RESERVE BANK OF ZIMBABWE

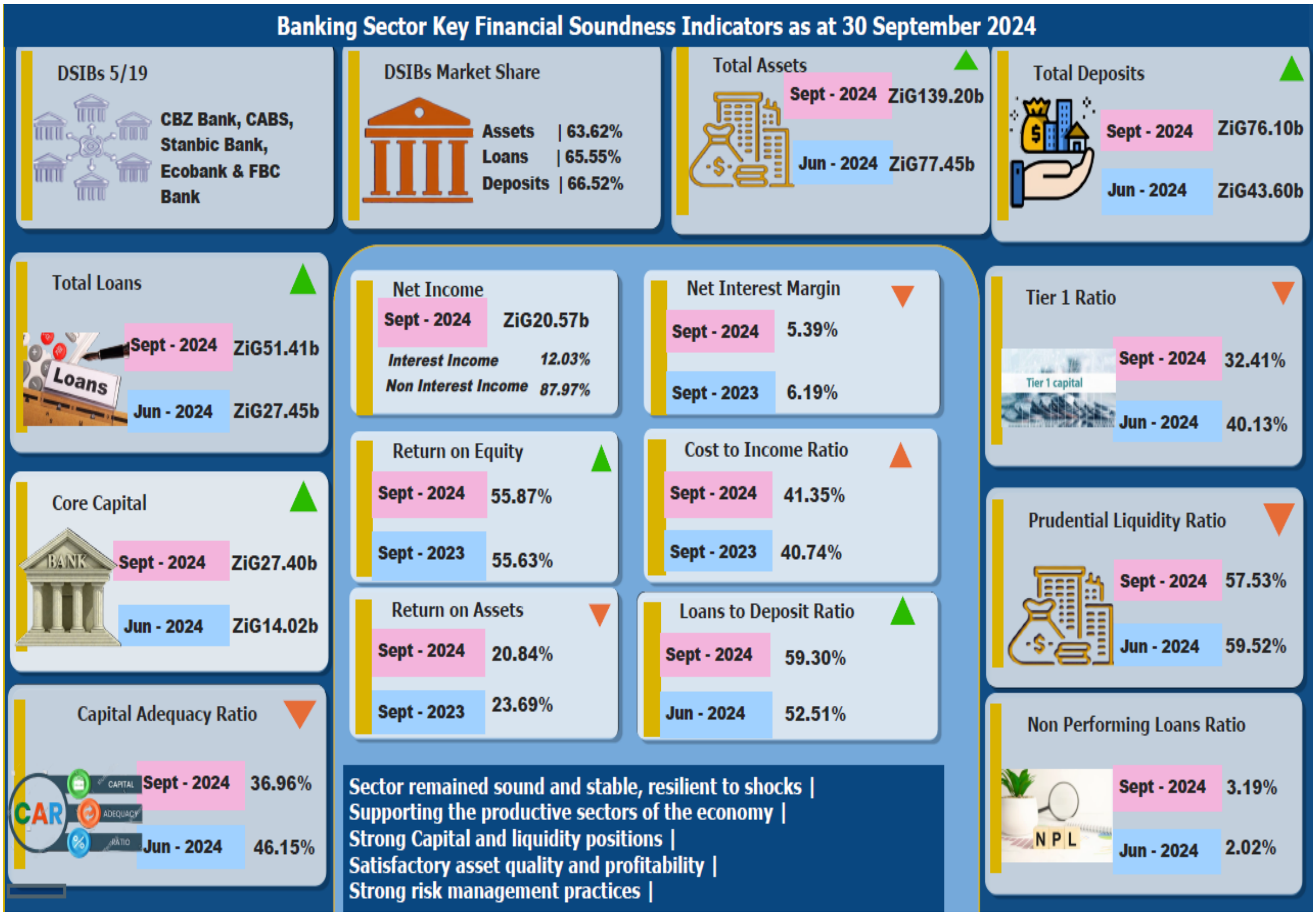
BANKING SECTOR REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2024

1. EXECUTIVE SUMMARY

1.1. Banking sector performance, on aggregate, remained satisfactory as reflected by strong capital, with solvency ratios that have remained robust, while liquidity positions and profitability were satisfactory.

1.2. Financial sector indicators and the key salient features as at 30 September 2024, are shown below:

Figure 1: Financial Sector Indicators



1.3. Banking institutions are taking measures to adapt and strengthen their financial and operational resilience in response to the dynamic operating environment. Banking institutions' future profitability is contingent upon their continued ability to respond to changes in the external environment, particularly the digitalisation of financial services.

1.4. The Bank remains resolutely focused on fostering a stable and inclusive financial system. There is also increased supervisory focus on ensuring that banking institutions' business models remain viable over time.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. The composition of the banking sector as at 30 September 2024 is shown in the table below.

Table 1: Banking Sector Architecture as at 30 September 2024

Type of Institution	Number
Commercial Banks	14
Building Societies	4
Savings Bank (POSB)	1
Total Banking Institutions	**19**
Non-Bank Financial Institutions Under the Supervision of Reserve Bank	
Credit-only-MFIs	**259**
Deposit-taking MFIs	**9**
Development Financial Institutions (SMEDCO*, IDBZ*, IDCZ* and AFC Land & Development Bank)	**4**
Total Other Institutions	**272**
Total Number of Institutions	**291**
** IDBZ – Infrastructure Development Bank of Zimbabwe, IDCZ – Industrial Development Corporation of Zimbabwe and SMEDCO - Small and Medium Enterprise Development Corporation*	

2.2. Mukuru Financial Services Zimbabwe Limited was licenced on 2 October 2024, increasing the number of licenced deposit-taking microfinance institutions to nine (9). As at 31 October 2024, the institution had not commenced deposit-taking microfinance business.

3. PERFORMANCE OF THE BANKING SECTOR

3.1. During the period ended 30 September 2024, banking sector performance was satisfactory, as reflected by the key financial soundness indicators shown in the table below.

Table 2: Key Financial Soundness Indicators

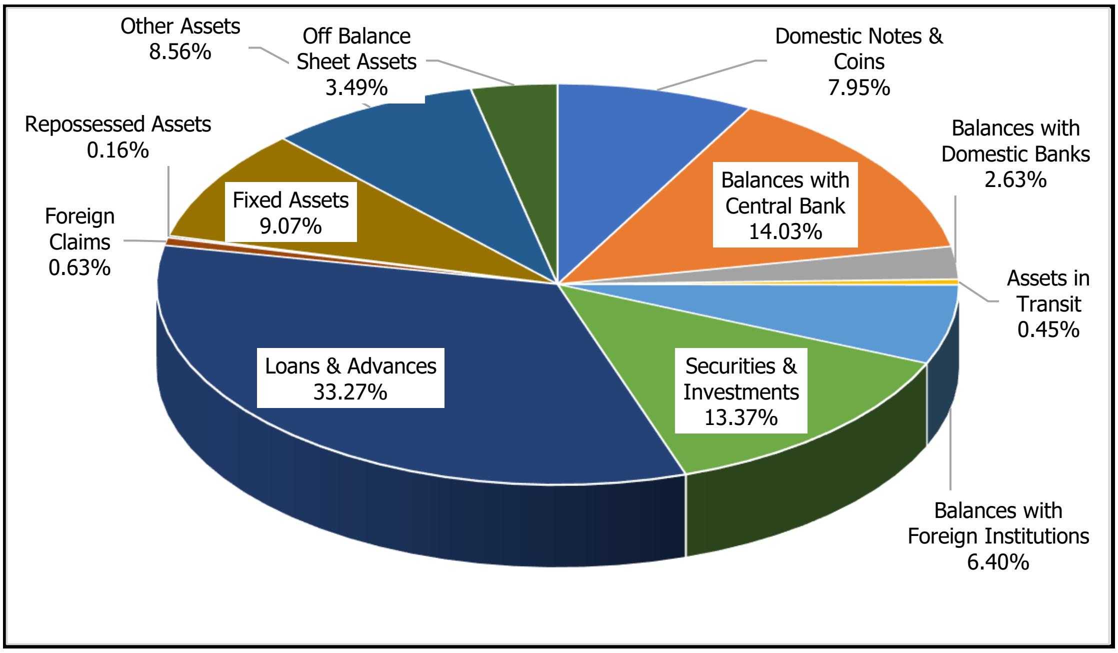
Key Indicators	Benchmark	Sep-23	Dec-23	Mar-24	Jun-24	Sept-24
Total Assets	-	\$28.36tn	\$34.41tn	\$106.82tn	ZiG77.55bn	ZiG139.20bn
Total Loans & Advances	-	\$9.70tn	\$11.26tn	\$40.09tn	ZiG27.45bn	ZiG51.41bn
Net Capital Base	-	\$6.36tn	\$7.77tn	\$24.61tn	ZiG16.45bn	ZiG33.47bn
Core Capital	-	\$5.10tn	\$6.31tn	\$20.12tn	ZiG14.02bn	ZiG27.40bn

Key Indicators	Benchmark	Sep-23	Dec-23	Mar-24	Jun-24	Sept-24
Total Deposits	-	$16.08tn	$19.47tn	$6.65tn	ZiG43.60bn	ZiG76.10bn
Net Profit	-	$4.67tn	$5.77tn	$14.77tn	ZiG10.42bn	ZiG20.57bn
Return on Assets	-	23.69%	23.97%	22.83%	13.37%	20.84%
Return on Equity	-	55.63%	68.99%	61.33%	35.74%	55.87%
Capital Adequacy Ratio	12%	43.15%	37.34%	36.98%	46.15%	36.96%
Tier 1 Ratio	8%	27.28%	25.77%	30.39%	40.13%	32.41%
Loans to Deposits Ratio (excluding lines of credit)	-	52.01%	49.27%	53.98%	52.51%	59.30%
NPLs Ratio	5%	2.34%	2.09%	2.17%	2.02%	3.19%
Liquidity Ratio	30%	61.74%	60.53%	61.95%	59.52%	57.53%

Asset Structure

3.2. Total banking sector assets amounted to ZiG139.20 billion as at 30 September 2024. The asset mix remained skewed towards loans & advances as shown in the figure below, which accounted for 33.27% of total banking sector assets as at 30 September 2024 [*June 2024: 32.25%*].

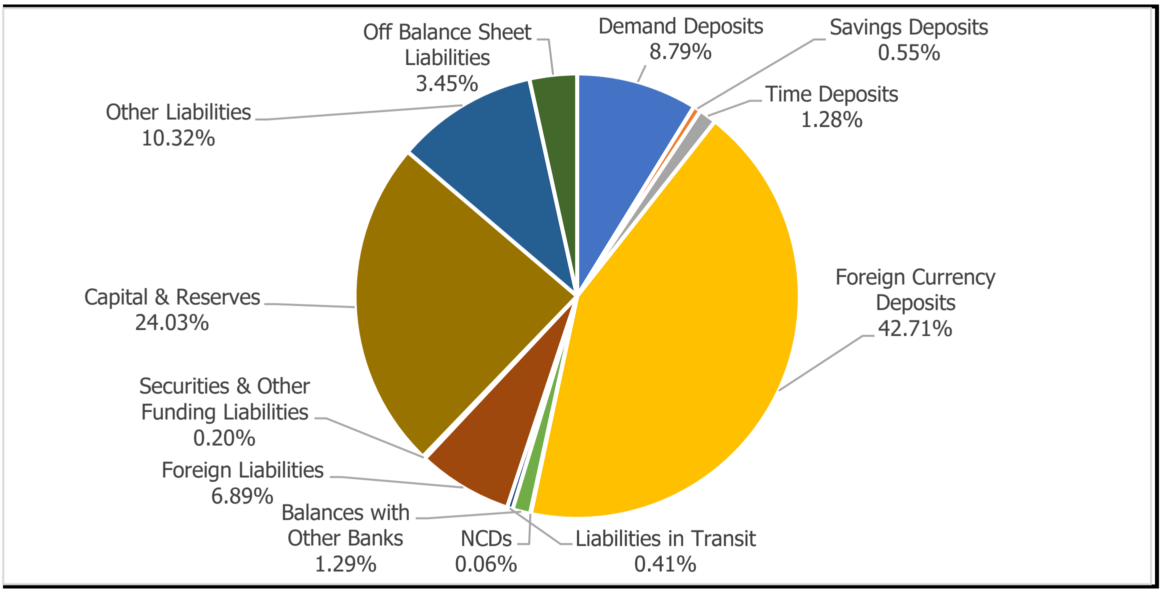
Figure 2: Banking Sector Asset Structure as at 30 September 2024



Liabilities Structure

3.3. As at 30 September 2024, banking sector liabilities largely comprised foreign currency denominated deposits (42.71%) and capital & reserves (24.03%), as shown below:

Figure 3: Banking Sector Liabilities Structure as at 30 September 2024

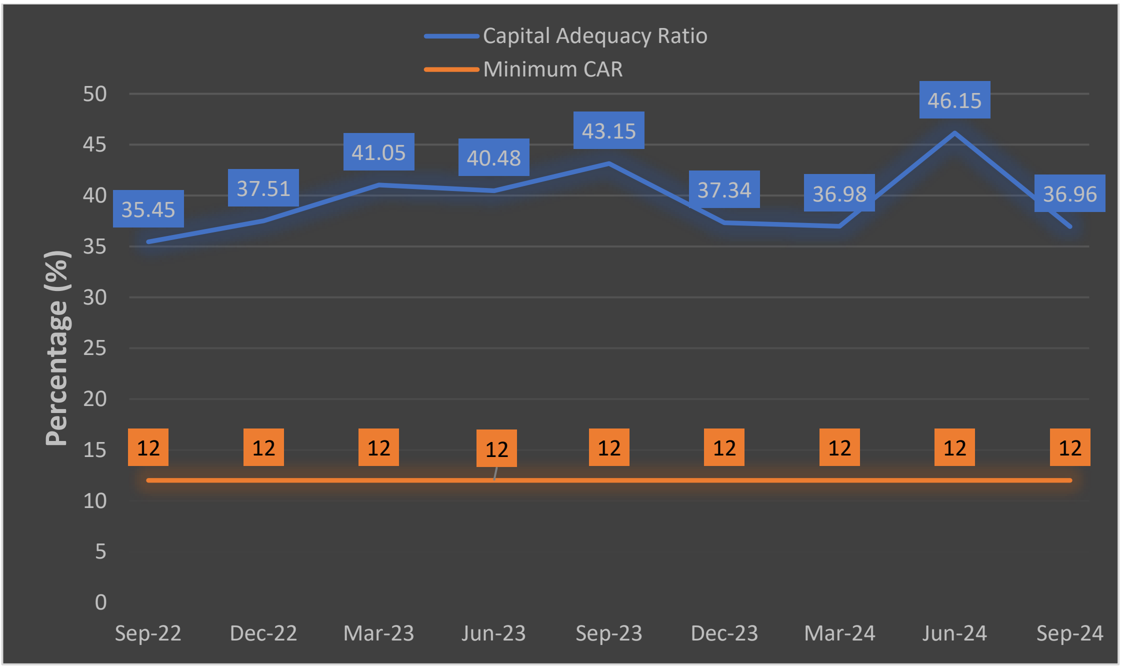


Capitalisation

3.4. The banking sector remained adequately capitalised, and all banking institutions were compliant with the prescribed minimum capital adequacy ratio of 12% and tier 1 ratio of 8%, respectively, as at 30 September 2024. The banking sector average capital adequacy ratio was 36.96%, while the average tier 1 ratio was 32.41%.

3.5. The trend in banking industry's average capital adequacy ratios from September 2022 to September 2024 is shown in the figure below.

Figure 4: Capital Adequacy Ratio Trend



3.6. The decrease in the average capital adequacy ratio from 46.15% as at 30 June 2024 to 36.96% as at 30 September 2024 is attributable to the significant growth in banking institutions' asset bases, which was largely driven by revaluation and translation gains, following depreciation of the local currency during the quarter under review.

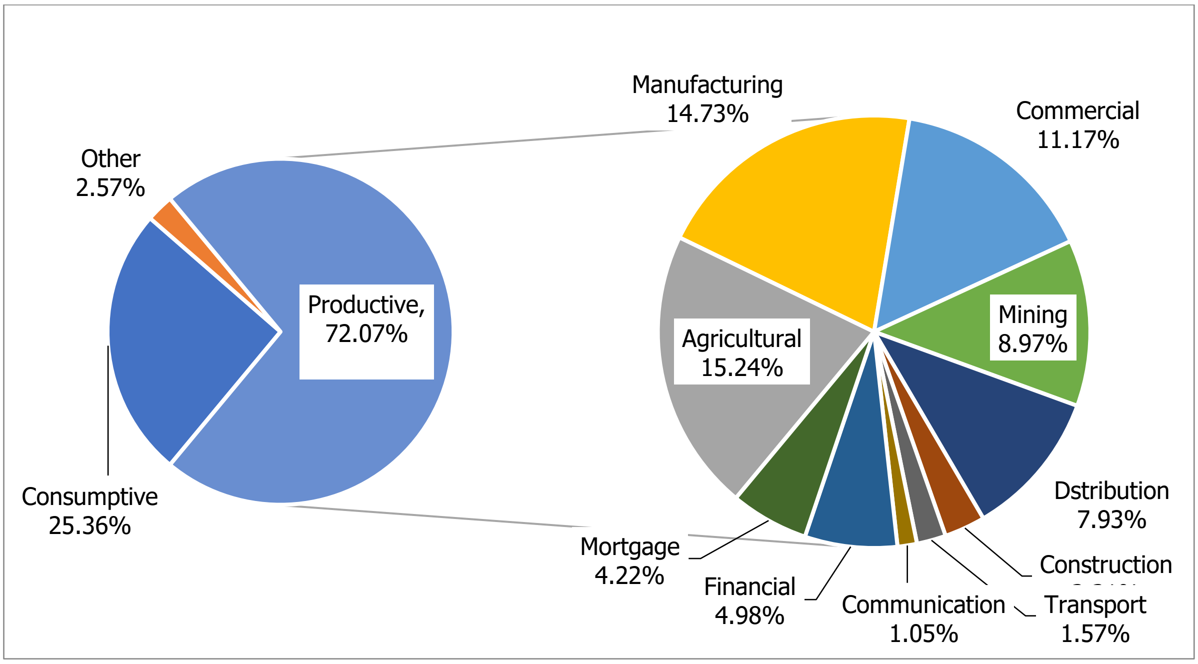
3.7. The banking sector's reported aggregate core capital increased by 95.44% during the quarter under review, from ZiG14.02 billion as at 30 June 2024 to ZiG27.40 billion as at 30 September 2024, driven by organic growth on the back of translation gains on foreign currency denominated assets.

Banking Sector Loans and Advances

3.8. As at 30 September 2024, total banking sector loans and advances significantly increased to ZiG51.41 billion from ZiG27.45 billion as 30 June 2024, largely due to the currency devaluation from ZiG14.01 as at 30 June 2024 to ZiG24.39 as at 30 September 2024, against the United Stated Dollar. The foreign currency-denominated loans accounted for 88.39% of the sector's total loans.

3.9. 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 5 depicts the sectoral distribution of loans as at 30 September 2024.

Figure 5: Sectoral Distribution of Loans as at 30 September 2024



Source: Reserve Bank of Zimbabwe

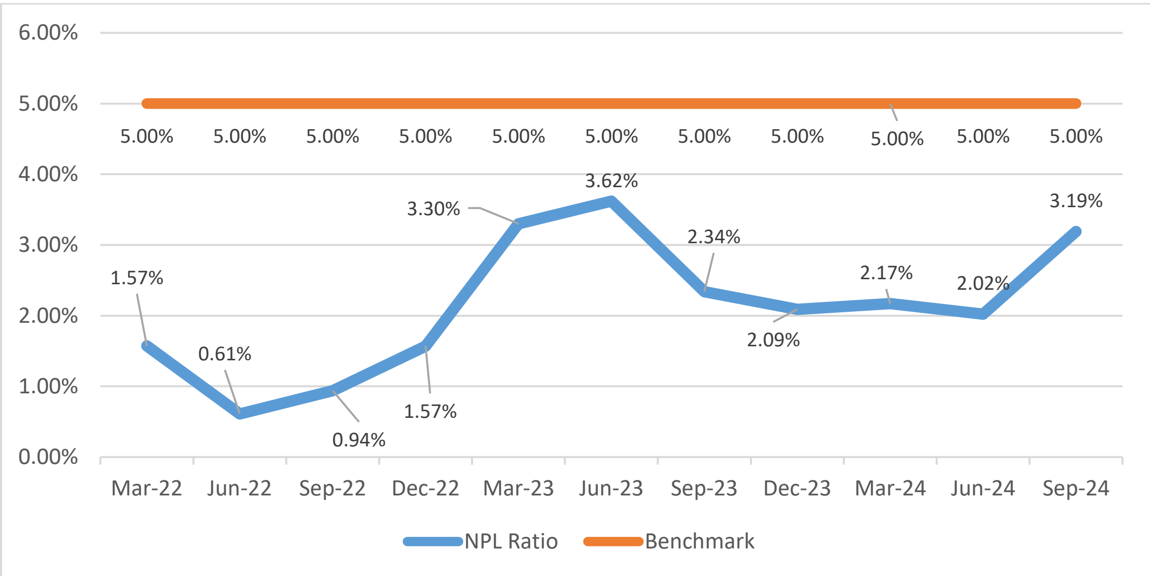
Loan Portfolio Quality

3.10. Credit risk in the banking sector remained low as reflected by the aggregate non-performing loans to total loans ratio (NPL) of 3.19% as at 30 September 2024, which remained within the internationally acceptable benchmark of 5%. The ratio, however, increased from 2.02% reported as at 30 June 2024, largely due to downgrades of some facilities particularly in the mining sector.

3.11. The credit risk management systems remain acceptable which contributed to the low aggregate non-performing loans to total loans ratio (NPL ratio).

3.12. Figure 6 shows the trend in the non-performing loans to total loans ratio from September 2022 to September 2024.

Figure 6: Trend in Non- Performing Loans

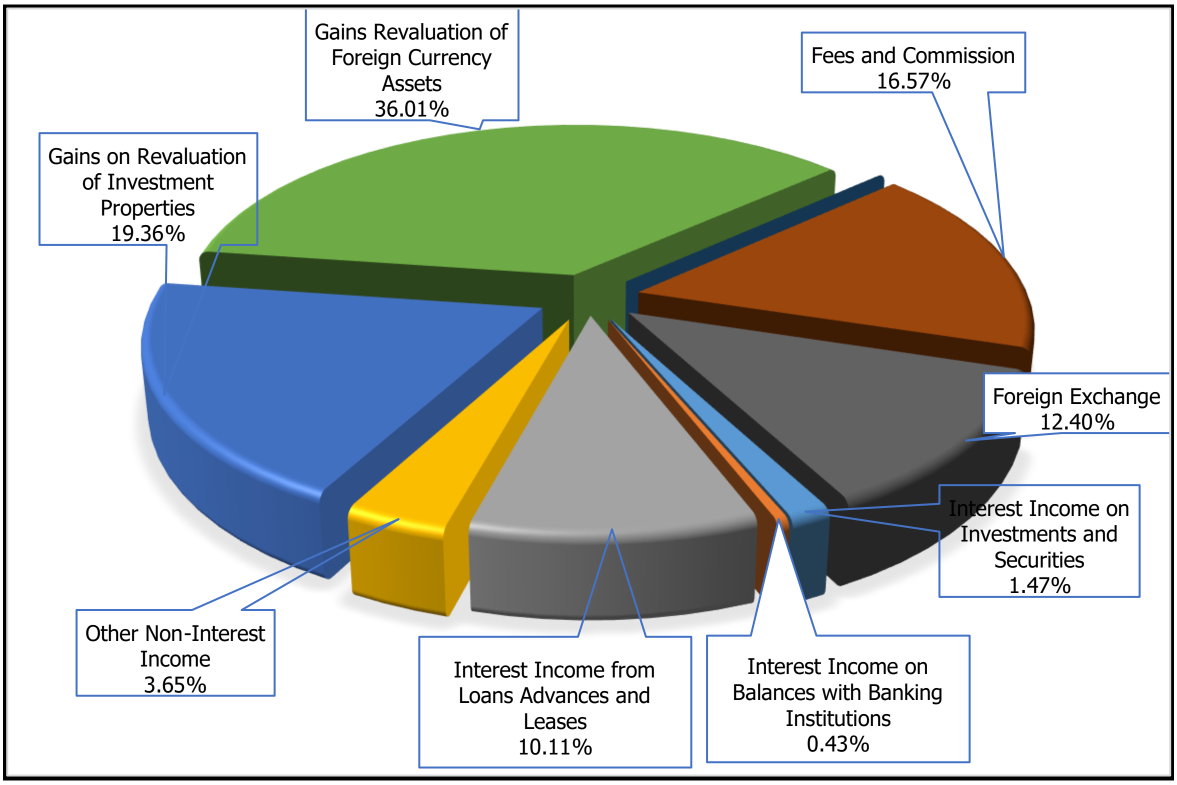


Earnings Performance

3.13. The banking sector's earnings performance remained strong as all banking institutions were profitable with an aggregate profit of ZiG20.57 billion (equivalent to US$826.48 million) for the nine months ended 30 September 2024, representing a marginal decrease in USD terms, from US$854.21 million (ZW$4.67 trillion) in the comparative period in 2023.

3.14. The banking sector's income was primarily generated from non-interest income, which accounted for 87.97% of the total income (equivalent to ZiG32.87 billion). The main sources of this non-interest income included net gains from the revaluation of foreign currency assets and net gains from the revaluation of investment properties. Nonetheless, the significant reliance on non-funded income is considered unsustainable. The income mix for the sector is depicted in Figure 7.

Figure 7: Banking Sector Income Mix as at 30 September 2024

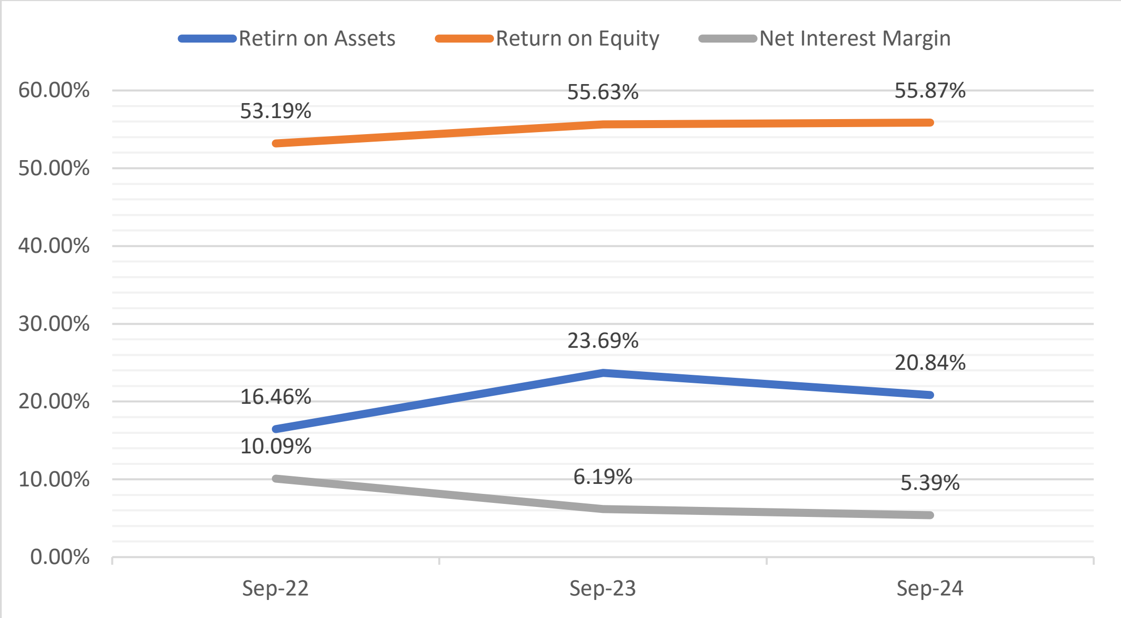


3.15. During the nine (9) months ended 30 September 2024, profitability showed signs of deterioration, as demonstrated by the drop in return on assets and net interest margin, which were recorded at 20.84% and 5.39%, respectively, down from 23.61% and 6.19% during the same period in 2023.

3.16. As at 30 September 2024, the banking sector reported a cost-to-income ratio of 41.35%. Future improvements in this ratio are expected as financial institutions enhance their reliance on digital service delivery and pursue automation strategies that are economically beneficial.

3.17. Figure 8 illustrates the trend of the banking sector's earnings performance over the interval spanning from September 2022 to September 2024.

Figure 8: Trend of Banking Sector Earnings Performance

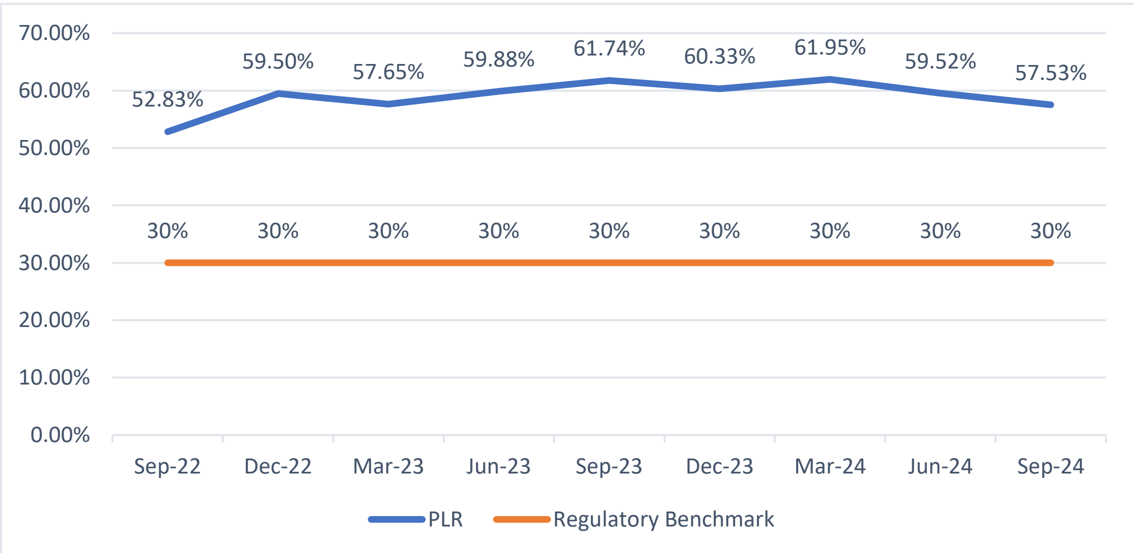


Liquidity and Funds Management

3.18. As at 30 September 2024, deposits within the banking sector exhibited a significant increase, reaching ZiG76.10 billion, up from ZiG43.60 billion recorded as at 30 June 2024. This growth is largely attributed to foreign currency deposits, which comprised 85.39% of the total deposits.

3.19. The banking sector has maintained strong liquidity positions, as demonstrated by an average prudential liquidity ratio (PLR) of 57.53% as at 30 September 2024, which is a slight reduction from the 59.52% reported as at 30 June 2024. The trend in banking sector deposits for the period spanning from 30 September 2022 to 30 September 2024 is depicted in Figure 9 below.

Figure 9: Prudential Liquidity Ratios



3.20. All banking institutions were compliant with the minimum prudential liquidity ratio of 30% as at 30 September 2024.

3.21. The level of financial intermediation in the sector, as measured by the loans to deposit ratio, increased from 52.51% reported as at 30 June 2024 to 56.93% as at 30 September 2024.

Sensitivity to Market Risk

3.22. As at 30 September 2024, the banking sector had a liability-sensitive book as interest-rate-sensitive liabilities exceeded the interest-rate-sensitive assets and is generally set to lose from an increase in interest rates as liabilities will reprice faster than assets, reflecting a heightened exposure to interest rate risk.

3.23. During the quarter ended 30 September 2024, the economy experienced a resurgence in exchange rate pressures as reflected by the widening parallel market exchange rate premium. Nevertheless, fiscal and monetary policy interventions ensured that the foreign exchange rate risk remains moderate.

OUTLOOK

3.24. The banking sector, anchored by the prevailing strong macroeconomic and monetary measures, is expected to maintain satisfactory financial performance and remain stable, playing its key financial intermediation role in providing the much-needed productive sector support.

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