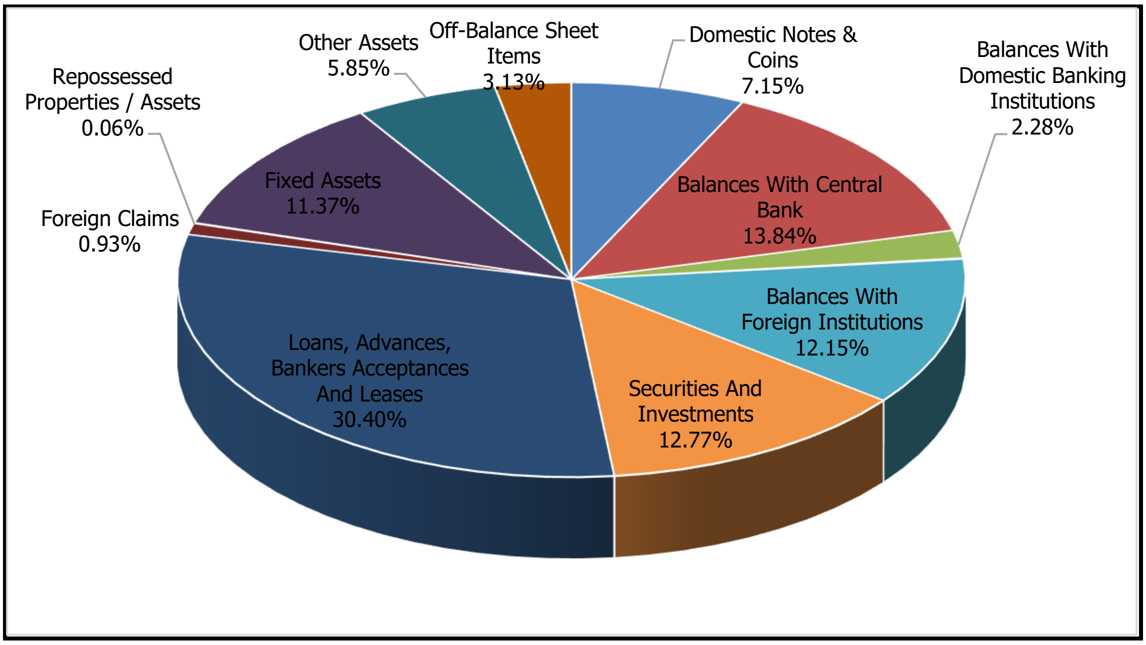
Composition of Banking Sector Assets

3.2. The total banking sector assets amounted to $28.36 trillion as at 30 September 2023, representing an increase of 3.95% from $27.28 trillion as at 30 June 2023.

3.3. Total loans and advances which accounted for 30.40% [*June 2023: 32.82%*] remained dominant of the total banking assets.

3.4. The figure below shows the banking sector asset structure as at 30 September 2023:

Figure 1: Asset Mix as at 30 September 2023

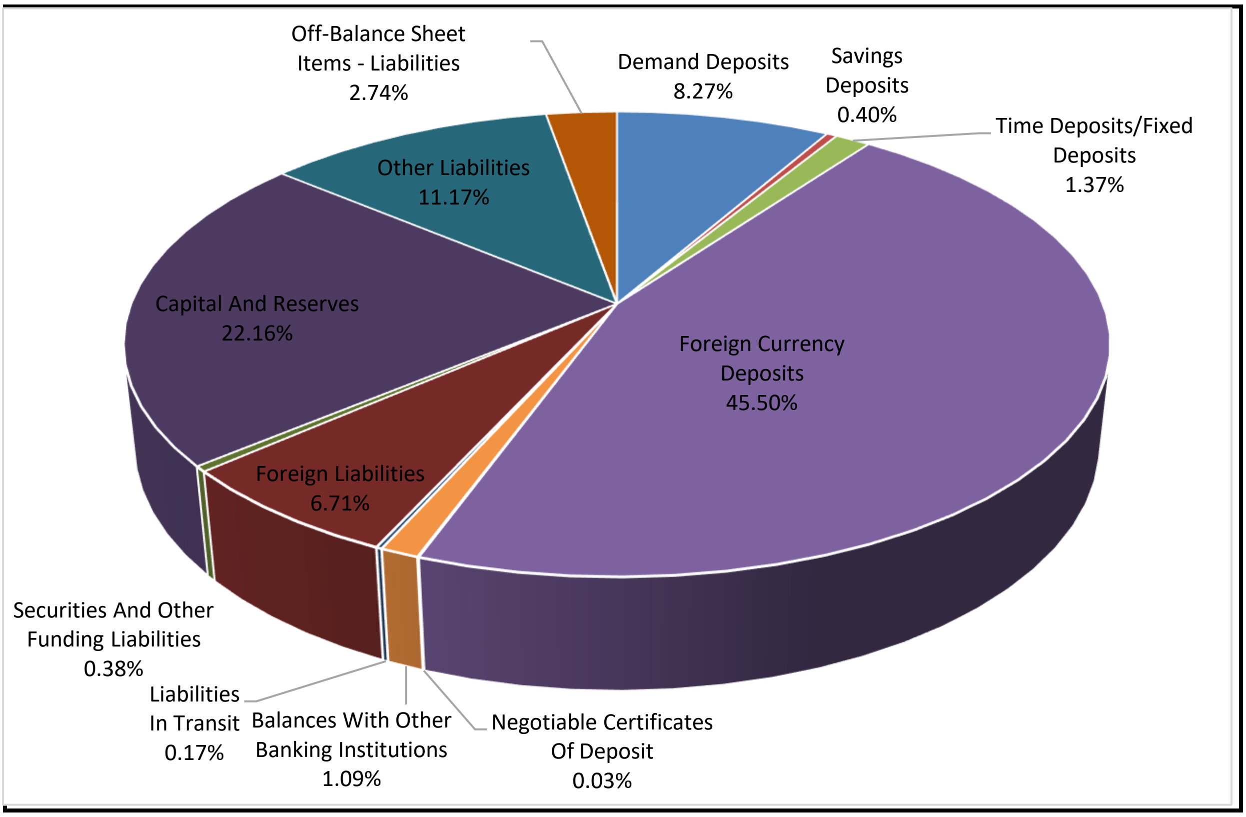


[1] Profitability figures are cumulative for each financial year (January to December)

Liabilities Structure

3.5. The banking sector liabilities largely comprised foreign currency deposits (45.50%), capital and reserves (22.16%) and other liabilities (11.17%), as at 30 September 2023, as depicted below:

Figure 2: Decomposition of Liabilities as at 30 September 2023

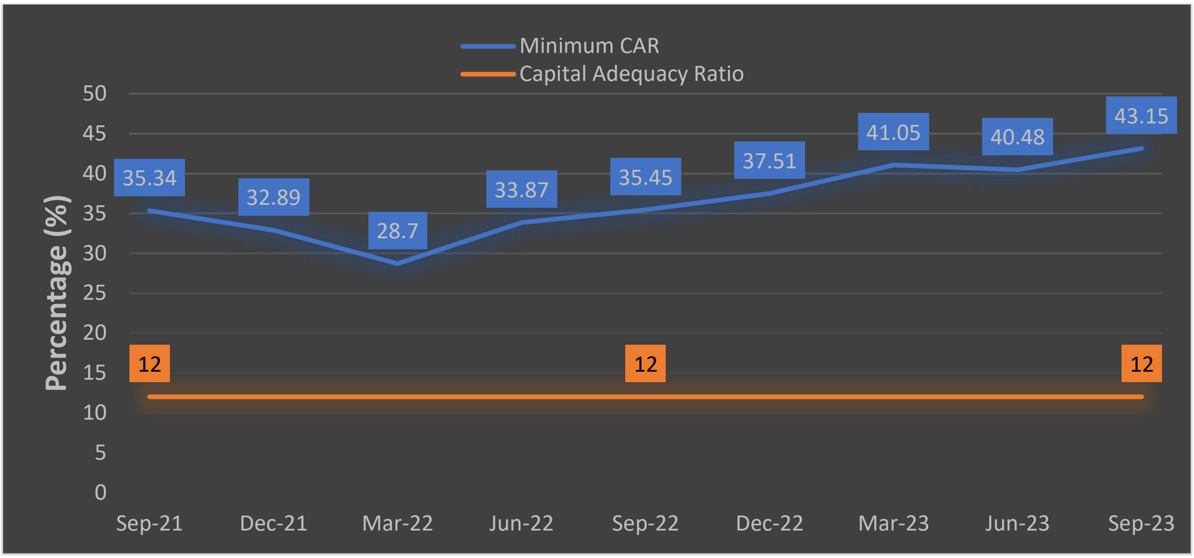


Capitalisation

3.6. As at 30 September 2023, all banking institutions, except one institution, were in compliance with minimum capital ratios, that is, the prescribed minimum capital adequacy ratio of 12% and tier 1 ratio of 8%. The banking sector's average capital adequacy ratio and tier 1 ratios were 43.15% and 27.28%, respectively.

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

Figure 3: Capital Adequacy Ratio Trend



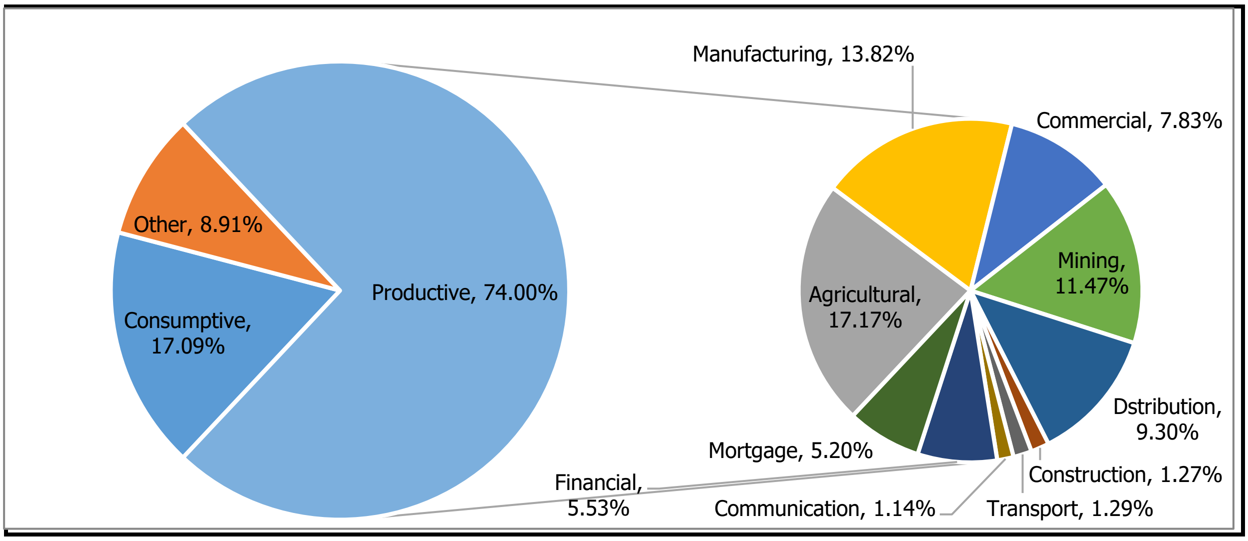
3.8. Banking sector core capital increased from $5.05 trillion as at 30 June 2023 to $5.10 trillion as at 30 September 2023. The growth was largely attributed to retained earnings. The retained earnings from a number of banking institutions were largely driven by revaluation gains from investment properties and translation gains from foreign currency denominated assets.

Asset Quality

3.9. As at 30 September 2023 aggregate banking sector loans and advances were $9.70 trillion and foreign currency denominated loans accounted for 88%.

3.10. The banking sector continued to support the funding requirements of the productive sectors of the economy as evidenced by loans to the productive sectors, which constituted 74% of total loans as at 30 September 2023, as shown figure 4 below.

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

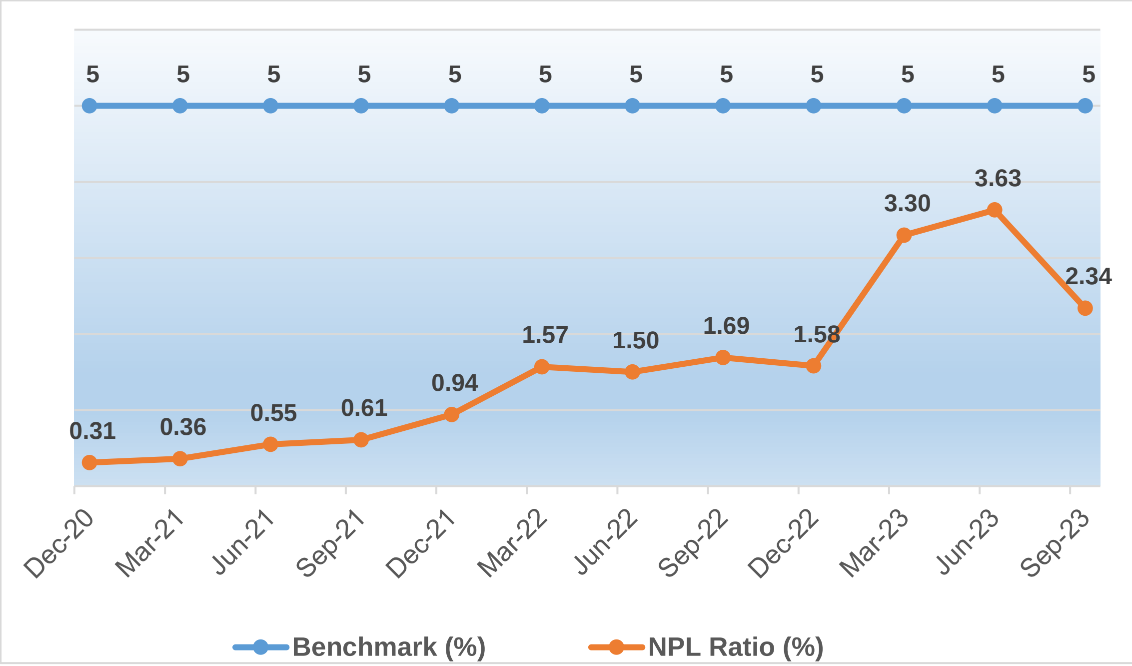


Loan Portfolio Quality

3.11. Credit risk in the banking sector remained low as evidenced by aggregate non-performing loans to total loans (NPL) ratio of 2.34% as at 30 September 2023. The ratio remains within the acceptable international threshold of 5%.

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

Figure 5: 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. The Bank continues to closely monitor developments in the banking sector's credit risk exposures.

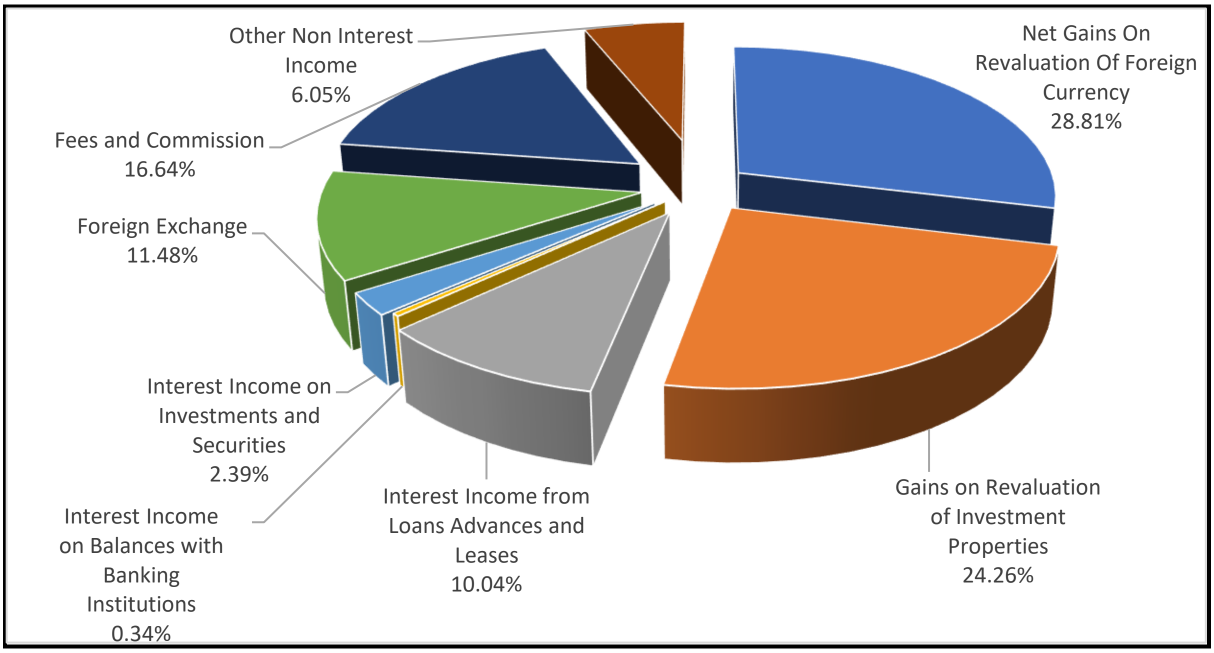
Earnings Performance

3.14. The banking sector remains profitable with aggregate profit of $4.67 trillion for the nine months ended 30 September 2023, compared to $341.28 billion reported in the corresponding period in 2022.

3.15. Profitability was mainly driven by non-interest income, which accounted for 86.73% of total income. The non-interest income was primarily comprised of translation gains on foreign currency assets and investment properties, as well as fees and commissions.

3.16. Figure 6 below shows banking sector income mix as at 30 September 2023.

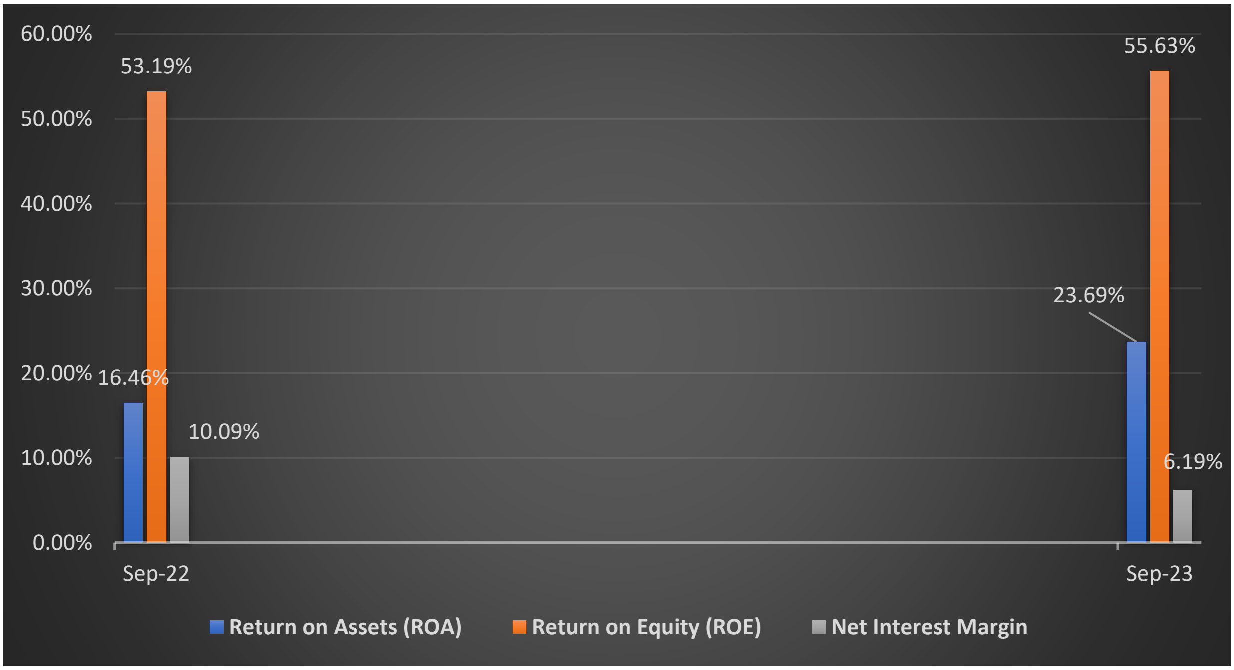
Figure 6: Banking Sector Income Mix as at 30 September 2023



3.17. As at 30 September 2023, banking sector profitability as measured by return on assets and return on equity ratios were 23.69% and 55.63%, compared 16.46% and 53.19% reported as at 30 September 2022, respectively.

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

Figure 7: Trend of Banking Sector Performance



3.19. The banking sector reported a cost to income ratio of 40.60% as at 30 September 2023, an improvement from 52.41% recorded in the corresponding period in 2022, as banking institutions continue to implement cost containment measures including integrating digital technologies into business processes which optimises workflows and improves efficiency.

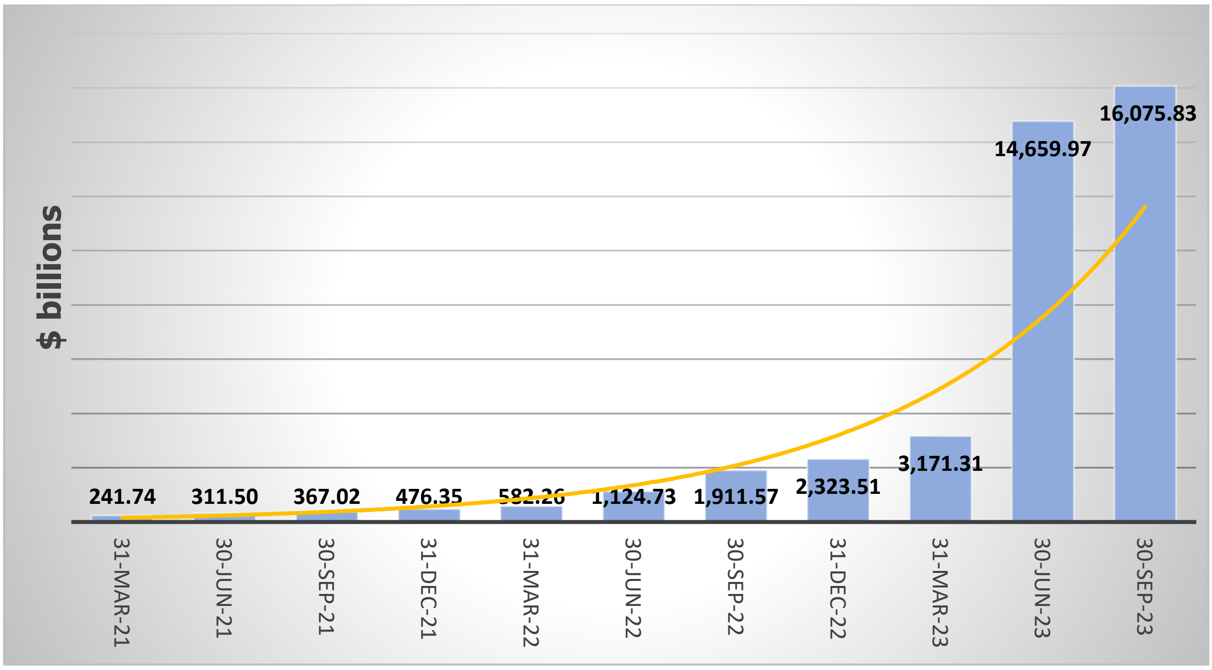
3.20. The Bank will continue to work constructively with banking institutions to ensure the efficient delivery of cost-effective banking services and products.

Liquidity and Funds Management

3.21. Aggregate banking sector deposits continued on an upward trajectory from $14.66 trillion reported as at 30 June 2023 to $16.08 trillion as at 30 September 2023. The growth was mainly driven by foreign currency denominated deposits which accounted for 80.49% of total deposits as at 30 September 2023.

3.22. The trend of banking sector deposits over the period 31 March 2021 to 30 September 2023 is shown in the figure below.

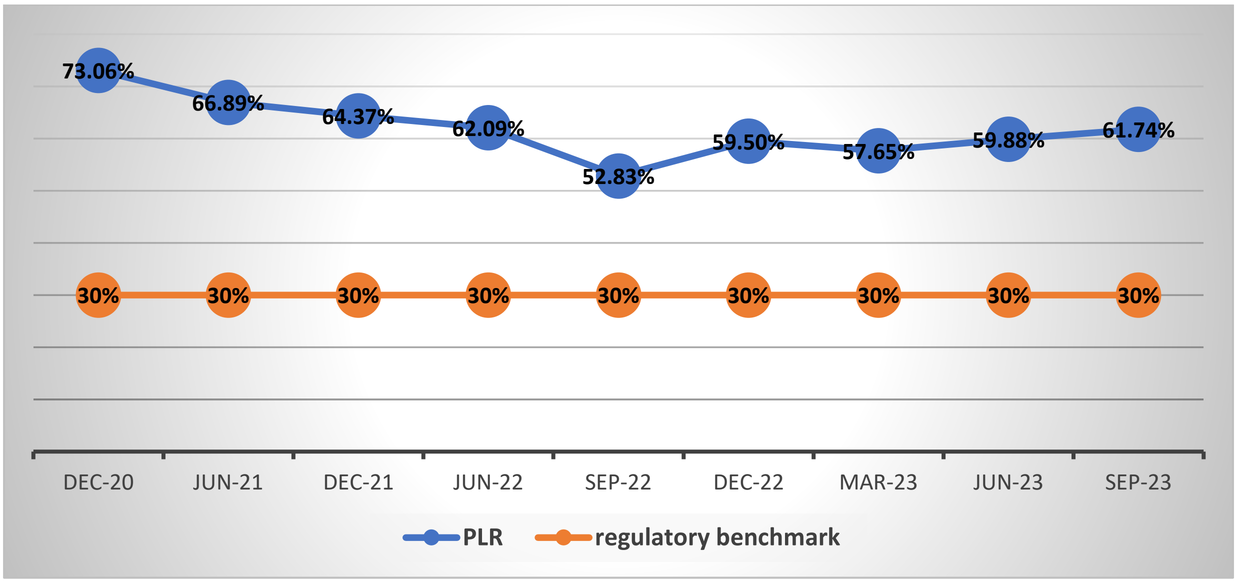
Figure 8: Trend in Banking Sector Deposits



3.23. As at 30 September 2023, the sector's average prudential liquidity ratio was 61.74%, reflecting high stock of liquid assets in the sector and a cautious lending approach by banking institutions.

3.24. The trend in the prudential liquidity ratio from 31 December 2020 to 30 September 2023 is shown in figure below.

Figure 9: Trend in Prudential Liquidity Ratio



Sensitivity to Market Risk

3.25. The banking sector had an overall asset sensitive book as at 30 September 2023, with positive cumulative re-pricing gaps in all time bands implying that most banks would gain if market interest rates remain on an upward trajectory.

Outlook

3.26. In the outlook, the banking industry is expected to remain resilient with banks playing their critical intermediary role. Banking institutions are expected to continuously evolve and build financial and operational resilience.

RESERVE BANK OF ZIMBABWE