RESERVE BANK OF ZIMBABWE

BANK SUPERVISION DIVISION

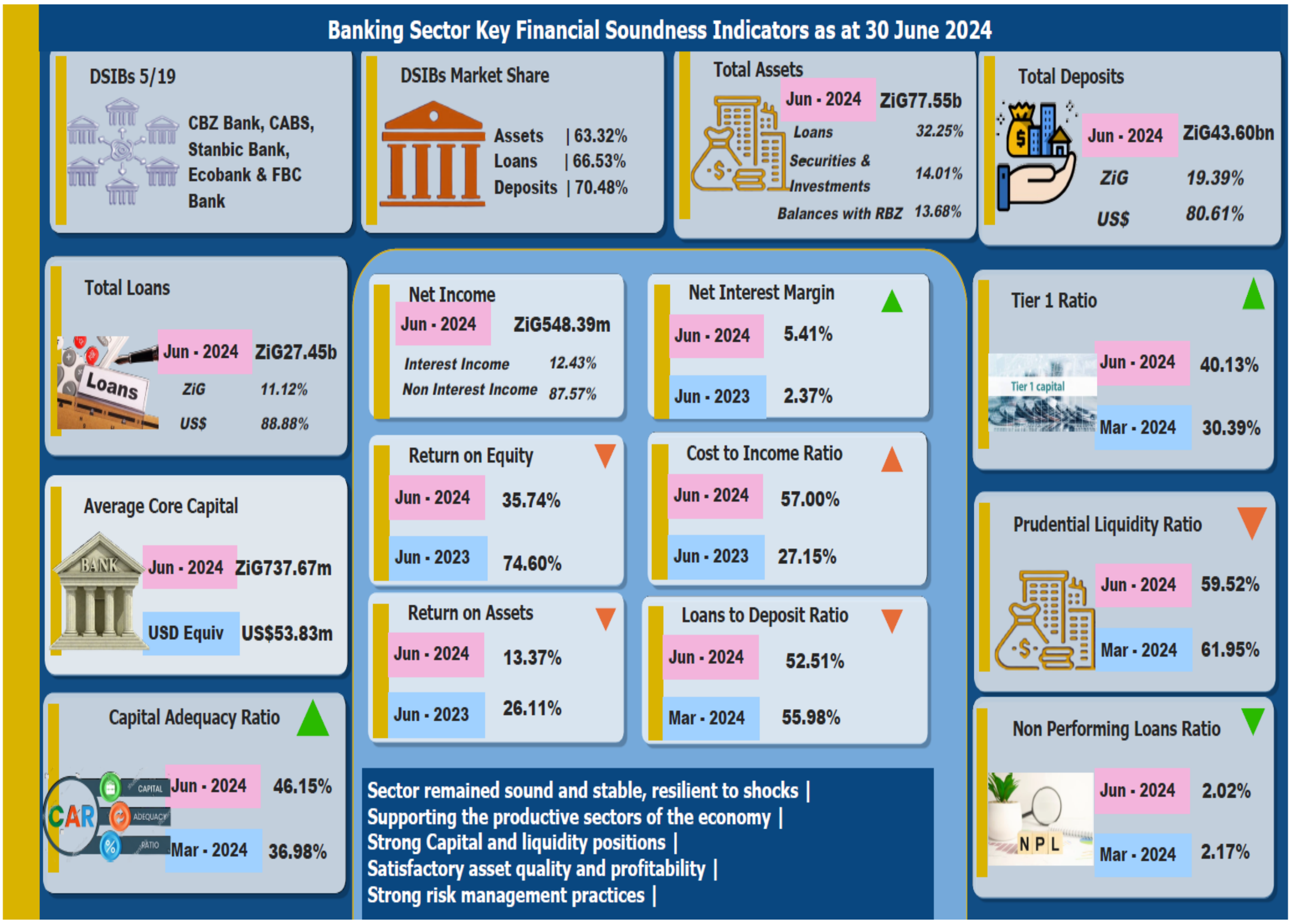
BANKING SECTOR REPORT FOR THE QUARTER ENDED 30 JUNE 2024

1. EXECUTIVE SUMMARY

1.1. The banking sector continued to depict resilience during the quarter ended 30 June 2024 as reflected by adequate capital levels, satisfactory asset quality metrics, stable liquidity, and sustained profitability.

1.2. The period under review saw the introduction of a new currency, Zimbabwe Gold (ZiG), effective 5 April 2024, which became the reporting currency.

1.3. The dashboard below shows the banking sector key indicators as at 30 June 2024.



1.4. In response to the rapidly evolving financial landscape which has resulted in the growing need for more agile, efficient, and scalable banking solutions, banking institutions are adapting by transforming their operations through innovative, cost-effective and customer centric banking services and products. In addition, the emergence of new risks and amplification of existing risks, including cyber security risks and climate related financial risks, has resulted in elevated supervisory vigilance against cybersecurity and enhancement of operational resilience by banking institutions.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. The composition of the banking sector as at 30 June 2024 is 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 Financial Institutions Under the Supervision of Reserve Bank	
Credit-only-MFIs	**245**
Deposit-Taking MFIs	**8**
Development Financial Institutions (SMEDCO*, IDBZ*, IDCZ* and AFC Land & Development Bank)	**4**
Total Other Institutions	**257**
Total Number of Institutions	**276**

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. As at 30 June 2024, the banking sector maintained a satisfactory financial performance as evidenced by adequate capital levels, sustained profitability, as well as asset quality and liquidity which remained overall satisfactory and stable.

3.2. The banking sector key financial soundness indicators are shown in Table 2:

Table 2: Key Financial Soundness Indicators

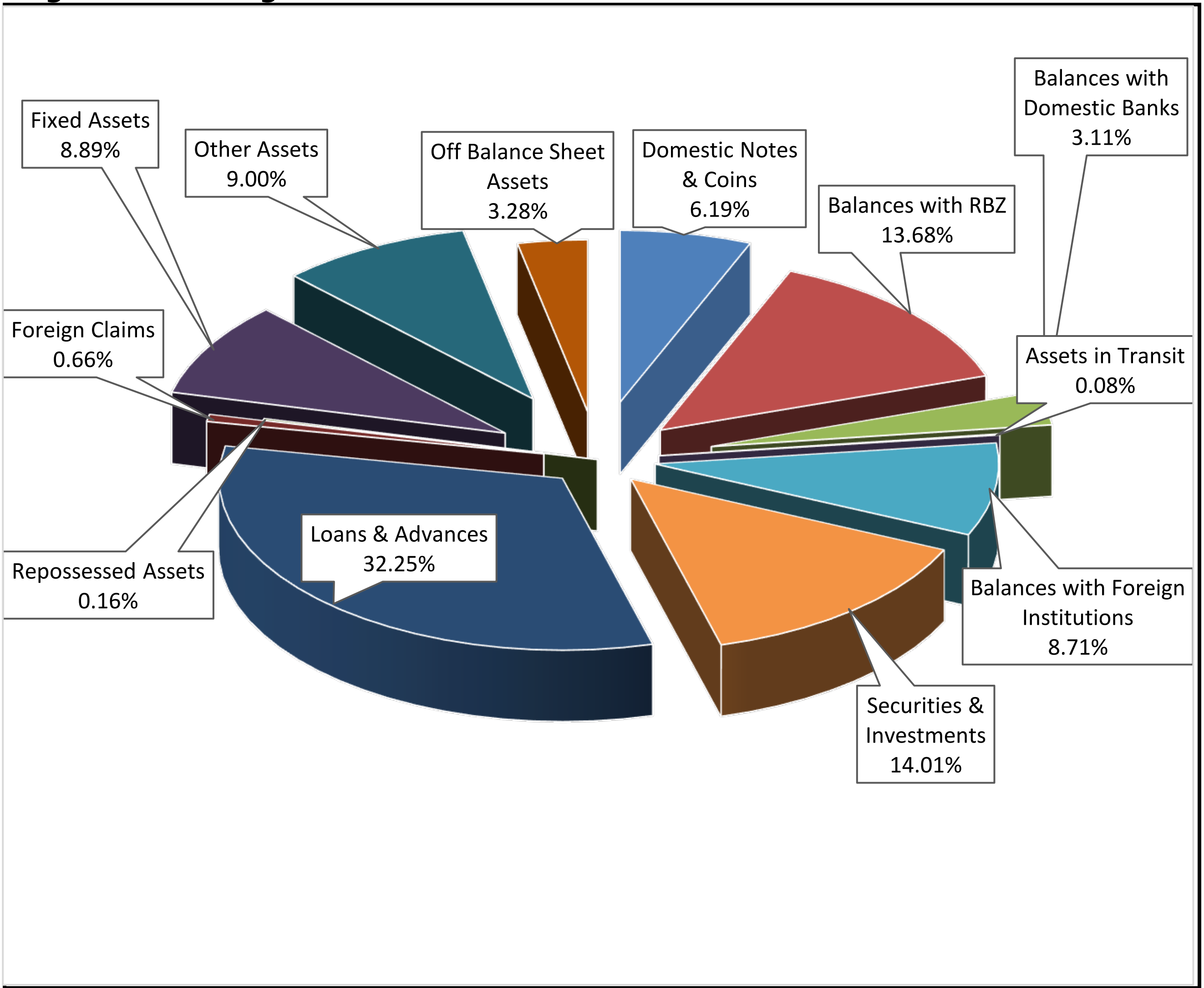
Key Indicators	Benchmark	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Total Assets	-	\$27.28tn	\$28.36tn	\$34.41tn	\$106.82tn	ZiG77.55bn
Total Loans & Advances	-	\$10.19tn	\$9.70tn	\$11.26tn	\$40.09tn	ZiG27.45bn
Net Capital Base	-	\$5.95tn	\$6.36tn	\$7.77tn	\$24.61tn	ZiG16.45bn
Core Capital	-	\$5.05tn	\$5.10tn	\$6.31tn	\$20.12tn	ZiG14.02bn
Total Deposits	-	\$14.66tn	\$16.08tn	\$19.47tn	\$6.65tn	ZiG43.60bn
Net Profit	-	\$4.55tn	\$4.67tn	\$5.77tn	\$14.77tn	ZiG10.42bn
Return on Assets	-	26.11%	23.69%	23.97%	22.83%	13.37%
Return on Equity	-	74.60%	55.63%	68.99%	61.33%	35.74%
Capital Adequacy Ratio	12%	40.48%	43.15%	37.34%	36.98%	46.15%
Tier 1 Ratio	8%	35.35%	27.28%	25.77%	30.39%	40.13%
Loans to Deposits Ratio (excluding lines of credit)	-	55.96%	52.01%	49.27%	55.98%	52.51%
NPLs Ratio	5%	3.62%	2.34%	2.09%	2.17%	2.02%
Liquidity Ratio	30%	59.88%	61.74%	60.53%	61.95%	59.52%

Asset Structure

3.3. As at 30 June 2024, total banking sector assets amounted to ZiG77.55 billion. The asset mix remained skewed towards loans & advances which accounted for 32.25% of total banking sector assets [*March 2024: 33.79%*], reflecting that the banking sector continues to play an important intermediary role.

3.4. Figure 1 shows the banking sector asset structure as at 30 June 2024.

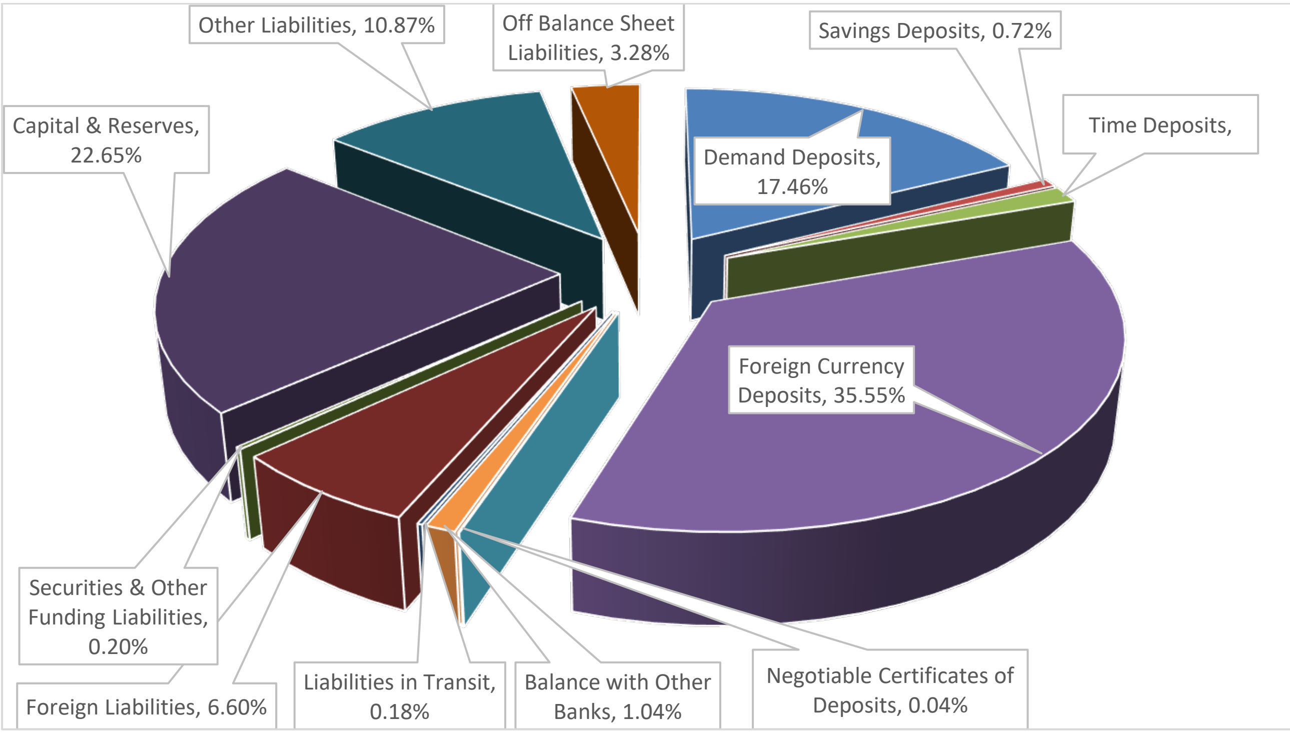
Figure 1: Banking Sector Asset Structure as at 30 June 2024



Liabilities Structure

3.5. Banking sector liabilities largely comprised foreign currency deposits (35.55%) and capital & reserves (22.65%) as at 30 June 2024, whilst local currency demand deposits accounted for 17.46% as shown in Figure 2:

Figure 2: Liabilities Structure

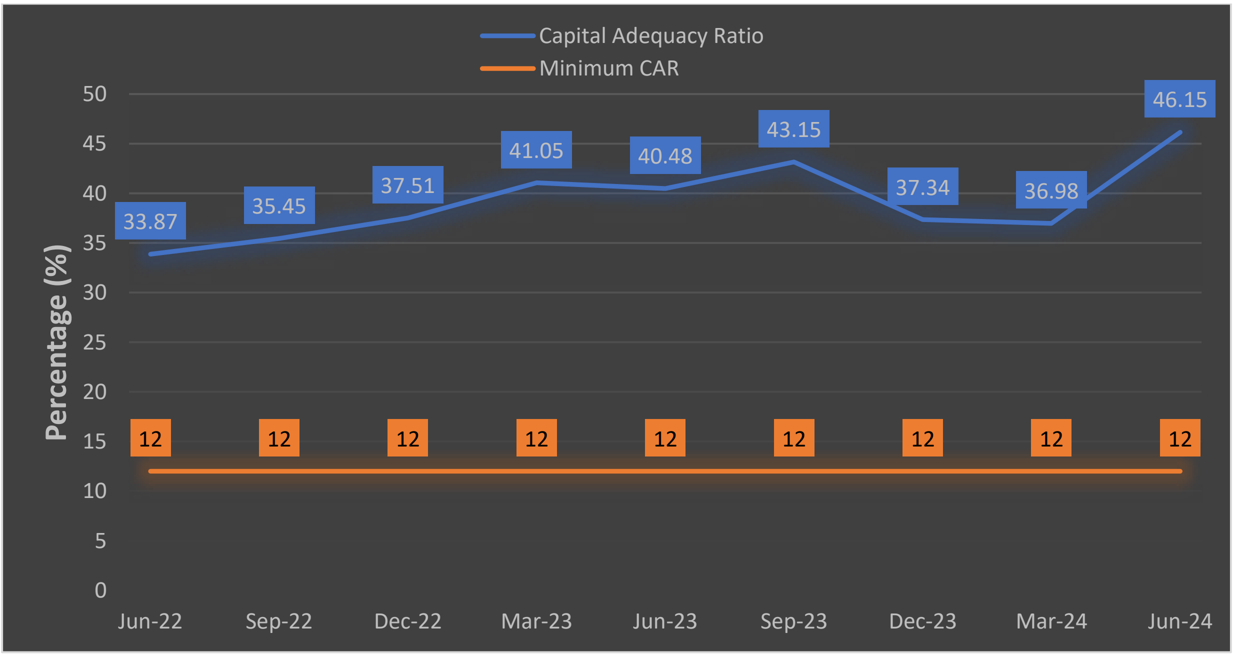


Capitalisation

3.6. All banking institutions were compliant with the prescribed minimum capital adequacy ratio of 12% and tier 1 ratio of 8%, respectively, as at 30 June 2024. The banking sector's average capital adequacy and tier 1 ratios were 46.15% and 40.13% respectively.

3.7. Figure 3 shows the trend in banking industry's average capital adequacy ratios from June 2022 to June 2024.

Figure 3: Capital Adequacy Ratio Trend



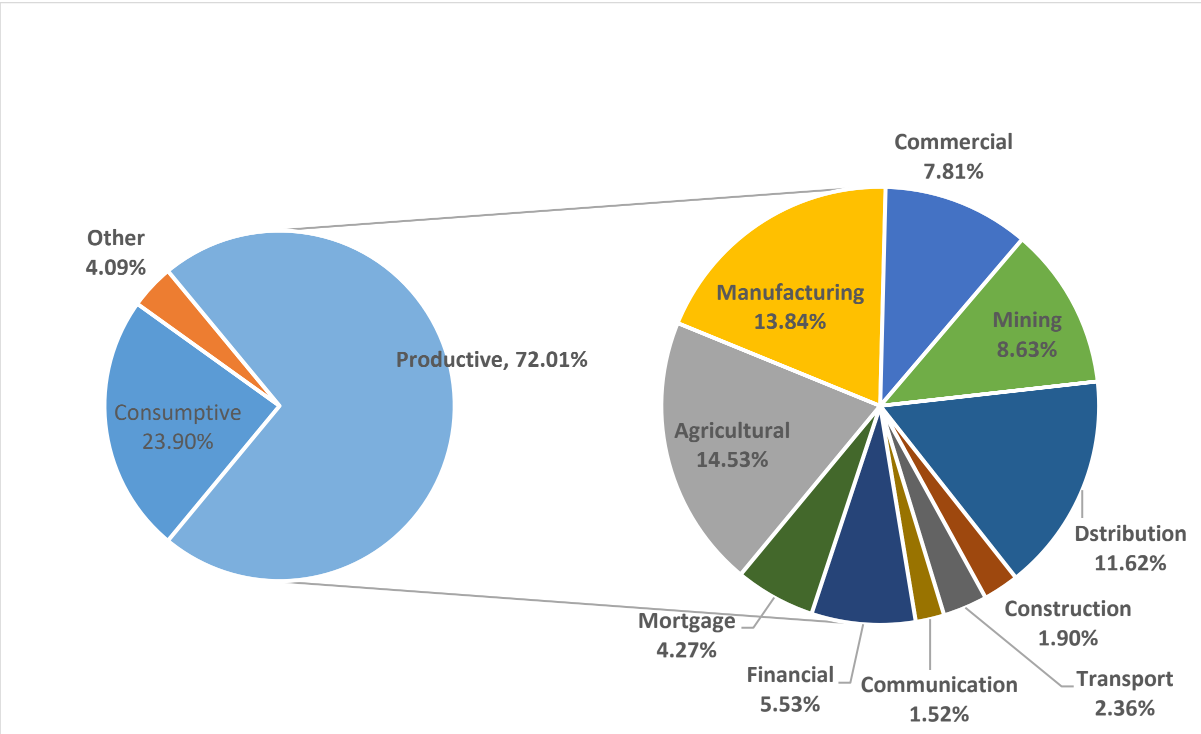
3.8. As at 30 June 2024, the banking sector reported aggregate core capital of ZiG14.02 billion. In US$ terms the banking sector aggregate core capital increased from equivalent US$912.27 million as at 31 March 2024 to US$1.02 billion as at 30 June 2024, mainly attributed to organic growth. Retained earnings for most banking institutions were largely driven by revaluation gains on investment properties and translation gains from foreign currency denominated assets.

Banking Sector Loans and Advances

3.9. As at 30 June 2024, total banking sector loans and advances amounted to ZiG27.45 billion, with foreign currency denominated loans accounting for 88.88% of the sector's total loans.

3.10. During the period under review, banking institutions continued to play their financial intermediary role with considerable funding to the productive sectors of the economy to support economic growth. Figure 4 depicts the sectoral distribution of loans as at 30 June 2024.

Figure 4: Sectoral Distribution of Loans as at 30 June 2024



Source: Reserve Bank of Zimbabwe

Loan Portfolio Quality

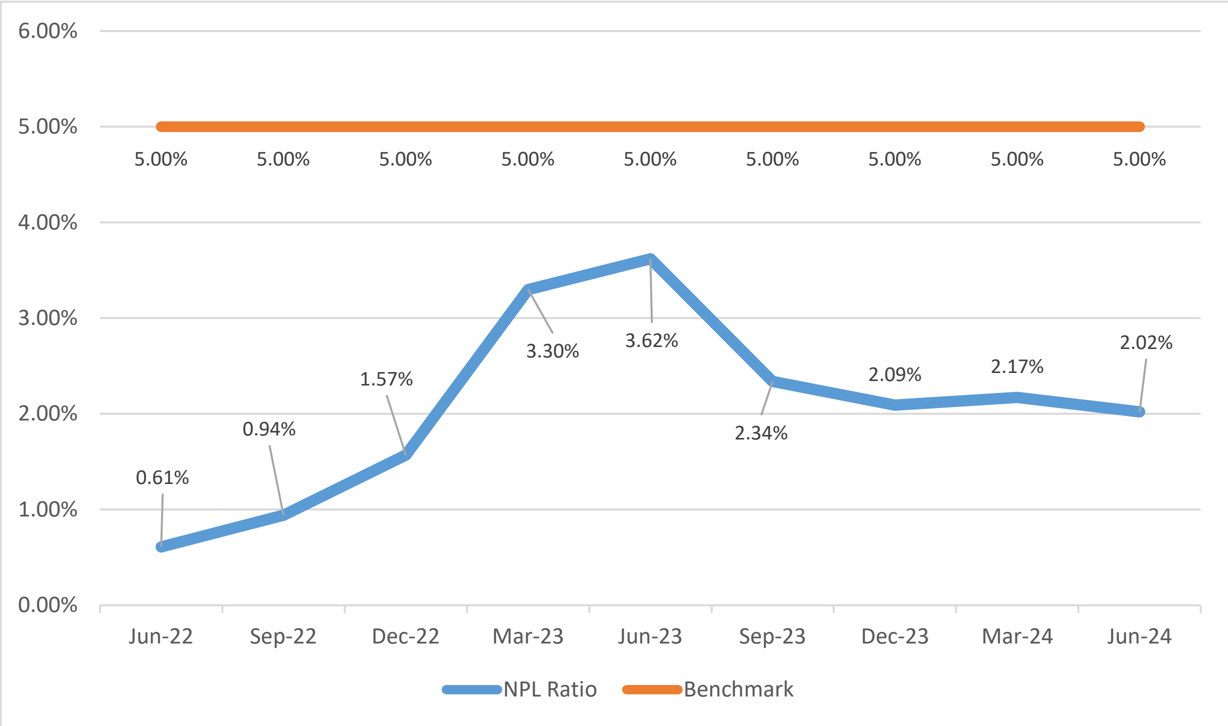
3.11. Credit risk in the banking sector remained low and marginally improved as reflected in the aggregate non-performing loans to total loans ratio (NPL) of 2.02% as at 30 June 2024, compared to 2.17% reported as at 31 March 2024. The reported banking sector average

NPL ratio was within the Bank's risk appetite and internationally acceptable threshold of 5%.

3.12. The banking sector continued to maintain acceptable credit risk management systems which contributed to the low aggregate non-performing loans to total loans ratio (NPL ratio).

3.13. Figure 5 shows the trend in the non-performing loans to total loans ratio from June 2022 to June 2024.

Figure 5: Trend in Non- Performing Loans

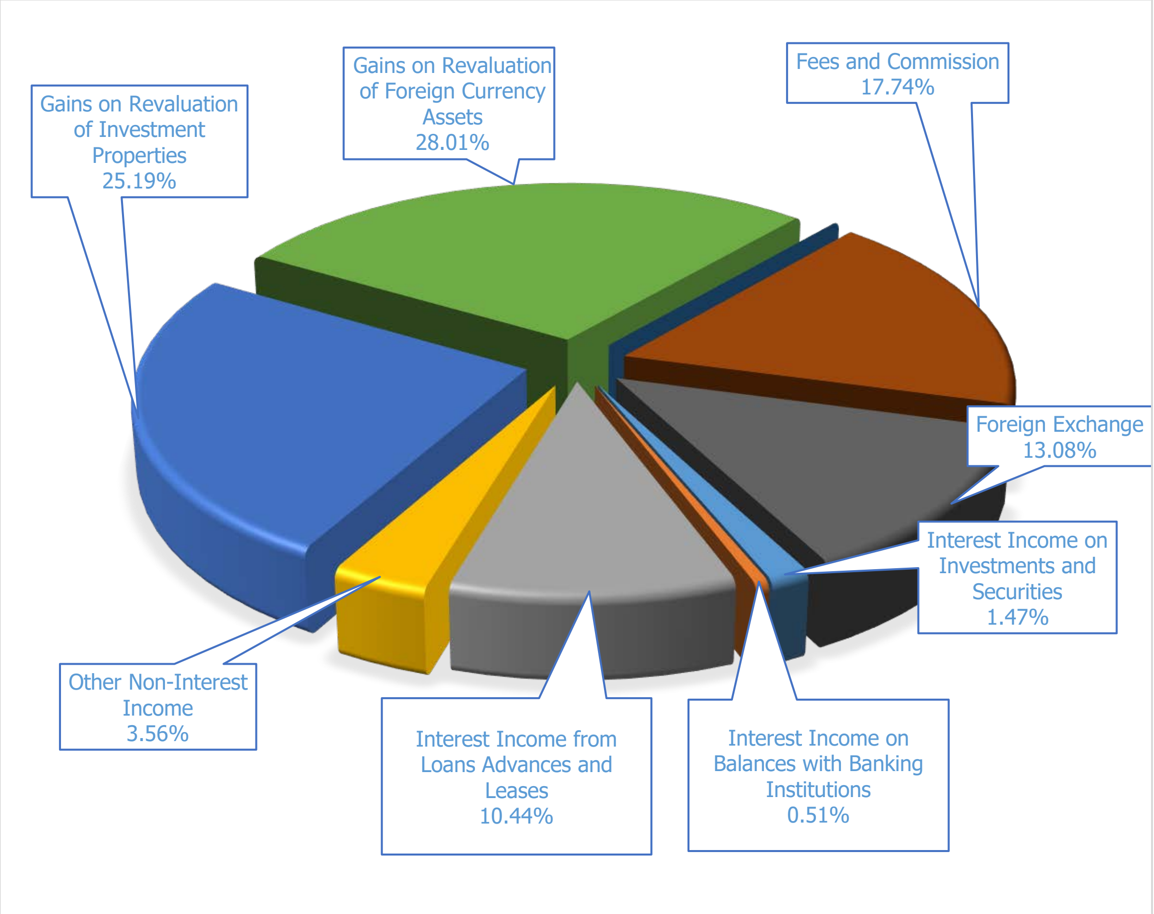


Earnings Performance

3.14. The banking sector's earnings performance remained satisfactory during the half year ended 30 June 2024. All banking institutions reported profits with an aggregate profit of ZiG10.42 billion.

3.15. The banking sector income largely emanated from non-interest income, which accounted for 87.57% of total income (ZiG16.48 billion). The major sources of non-interest income were net gains on revaluation of foreign currency assets and net gains on revaluation of investment properties. Heavy reliance on non-funded income is, however considered unsustainable. The income mix for the sector is depicted in Figure 6.

Figure 6: Banking Sector Income Mix as at 30 June 2024

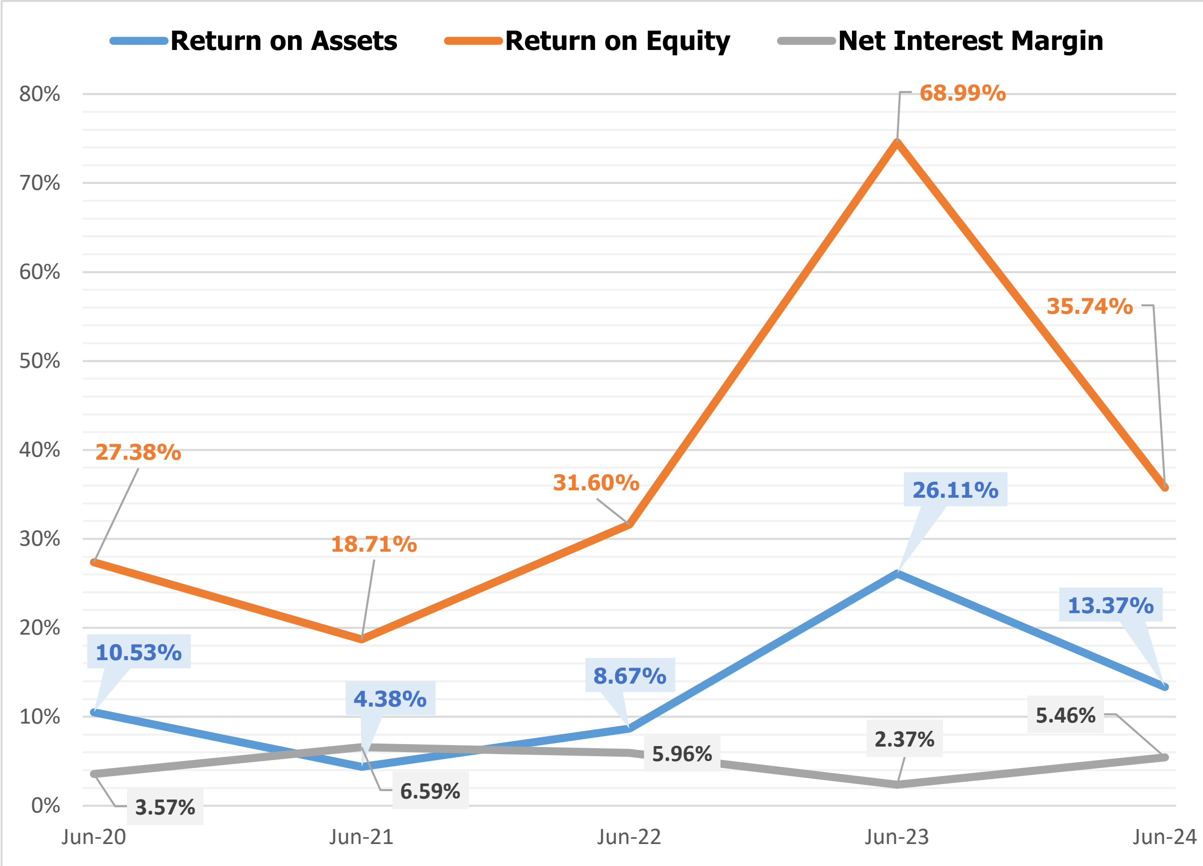


3.16. During the half year ended 30 June 2024, profitability deteriorated as evidenced by the decrease in the return on assets and return on equity ratios to 13.37% and 35.74% as at 30 June 2024 from 26.11% and 74.60%, respectively, in the comparative period in 2023.

3.17. The banking sector cost to income ratio was satisfactory at 57% as at 30 June 2024. The cost to income ratio is expected to improve as banking institutions continue to increase reliance on digital platforms for service delivery, as well as automation of processes which are cost effective.

3.18. Figure 7 illustrates the trend of the banking sector's earnings performance over the interval spanning from June 2020 to June 2024.

Figure 7: Trend of Banking Sector Earnings Performance

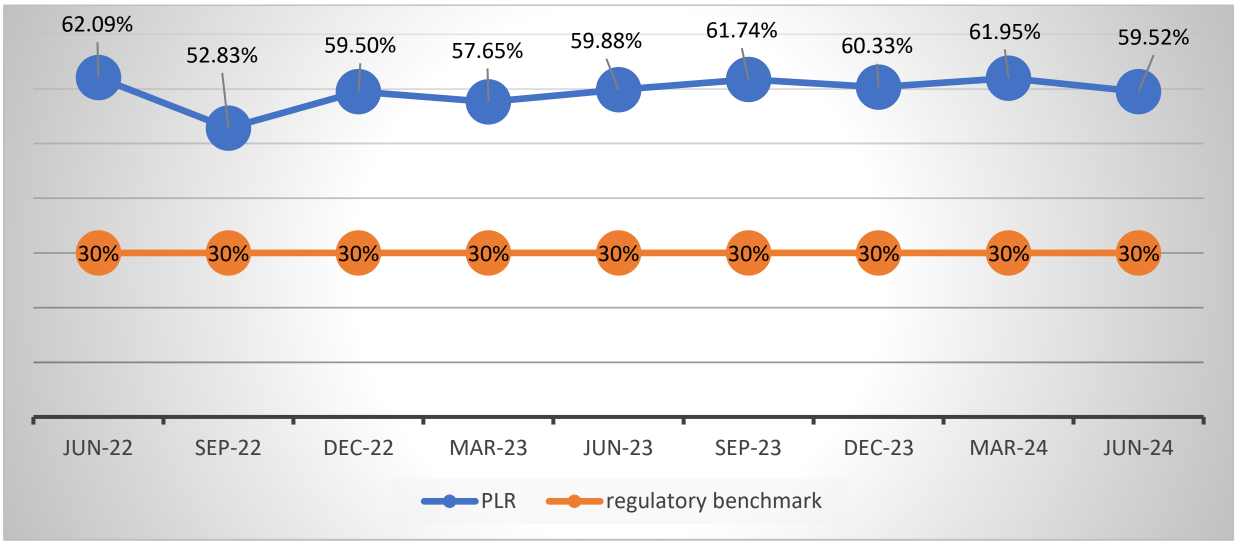


Liquidity and Funds Management

3.19. Total banking sector deposits amounted to ZiG43.60 billion as at 30 June 2024, up from ZiG35.41 billion as at 5 April 2024. Foreign currency deposits constituted 79.52% of total deposits as at 30 June 2024.

3.20. The banking sector liquidity positions remained strong as reflected by the average prudential liquidity ratio (PLR) of 59.52% as at 30 June 2024, a marginal decline from 61.95% as at 31 March 2024. The trend of banking sector deposits over the period 30 June 2022 to 30 June 2024 is shown in Figure 8:

Figure 8: Prudential Liquidity Ratios



3.21. All banking institutions, except one (1), were compliant with the minimum prudential liquidity ratio of 30%. The Bank continues to closely monitor the non-compliant banking institution.

3.22. The sector recorded a marginal decline in the loans to deposits ratio from 53.98% as at 31 March 2024 to 52.51% as at 30 June 2024.

Sensitivity to Market Risk

3.23. As at 30 June 2024, the banking sector had an asset-sensitive balance sheet hence the banking sector is generally set to benefit from an increase in interest rates as assets will reprice faster than liabilities.

3.24. During the quarter ended 30 June 2024, foreign exchange rate risk was rated moderate on account of exchange stability that has ensued on the back fiscal and monetary policy measures.

Outlook

3.25. The banking sector is expected to maintain strong financial performance and remain stable, playing its key financial intermediation role in providing the much-needed productive sector support.

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