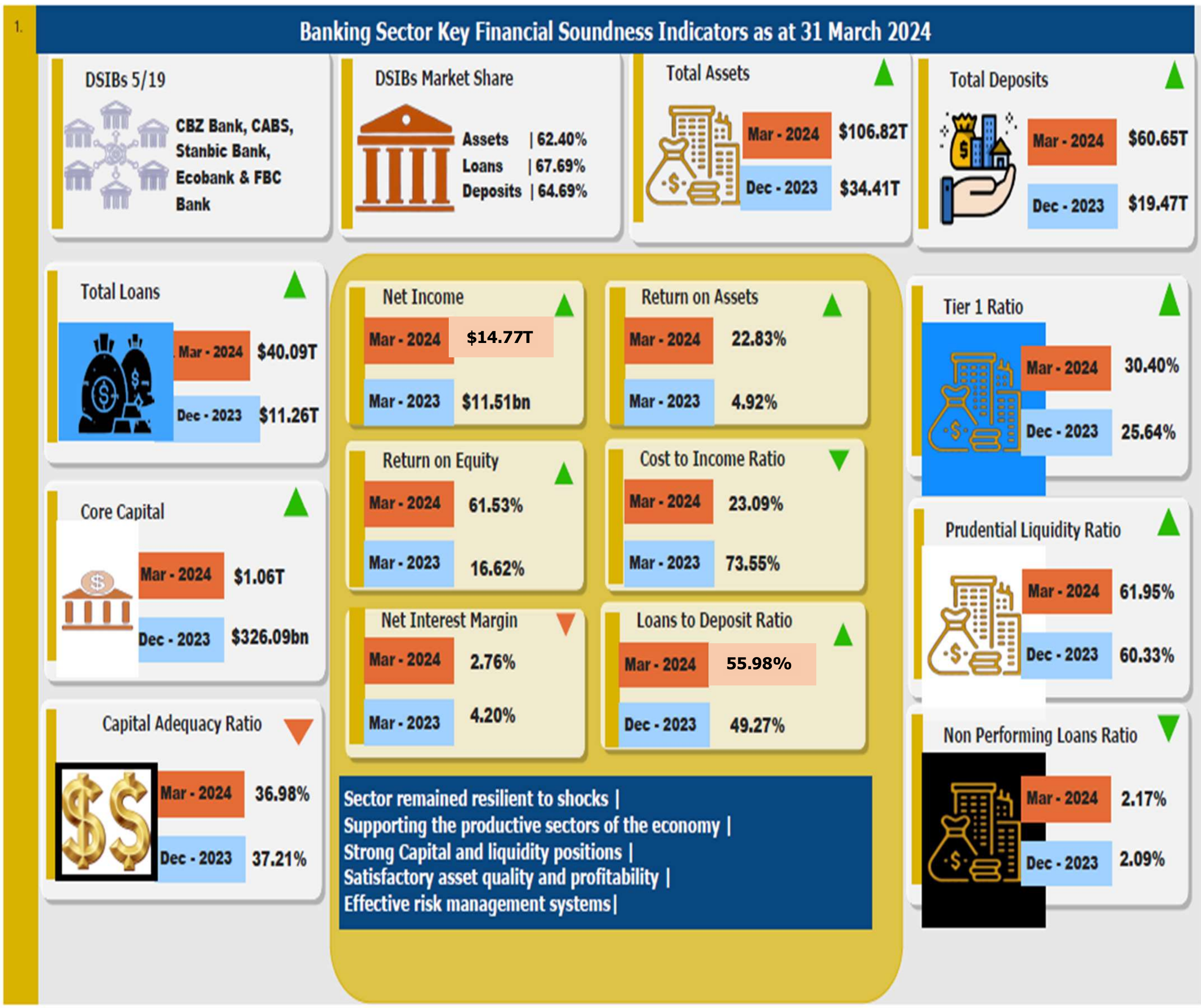
BANK SUPERVISION DIVISION

BANKING SECTOR REPORT FOR THE QUARTER ENDED 31 MARCH 2024

1. EXECUTIVE SUMMARY

1.1. The banking sector continued to show resilience in the first quarter ended 31 March 2024 as reflected by adequate capital levels, asset quality metrics that remained overall satisfactory, stable liquidity, and sustained profitability.

1.2. The dashboard below shows the banking sector key indicators as at 31 March 2024.



1.3. Banking institutions continue to adapt to the changing operating landscape and increasing competitive dynamics through a number of strategies including reconfiguration of their business models and increasing levels of digitalisation.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. As at 31 March 2024, the banking sector comprised 19 operating banking institutions, made up of 14 commercial banks, four (4) building societies, and one (1) savings bank. In addition, the banking sector's depth and breadth is augmented by the microfinance sector comprising 239 credit-only microfinance institutions, eight (8) licensed deposit-taking microfinance institutions, and four (4) development financial institutions.

2.2. The composition of the banking sector as at 31 March 2024 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	**239**
Deposit-Taking MFIs	**8**
Development Financial Institutions (SMEDCO, IDBZ, IDCZ and AFC Land & Development Bank)	**4**
Total Other Institutions	**251**
Total Number of Institutions	**270**

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. During the quarter ended 31 March 2024, the banking sector maintained a satisfactory financial performance as evidenced by adequate capital levels buoyed by sustained profitability, while asset quality and liquidity metrics remained overall satisfactory and stable. The capital and liquidity positions provide sturdy buffers for banking institutions to remain resilient to shocks and be better positioned to play a key role in supporting the growth and development of the economy.

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

Table 2: Key Financial Soundness Indicators

Key Indicators	Benchmark	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Total Assets	-	$5.68tn	$27.28tn	$28.36tn	$34.41tn	$106.82tn
Total Loans & Advances	-	$1.97tn	$10.19tn	$9.70tn	$11.26tn	$40.09tn
Net Capital Base	-	$1.01tn	$5.95tn	$6.36tn	$7.77tn	$24.61tn
Core Capital	-	$803.08bn	$5.05tn	$5.10tn	$6.31tn	$20.12tn

Key Indicators	Benchmark	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Total Deposits	-	$3.17tn	$14.66tn	$16.08tn	$19.47tn	$60.65tn
Net Profit	-	$207.25bn	$4.55tn	$4.67tn	$5.77tn	$14.77tn
Return on Assets	-	4.92%	26.11%	23.69%	23.97%	22.83%
Return on Equity	-	16.62%	74.60%	55.63%	68.99%	61.33%
Capital Adequacy Ratio	12%	41.05%	40.48%	43.15%	37.34%	36.98%
Tier 1 Ratio	8%	27.85%	35.35%	27.28%	25.77%	30.39%
Loans to Deposits Ratio	-	62.09%	55.96%	52.01%	49.27%	55.98%
NPLs Ratio	5%	3.30%	3.62%	2.34%	2.09%	2.17%
Liquidity Ratio	30%	57.65%	59.88%	61.74%	60.53%	61.95%

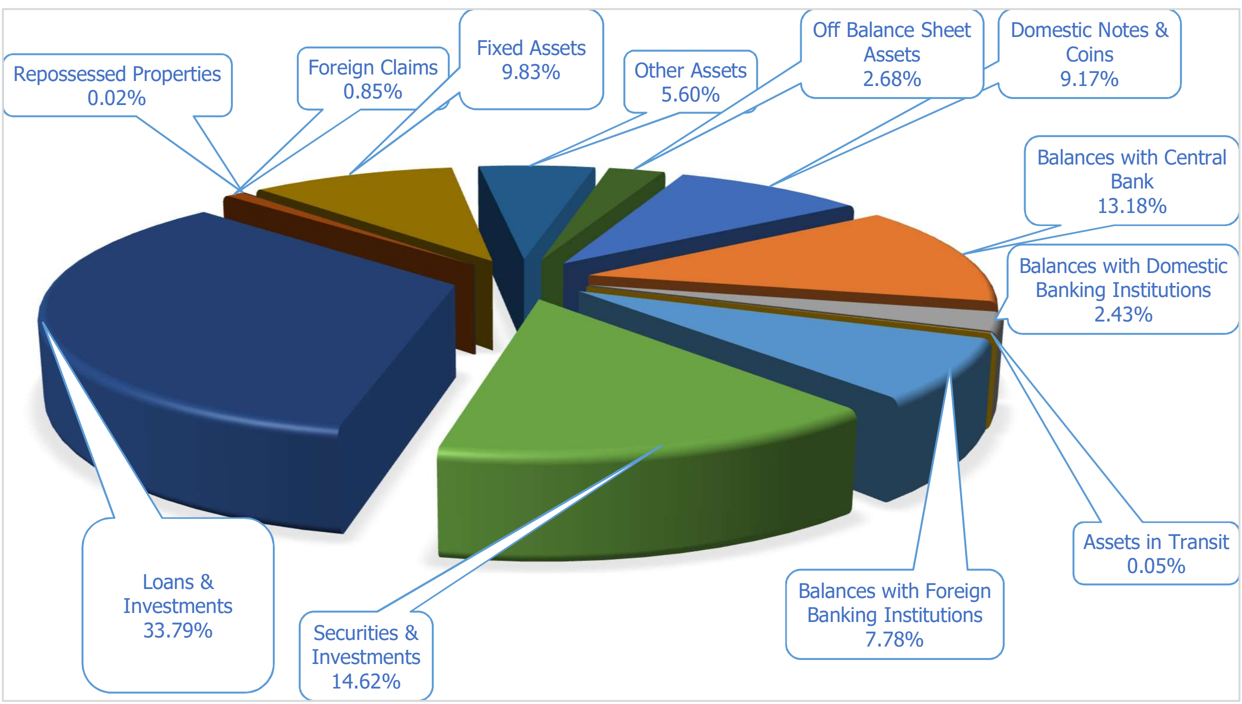
Asset Structure

3.3. The banking sector's total assets grew by 210% to $106.82 trillion, as at 31 March 2024, marking a notable increase from $34.41 trillion recorded as at 31 December 2023.

3.4. The asset composition was skewed towards loans and advances and securities and investments which constituted 33.79% and 14.62%, respectively reflecting that the banking sector continues to play its critical intermediary role.

3.5. Figure 1 below shows the banking asset structure as at 31 March 2024.

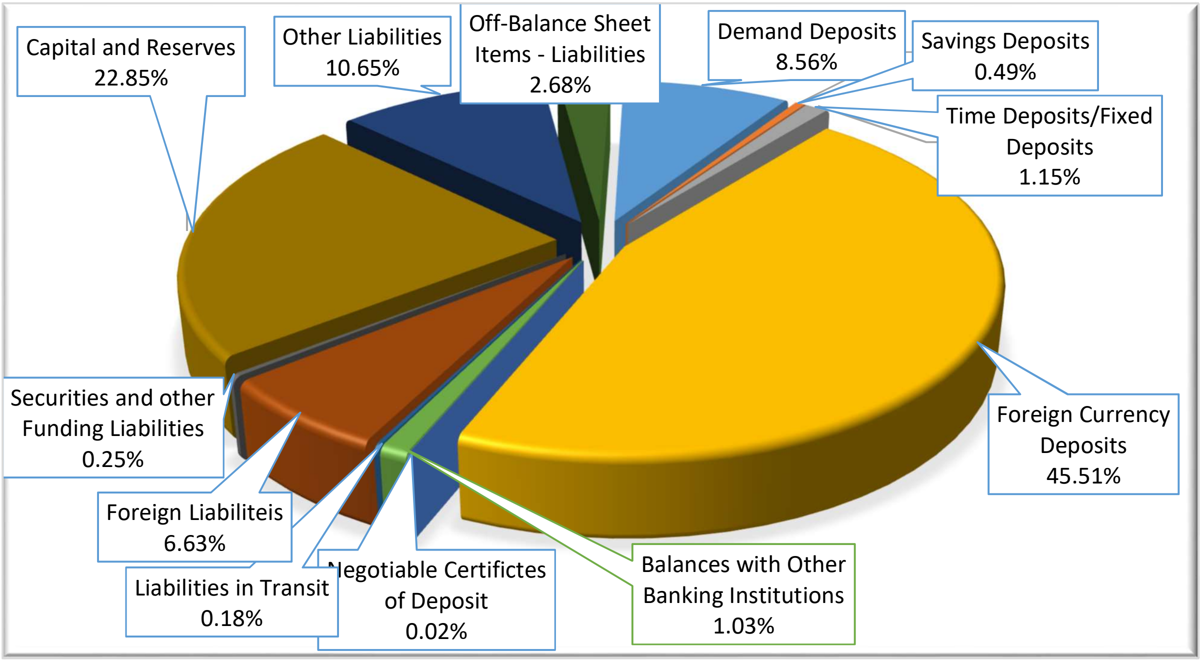
Figure 1: Banking Sector Asset Structure as at 31 March 2024



Liabilities Structure

3.6. Banking sector liabilities as at 31 March 2024, largely comprised foreign currency deposits (45.51%) and capital & reserves (22.85%), whilst local currency demand deposits accounted for 8.56% as shown in figure 2 below:

Figure 2: Liabilities Structure

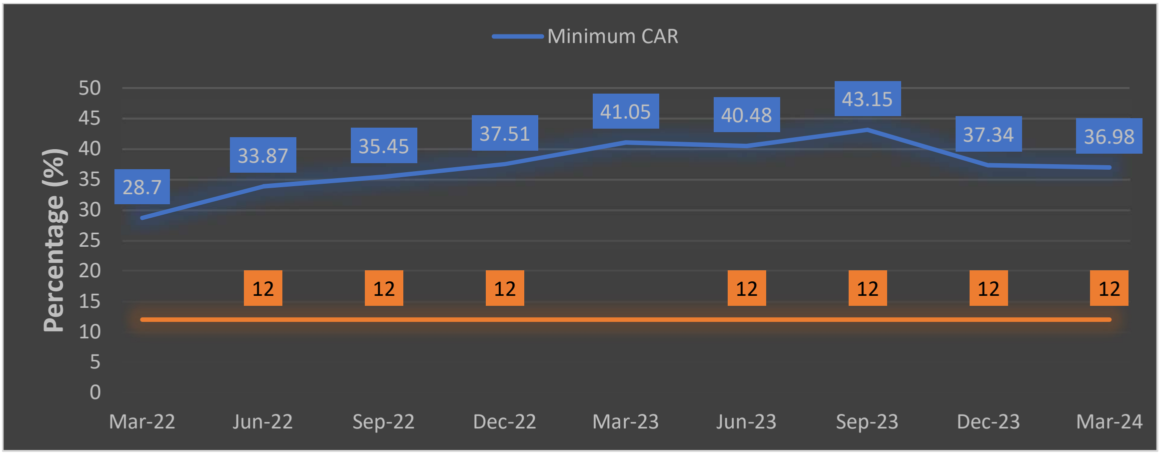


Capitalisation

3.7. As at 31 March 2024, the banking sector had a satisfactory capital position reflecting adequate buffer to absorb losses and hence well placed to execute its critical financial intermediation role. All banking institutions reported capital ratios which were in compliance with the prescribed minimum capital adequacy ratio of 12% and tier 1 ratio of 8%. The banking sector average capital adequacy ratio and tier 1 ratios were 36.98% and 30.39%, respectively.

3.8. Figure 3 below shows the trend in banking industry's average capital adequacy ratios from March 2022 to March 2024.

Figure 3: Capital Adequacy Ratio Trend



3.9. During the quarter under review, banking sector aggregate core capital increased by 218.86% from $6.31 trillion as at 31 December 2023, to $20.12 trillion as at 31 March 2024, largely driven by organic growth. The bulk of retained earnings for the majority of banking institutions were derived from translation gains from foreign currency denominated assets and revaluation gains on investment properties.

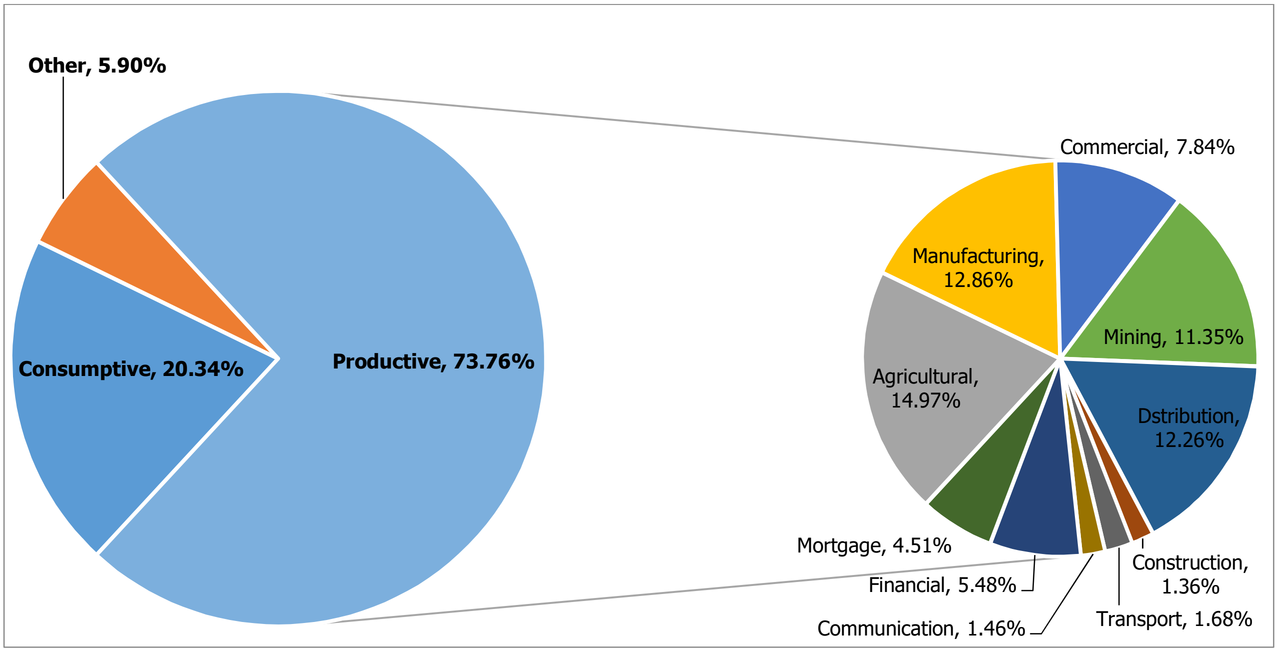
3.10. As at 31 March 2024, fifteen (15) out of 18 banking institutions (*excluding POSB with no prescribed minimum capital requirement*) reported core capital levels that complied with minimum regulatory requirements. Non-compliant banking institutions are implementing various measures to ensure compliance with the minimum regulatory requirements and remain under close monitoring by the Bank.

Banking Sector Loans and Advances

3.11. Total banking sector loans and advances increased by 256.04% from $11.26 trillion as at 31 December 2023 to $40.09 trillion as at 31 March 2024 mainly due to an increase in foreign currency denominated loans, which accounted for 90.88% of the sector's total loans.

3.12. During the period under review, banking institutions continued to play their critical financial intermediary role with considerable funding to the productive sectors of the economy to support economic growth. Figure 4 below depicts the sectoral distribution of loans as at 31 March 2024.

Figure 4: Sectoral Distribution of Loans as at 31 March 2024



Source: Reserve Bank of Zimbabwe

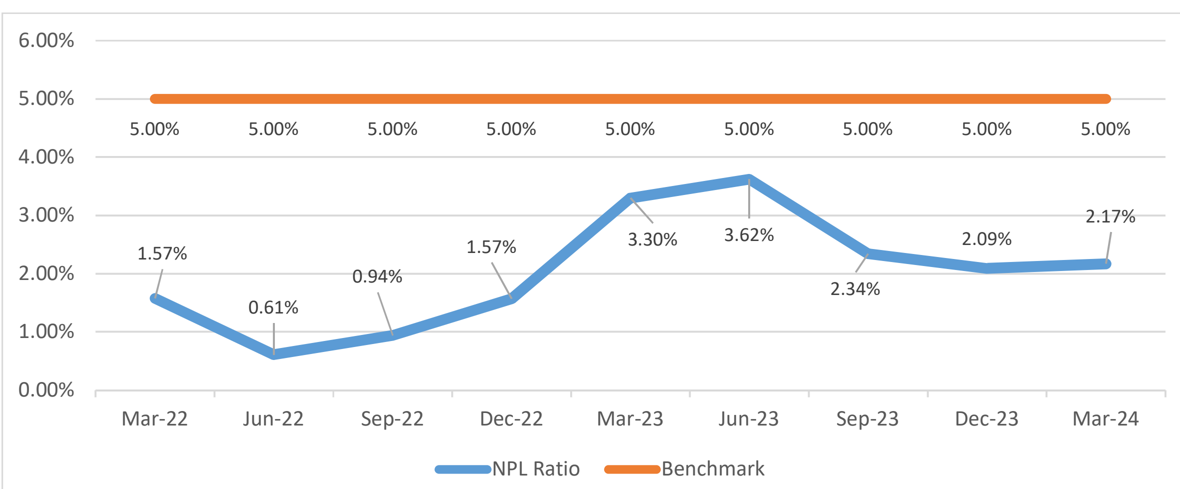
Loan Portfolio Quality

3.13. The banking sector continued to maintain robust credit risk management systems as evidenced by the low aggregate non-performing loans to total loans ratio (NPL ratio).

3.14. The NPL ratio closed the quarter at 2.17% representing a marginal increase from 2.09% reported as at 31 December 2023. The NPL ratio however remained well within the Bank's risk appetite and the internationally acceptable threshold of 5%.

3.15. The figure 5 below shows the trend in the non-performing loans to total loans ratio from March 2022 to March 2024.

Figure 5: Trend in Non- Performing Loans



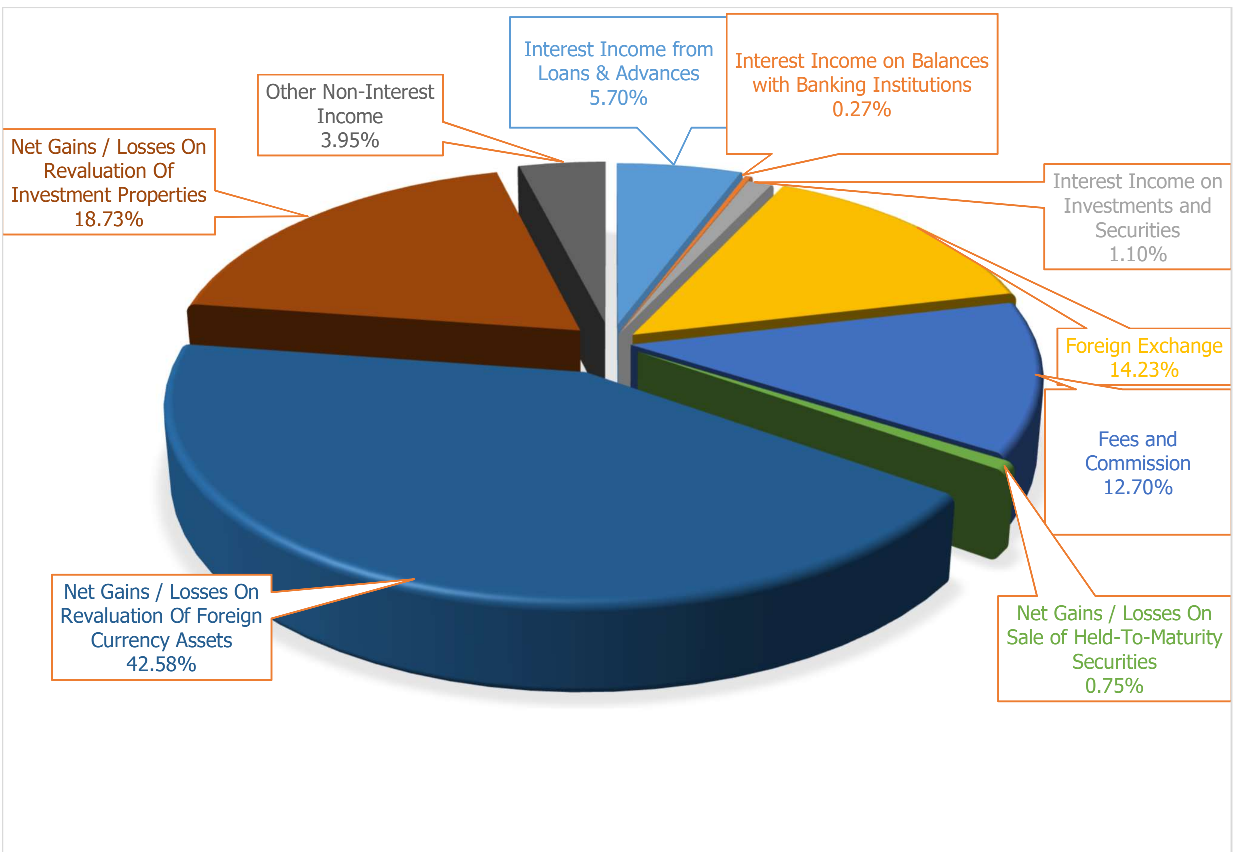
Earnings Performance

3.16. The banking sector's earnings performance remained strong during the quarter under review. All banking institutions were profitable with an aggregate profit of $14.77 trillion during the quarter ended 31 March 2024, representing a sharp increase from $207.25 billion in the comparative period in 2023. Commercial banks accounted for 80.63% of the banking sector aggregate profit.

3.17. The increase in the banking sector income was largely driven by non-interest income, which accounted for 92.94% of total income ($18.73 trillion) as at 31 March 2024. The major sources of non-interest income were net gains on revaluation of foreign currency assets and net gains on revaluation of investment properties which accounted for 42.58% and 18.73% of total non-interest income.

3.18. The income mix for the sector is depicted in the Figure 6 below.

Figure 6: Banking Sector Income Mix as at 31 March 2024



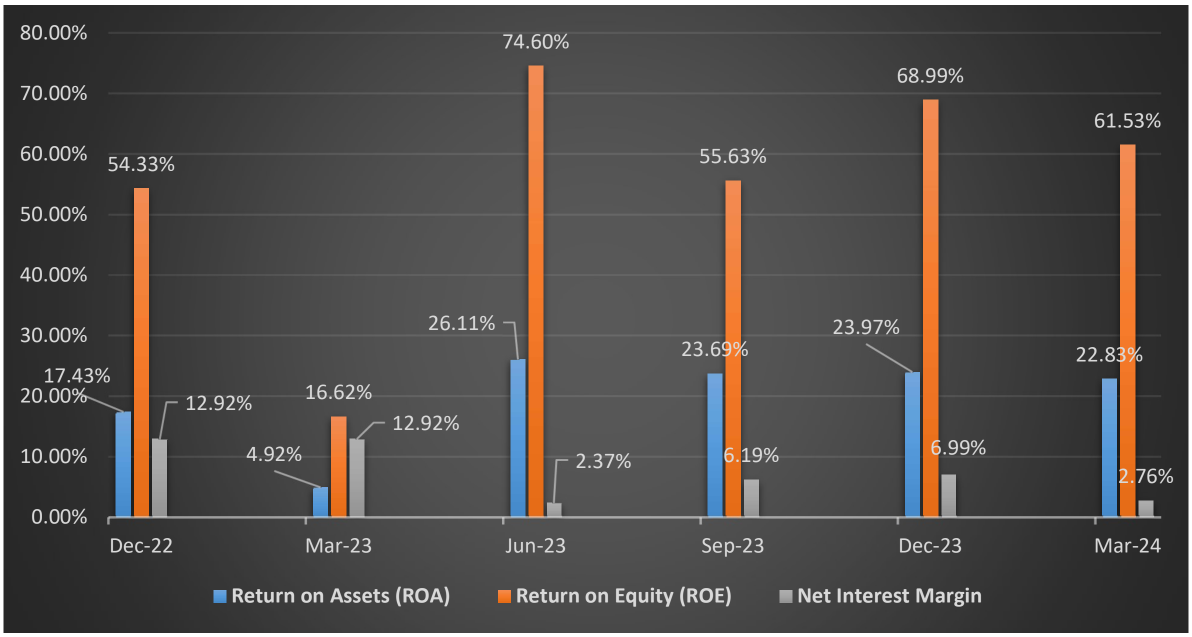
3.19. During the quarter under review, profitability of the banking sector improved as evidenced by the increase in return on assets and return on equity ratios from 4.92% and 16.62% reported as at 31 March 2023 to 22.83% and 61.53% reported as at 31 March 2024, respectively.

3.20. The banking sector cost to income ratio improved to 23.09% during the quarter ended 31

March 2024, from 73.55% in the comparative period in 2023 as banking institutions continue to increase reliance on digital platforms for service delivery, as well as automation of processes which are cost effective.

3.21. Figure 7 illustrates the trend of the banking sector's performance over the interval spanning from December 31, 2022, to March 31, 2024.

Figure 7: Trend of Banking Sector Performance

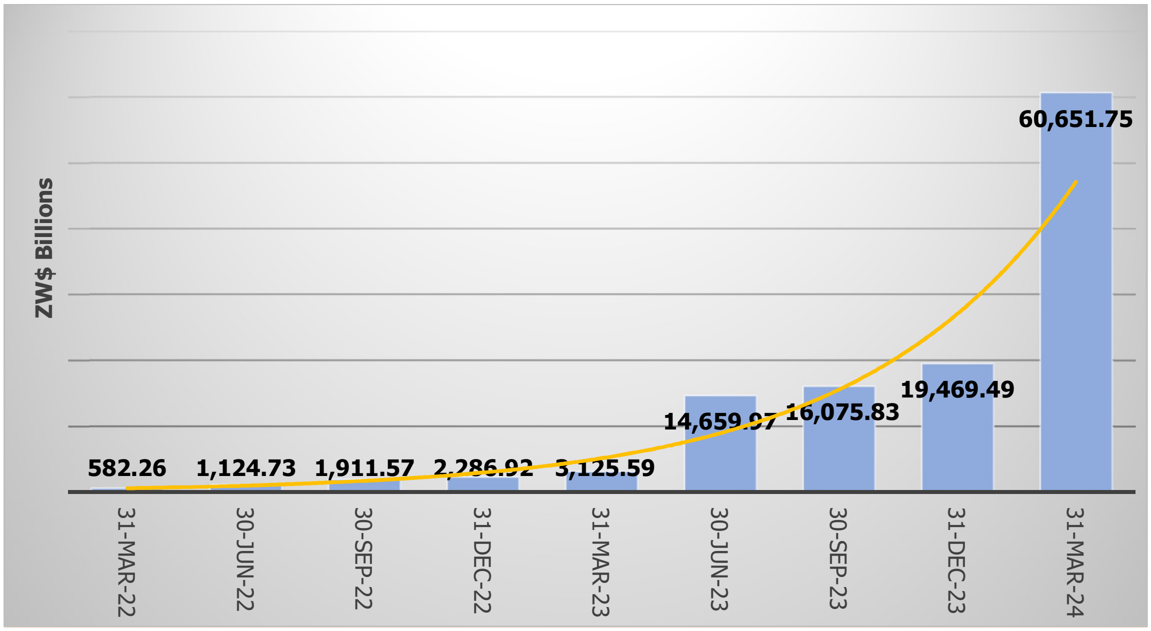


Liquidity and Funds Management

3.22. The aggregate banking sector deposits continued on an upward trend recording a 211.50% increase from 19.47 trillion as at 31 December 2023, to $60.65 trillion as at 31 March 2024. The growth in deposits was largely driven by foreign currency deposits which accounted for 88.00% of the total banking sector deposits as at 31 March 2024.

3.23. The trend of banking sector deposits over the period 31 March 2022 to 31 March 2024 is shown in the figure 8 below:

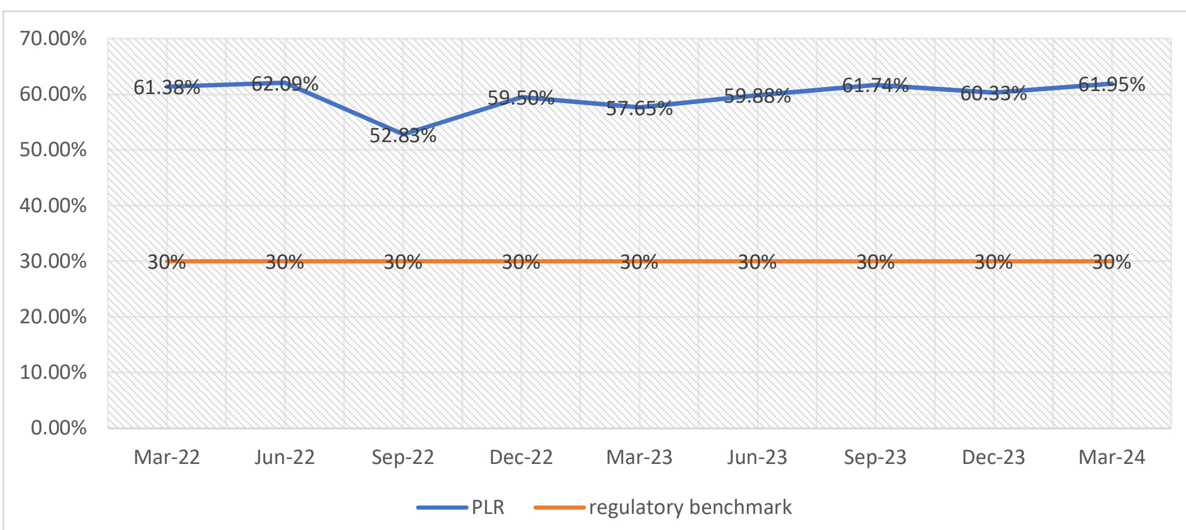
Figure 8: Banking Sector Deposits



3.24. The banking sector continues to maintain strong liquidity positions as reflected by the banking sector's average prudential liquidity ratio (PLR) of 61.95% as at 31 March 2024.

3.25. The trend of banking sector deposits over the period 31 March 2022 to 31 March 2024 is shown in the figure below:

Figure 9: Prudential Liquidity Ratios



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

3.27. The sector recorded an improvement in the level of financial intermediation as measured by loans to deposit ratio of 55.98% as at 31 March 2024 compared to 49.27% as at 31

December 2023.

Sensitivity to Market Risk

3.28. As at 31 March 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 more asset will reprice faster than liabilities.

Outlook

3.29. The banking sector is expected to maintain strong financial performance and remain stable as it continues to play a key role in providing the much-needed productive sector support, in line with the National Development Strategy 1 (NDS1).

RESERVE BANK OF ZIMBABWE