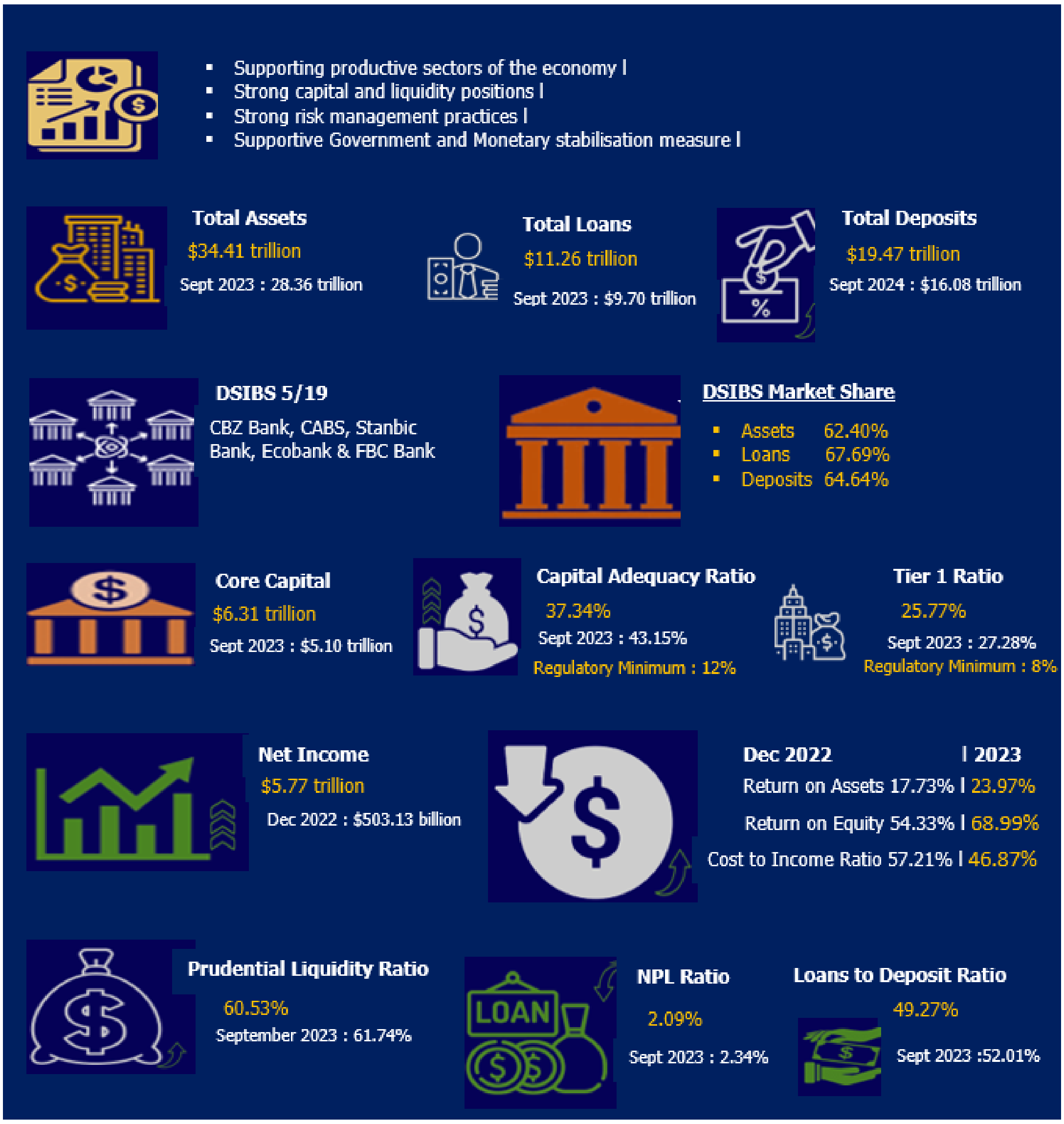
BANK SUPERVISION DIVISION

BANKING SECTOR REPORT FOR THE QUARTER ENDED 31 DECEMBER 2023

1. EXECUTIVE SUMMARY

1.1. The banking industry demonstrated a satisfactory degree of overall soundness for the period ended 31 December 2023, which can be attributable to its strong capital, solid liquidity position, and effective risk management practices.

1.2. The sector continued to play its key role of financial intermediation. The key financial soundness indicators 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, four (4) building societies and one (1) savings bank. In addition, there were 230 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 31 December 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	**230**
Deposit-Taking MFIs	**8**
Development Financial Institutions (SMEDCO, IDBZ, IDCZ and AFC Land & Development Bank)	**4**
Total Other Institutions	**242**
Total Number of Institutions	**261**

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 industry exhibited commendable performance, bolstered by robust capital and liquidity positions, low level of non-performing loans, and favourable earnings performance.

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

Table 2: Financial Soundness Indicators

Key Indicators	Benchmark	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Total Assets	-	$3.81tn	$5.68tn	$27.28tn	$28.36tn	$34.41tn
Total Loans & Advances	-	$1.29tn	$1.97tn	$10.19tn	$9.70tn	$11.26tn
Net Capital Base	-	$746.30bn	$1.01tn	$5.95tn	$6.36tn	$7.77tn
Core Capital	-	$611.11bn	$803.08bn	$5.05tn	$5.10tn	$6.31tn
Total Deposits	-	$2.29tn	$3.17tn	$14.66tn	$16.08tn	$19.47tn
Net Profit	-	$503.13bn	$207.25bn	$4.55tn	$4.67tn	$5.77tn
Return on Assets	-	17.43%	4.92%	26.11%	23.69%	23.97%
Return on Equity	-	54.33%	16.62%	74.60%	55.63%	68.99%
Capital Adequacy Ratio	12%	37.15%	41.05%	40.48%	43.15%	37.34%
Tier 1 Ratio	8%	26.92%	27.85%	35.35%	27.28%	25.77%
Loans to Deposits Ratio	-	55.67%	62.09%	55.96%	52.01%	49.27%
NPLs Ratio	5%	1.58%	3.30%	3.62%	2.34%	2.09%
Liquidity Ratio	30%	59.50%	57.65%	59.88%	61.74%	60.53%

Composition of Banking Sector Assets

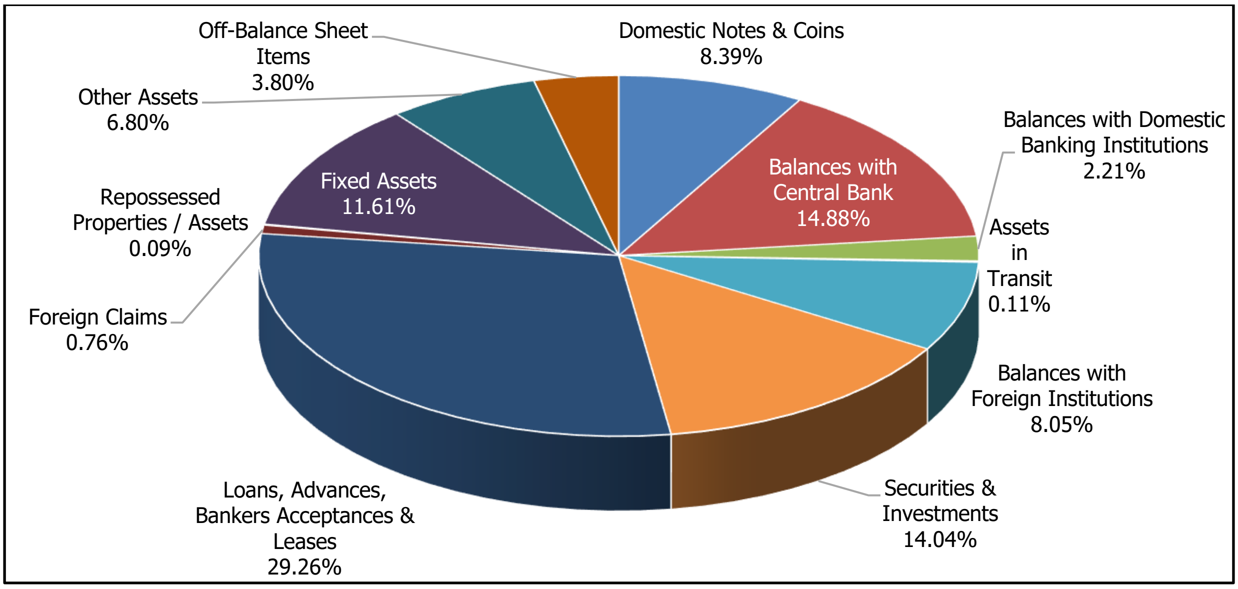
3.3. As at 31 December 2023, total banking sector assets amounted to $34.41 trillion representing an increase of 21.33% from $28.36 trillion as at 30 September

2023.

3.4. Total loans and advances, which accounted for 29.26% [*September 2023: 30.40%*] remained dominant of the total banking sector assets.

3.5. The figure below shows the banking sector asset structure as at 31 December 2023:

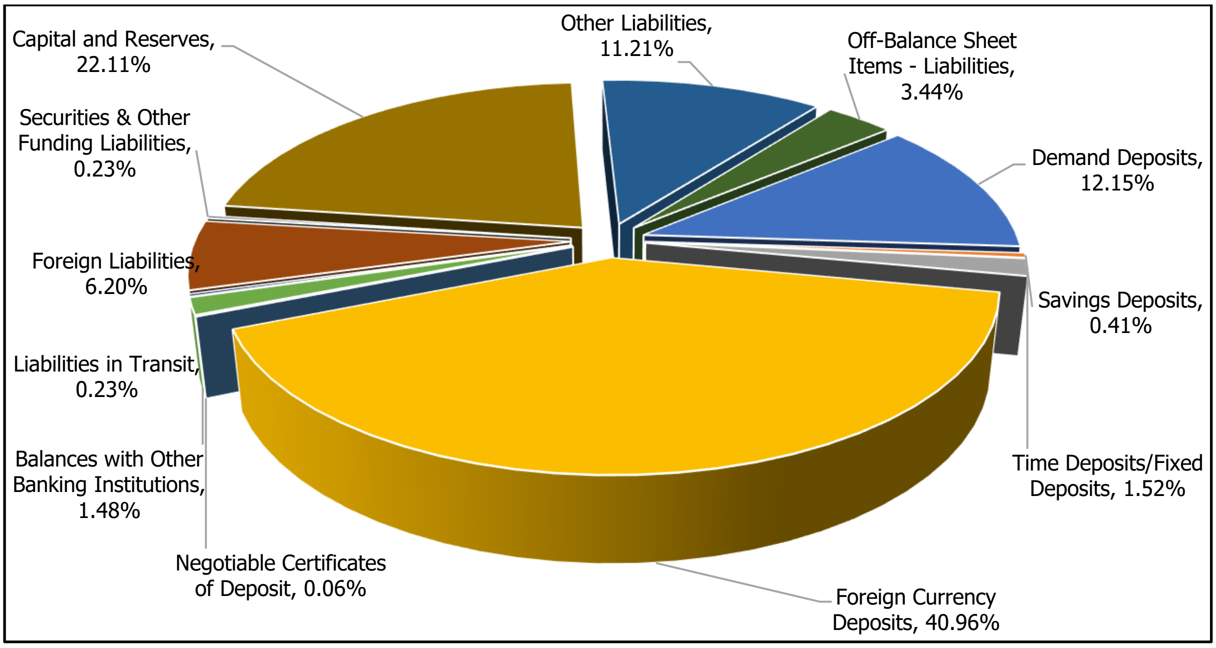
Figure 1: Asset Mix as at 31 December 2023



Liabilities Structure

3.6. The major components of the banking sector liabilities as at 31 December 2023 comprised of foreign currency deposits (40.96%), capital and reserves (22.11%) and demand deposits (12.15%), as depicted below:

Figure 2: Decomposition of Liabilities as at 31 December 2023

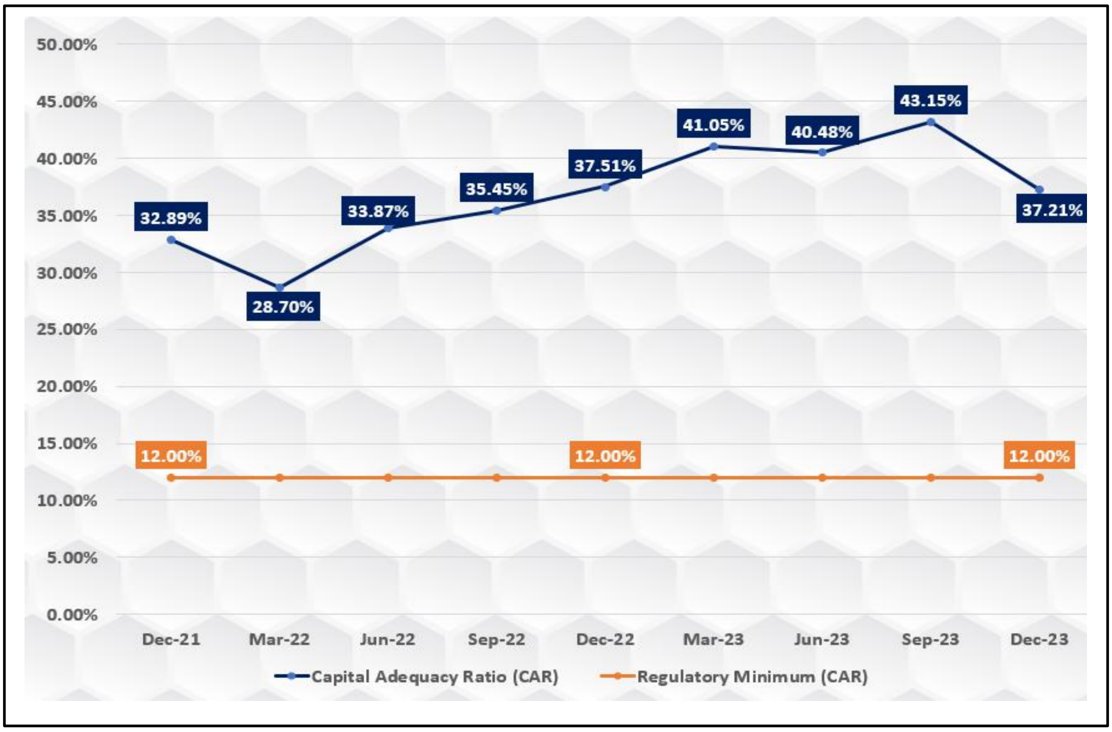


Capitalisation

3.7. All banking institutions were in compliance with the minimum regulatory capital ratios as at 31 December 2023, which include a prescribed minimum capital adequacy ratio of 12% and a tier 1 ratio of 8% respectively. The banking sector's average capital adequacy ratio and tier 1 ratios were 37.21% and 25.64%, respectively.

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

Figure 3: Capital Adequacy Ratio Trend



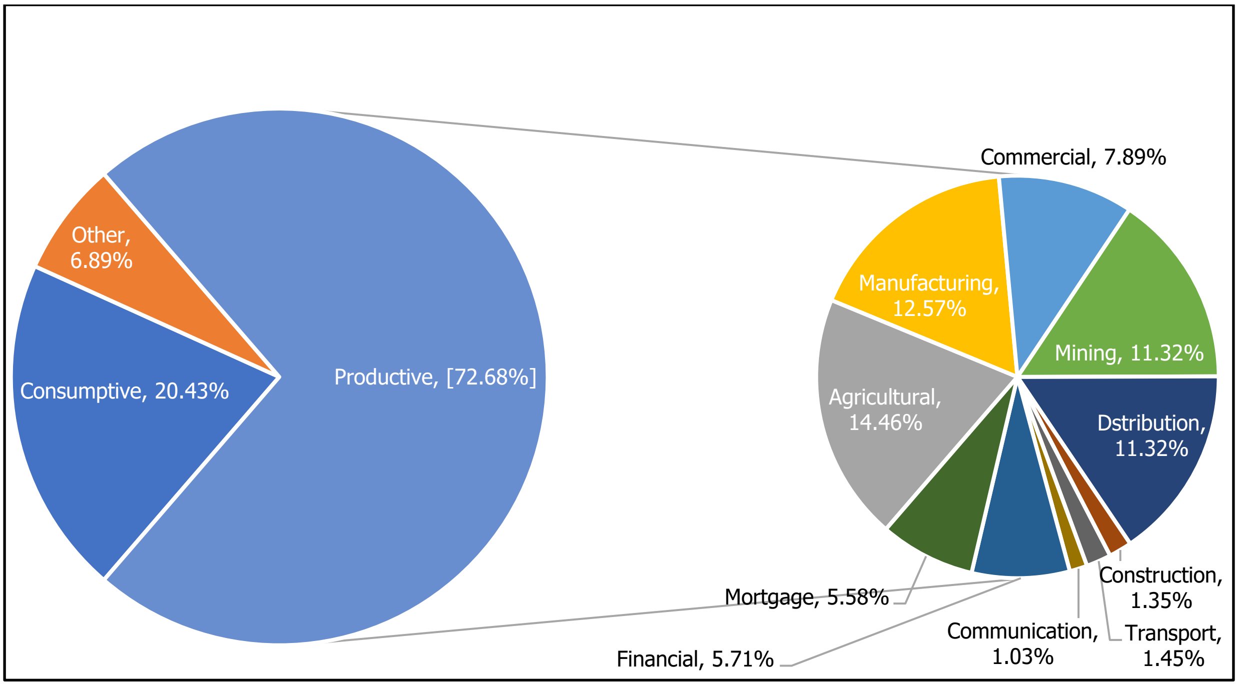
3.9. Banking sector core capital increased from $5.10 trillion as at 30 September 2023 to $6.31 trillion as at 31 December 2023. The growth was largely attributed to retained earnings. The retained earnings from a number of banking institutions were largely driven by revaluation gains from investment properties and translation gains from foreign currency denominated assets.

Asset Quality

3.10. Aggregate banking sector loans and advances increased from $9.70 trillion as at 30 September 2023, to $11.26 trillion as at 31 December 2023. The proportion of foreign currency denominated loans declined from 88% to 84.77% during the same period.

3.11. 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 72.68% of total loans as at 31 December 2023, as shown figure 4 below.

Figure 4: Sectoral Distribution of Loans as at 31 December 2023

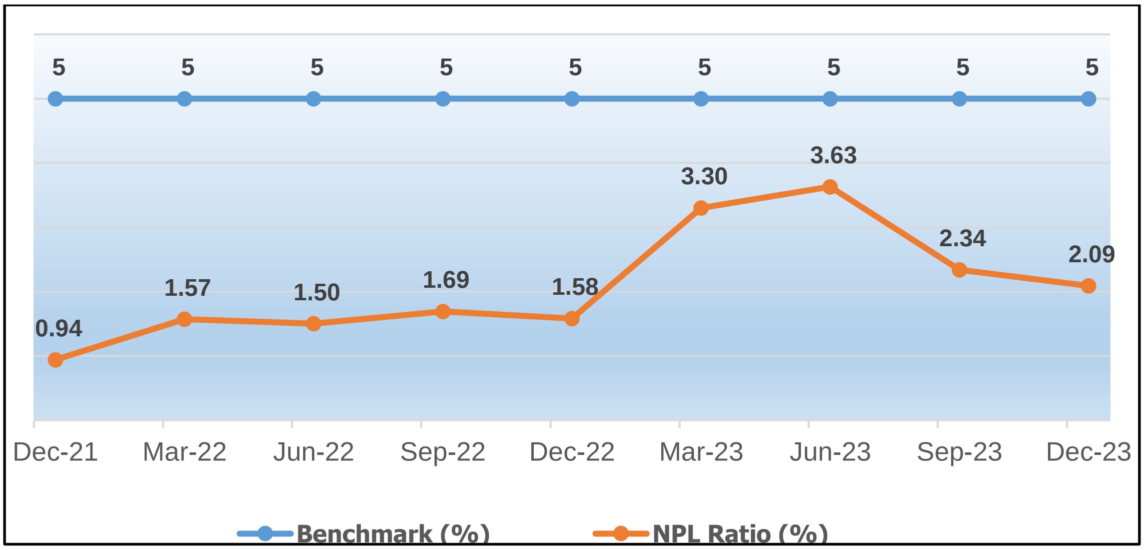


Loan Portfolio Quality

3.12. Credit risk in the banking sector remained low as evidenced by aggregate non-performing loans to total loans (NPL) ratio of 2.09% as at 31 December 2023. The ratio remains within the acceptable international threshold of 5%.

3.13. The trend in the level of non-performing loans to total loans (NPL) ratio from December 2021 to December 2023 is shown in Figure 5 below.

Figure 5: Trend in Non- Performing Loans



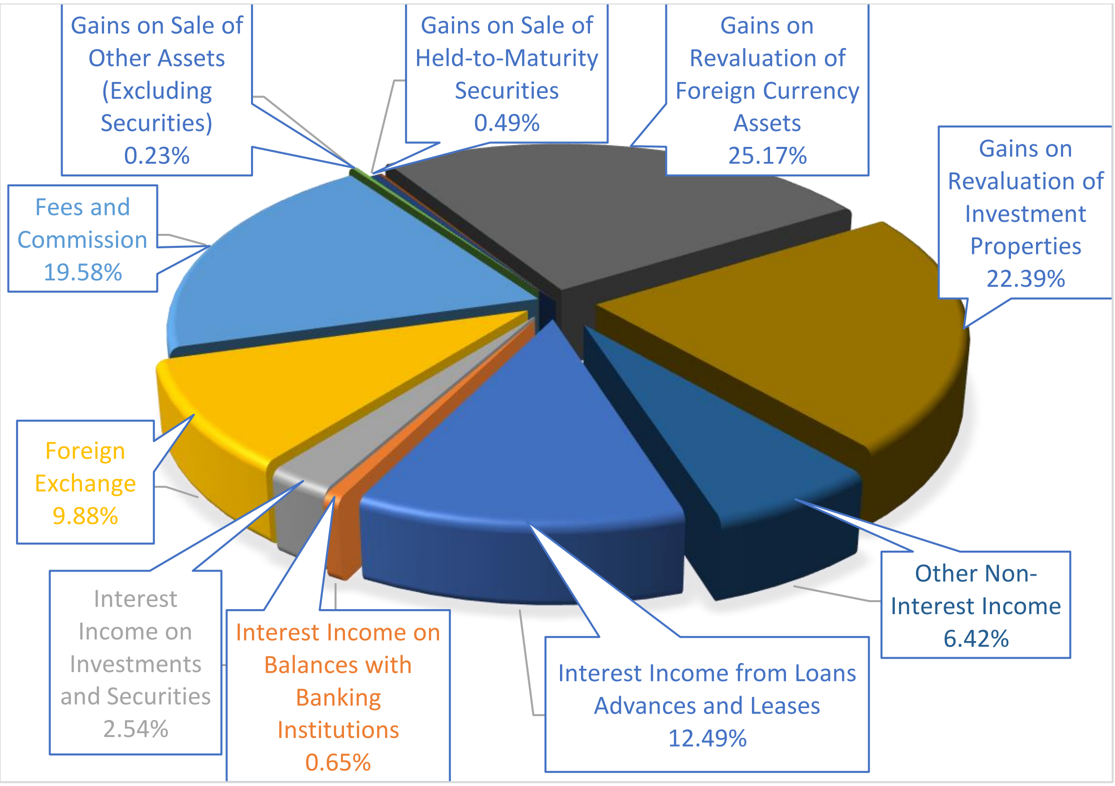
3.14. The low NPL ratio is reflective of sound credit risk management systems and strong internal controls by banking institutions. The Bank continues to closely monitor developments in the banking sector's credit risk exposures.

Earnings Performance

3.15. The banking sector remained profitable with aggregate profit of $5.77 trillion for the year ended 31 December 2023, compared to $503.13 billion reported in the corresponding period in 2022.

3.16. Profitability was mainly driven by non-interest income, which accounted for 84.27% of total income. The income mix for the sector is depicted in the figure below.

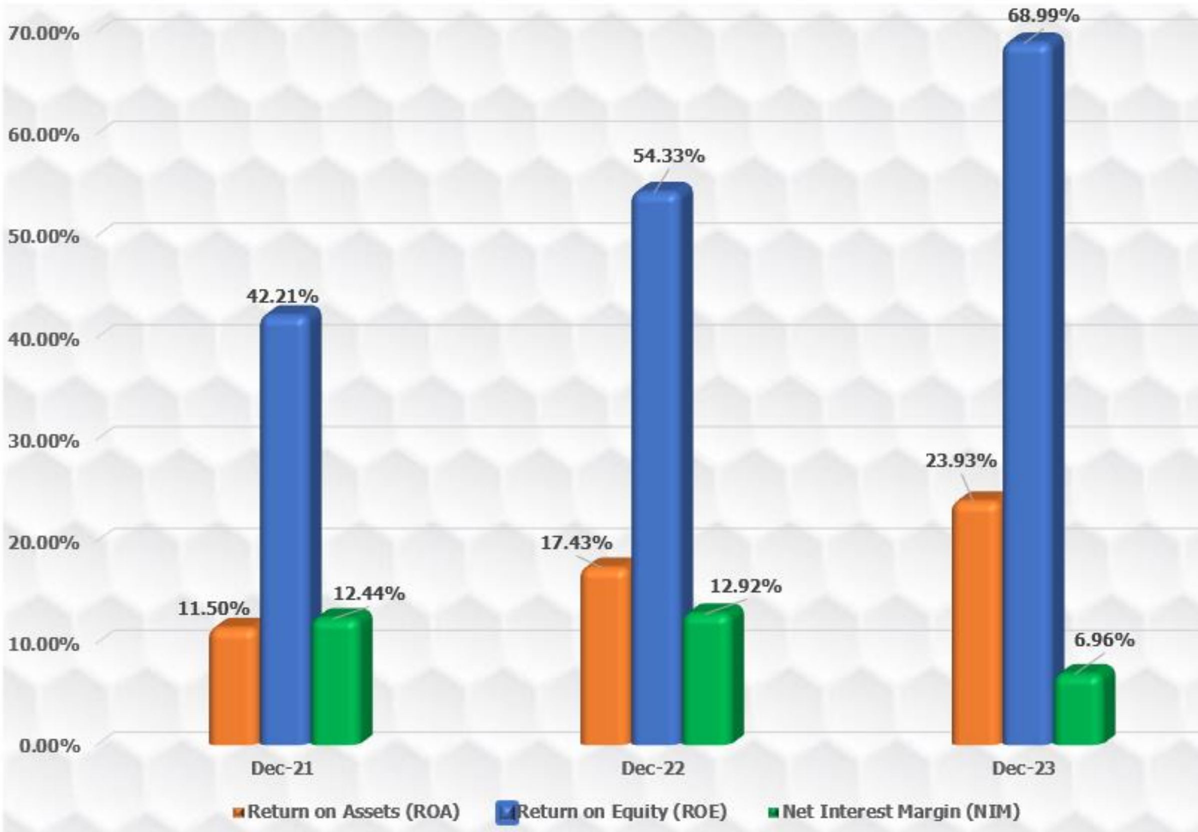
Figure 6: Banking Sector Income Mix as at 31 December 2023



3.17. As at 31 December 2023, banking sector profitability as measured by return on assets and return on equity ratios were 23.97% and 68.99%, compared 17.43% and 54.33% reported as at 31 December 2023, respectively.

3.18. The trend of banking sector performance over the period 31 December 2021 to 31 December 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 46.87% as at 31 December 2023, an improvement from 57.21% 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.

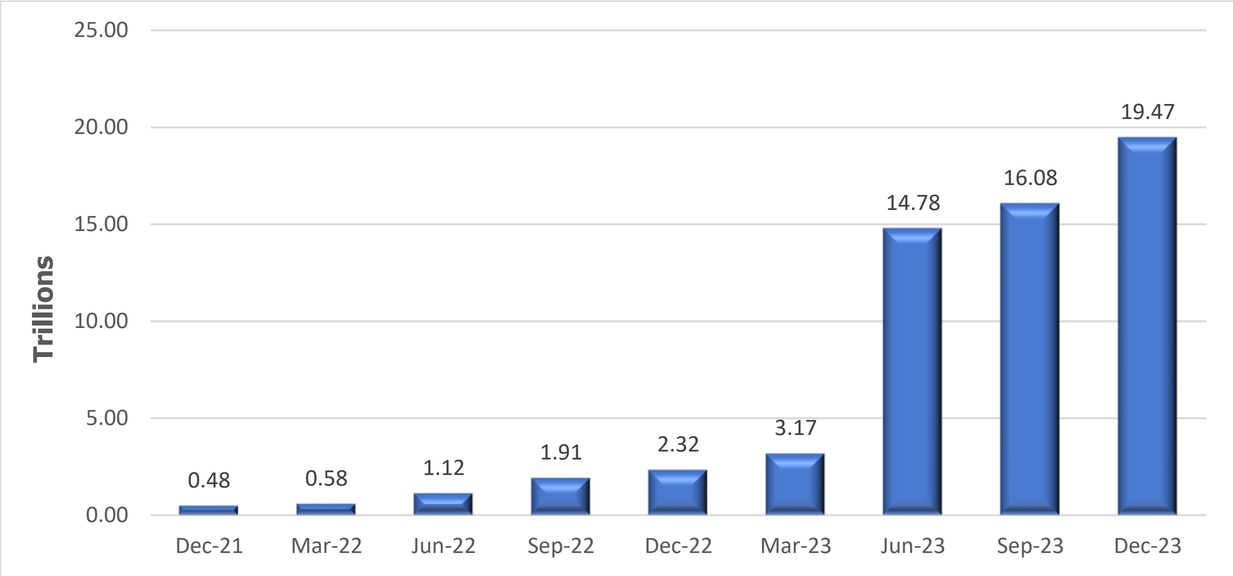
3.20. The Bank will continue to work constructively with banking institutions to ensure the efficient delivery of cost-effective banking services and products.

Liquidity and Funds Management

3.21. Aggregate banking sector deposits increased from $16.08 trillion reported as at 30 September 2023 to $19.47 trillion as at 31 December 2023. The growth was attributable to foreign currency deposits which accounted for 75.79% of total deposits as at 31 December 2023.

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

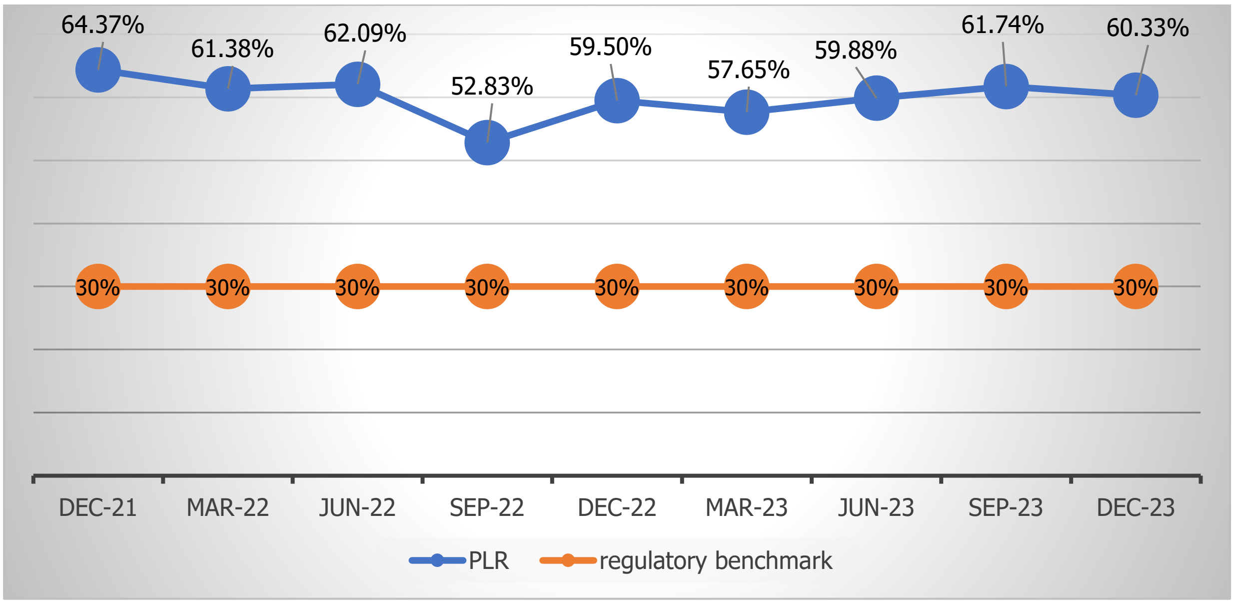
Figure 8: Trend in Banking Sector Deposits



3.23. As at 31 December 2023, the sector's average prudential liquidity ratio was 60.33%, reflecting a substantial amount 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 2021 to 31 December 2023 is shown in figure below.

Figure 9: Trend in Prudential Liquidity Ratio



Sensitivity to Market Risk

3.25. As at 31 December 2023, the banking sector had an overall sensitive liability book in the 3, 6 and 9 months' time bands implying that the sector would lose if interest rates increase as liabilities will reprice faster than assets

Outlook

3.26. The prospects for the banking industry indicate that it will maintain its resilience amidst a range of challenges while fulfilling its essential function of financial intermediation and driving economic growth. In light of the shifting landscape, banking institutions are anticipated to progress and adjust by establishing sturdy financial and operational systems to withstand potential risks and uncertainties.

RESERVE BANK OF ZIMBABWE