RESERVE BANK OF ZIMBABWE

2022

BANK SUPERVISION ANNUAL REPORT

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GOVERNOR'S FOREWORD

Global economic activity was in 2022 weighed down by fragilities in the global environment, mainly driven by geo-political tensions in Eastern Europe, related supply chain disruptions and multi-decade inflation highs, as well as the resurgence of COVID-19 in China. This, coupled with inflation containment measures and the prolonged conflict in Ukraine, resulted in the revision of the 2023 global Gross Domestic Product growth rate from 3.5% to 3.0% (World Economic Forum, 2023). Against this background, emerging market economies and developing economies face multitude of risks, including high external borrowing costs, high inflation, volatile commodity markets, and heightened uncertainty about global economic outlook. In addition, high borrowing costs and declining fiscal support may affect corporate profit margins. Notwithstanding the adverse developments, the global financial system remained resilient reflecting, in the main, high levels of capital and liquidity buffers.

On the domestic front, the local banking sector depicted resilience reflected by adequate capital and liquidity buffers, strong asset quality and sustainable profitability. The resilience was mainly attributable to the relatively stable macroeconomic environment on the back of proactive and supportive monetary and fiscal policy measures, as well as financial stability enhancement initiatives. Proactive responses by banks, grounded on business model realignment and improvements in risk management in the wake of emerging and amplified financial and operational risks, also contributed to the resilience.

Cognisant of the role played by the monetary policy in promoting economic growth and financial sector soundness, the Bank made key policy interventions including the introduction of gold coins as an investment instrument and an upward review of interest rates to curtail rampant speculative tendencies in the foreign exchange market. The Medium-term Bank Accommodation Facility and the Micro, Small and Medium Enterprises Facility continued to support the productive sectors while the foreign exchange auction system remained a key source of foreign exchange to the economy. The Bank will continue to implement measures to promote the banking sector's capacity to withstand systemic risks and capacity to continue to support economic recovery and the growth trajectory.

Given the risks associated with climate change to the financial sector, the Bank developed a framework that ensures banking institutions have requisite risk management systems. The Bank is also participating in national climate change mitigation and adaptation strategies.

The Bank continues to work closely with financial institutions in the adoption of sustainable banking practices. This is in recognition of the important role financial and non-financial institutions play and contribute to inclusive and sustainable economic development. In a related and key milestone, the National Financial Inclusion Strategy II 2022-2026 (NFIS II), was launched in October 2022, following an extensive collaborative and consultative process. It is envisaged that increased usage of financial services under NFIS II will deepen financial inclusion.

Whilst the COVID-19 pandemic posed unprecedented challenges across all facets of life, players in the financial services landscape continued to leverage on the opportunities that arose. These include business model, systems, and process realignments, as well as strategic flexibility and agility which are now the new normal.

I take this opportunity to express my profound appreciation to the Government, Ministry of Finance and Economic Development, the Zimbabwean banking community, other financial sector regulatory agencies and stakeholders for their unwavering support. We urge key stakeholders in the financial services industry to maintain the momentum and continue to reinforce financial stability and inclusive economic growth.

Dr. J. P. Mangudya
Governor

DIRECTOR'S FOREWORD

The domestic banking sector remained safe and sound notwithstanding risk factors mainly associated with inflationary pressures, geopolitical tensions in Eastern Europe, slowly receding Covid-19 Pandemic, as well as digital and technological innovations. The resilience, which was reflected by strong asset quality and liquidity, as well as satisfactory capital and earnings, was largely attributable to financial stability reinforcements by the Bank coupled with timely fiscal policy interventions. Enhancements of risk management systems and business model reconfigurations by banks also contributed to the resilience.

A total of 15 out of the 18 operating banking institutions had met the new capital requirements effective 31 December 2022. The non-compliant institutions are on course to meet the prescribed capital level based on an agreed recapitalisation plan. Strong capital buffers not only reinforce the soundness of banking institutions, but also ensure that they play a meaningful role in supporting economic growth and development.

Satisfactory earnings performance in the banking sector was mainly spurred by non-interest income mainly comprising gains on foreign currency denominated assets, and fees and commissions, as well as interest income, on the back of a drive towards increased lending. Business model reconfigurations, underpinned by technological and product innovations, as well as cost containment measures, also contributed to increased earnings.

The emergence of new business models and technological advancements expose banks to more sophisticated cyber-attacks. In that regard, the Bank conducted a cyber security maturity assessment during the year ended 31 December 2022, to understand the financial institutions' readiness to prevent, detect, contain and respond to threats to the institutions' information assets. The Bank also premiered the cyber resilience on-site thematic reviews for regulated financial institutions in the country. The reviews will continue to be carried out as part of the Bank's continuous efforts to strengthen the financial institutions cyber security capabilities.

The microfinance sector also remained resilient and continued to register sustained growth on the back of an improving operating landscape as Covid-19 related restrictions eased, coupled with pragmatic monetary and fiscal policies. Further, the Bank allowed microfinance institutions to lend in foreign currency subject to meeting specific conditions on adequacy of risk management systems.

The Bank instituted a number of financial stability initiatives during the year ended 31 December 2022. The Liquidity Coverage Ratio Prudential Standard was issued as part of the implementation of Basel III Liquidity Standards. The main objective of the Standard is to promote the short-term liquidity resilience of banking institutions to stress situations.

Five (5) institutions were designated Domestic Systemically Important Banks (DSIBs) following an annual assessment exercise in terms of the Prudential Standard No. 01-2020/BSD: Framework for Dealing with Domestic Systemically Important Banking Institutions. DSIBs are subject to additional capital and liquidity requirements in order to minimise systemic risk.

Notable also, was the launch of the Collateral Registry system in November 2022. This represents a significant milestone in the Bank's efforts to facilitate borrowing opportunities for micro, small and medium enterprises and thus fostering financial inclusion.

Significant progress was made in the drive towards inclusive and sustainable economic development reflected by increased participation by financial institutions in the implementation of the Sustainability Standards & Certification Initiative (SSCI) being driven by the European Organization for Sustainable Development (EOSD). As at 31 December 2022, 12 banking institutions, including one (1) deposit-taking microfinance institution, were participating under the Bank-led Certification Initiative.

The launch by the Bank, of the 2022-2024 National Financial Inclusion Strategy (NFIS) II was an essential development in facilitating building of resilient and sustainable livelihoods through access to and usage of quality and affordable financial services on a sustainable basis, in line with the National Development Strategy 1.

Bank Supervision assumed the anti-money-laundering and combating financing of terrorism (AML/CFT) supervision function in respect of the financial institutions under its supervisory purview. Bank Supervision maintains close cooperation and coordination with the Financial Intelligence Unit and other key stakeholders in the AML/CFT drive.

In the outlook period, the banking sector is expected to remain resilient on the back of sound monetary policy, fiscal, and financial stability interventions, as well as continued resilience capability management on the part of banks. Bank Supervision Division will continue to reconfigure its supervisory methodologies and techniques, underpinned by strategic flexibility and agility.

Finally, I extend my appreciation for the invaluable support, cooperation, and commitment by all our stakeholders in the quest to safeguard financial system resilience in the face of a dynamic operating environment. May I take this opportunity to thank fellow regulators with whom we continue to steadfastly pursue financial stability initiatives, as well as the Bank Supervision staff for their extreme dedication and commitment to duty.

P. T. Madamombe

Director, Bank Supervision

1. ECONOMIC DEVELOPMENTS

Introduction

1.1 Global economic growth is projected to have recorded a slowdown in 2022, due to tight monetary conditions as central banks fought inflation, declining investment, lagged effects of the COVID-19 pandemic and global supply chain disruptions and rising commodity prices emanating from the Russia-Ukraine conflict. In its April 2023 World Economic Outlook update, the International Monetary Fund (IMF) reported that global Gross Domestic Product (GDP) declined from 6% in 2021 to 3.5% in 2022 and will further decrease to 3% in 2023.

1.2 The on-going geopolitical uncertainties coupled with high cost of living and rising interest rates are expected to continue to depress private consumption and investment in many parts of the world, undermining the global growth outlook. It is expected that these adverse global developments will likely have spill-over effects on the domestic economy through trade, imported inflation and macro- financial linkages.

1.3 Recession concerns continue to intensify in advanced economies as their growth outlook steadily worsened over the course of 2022. This is likely to see stagnant growth in 2023 as businesses and consumers will feel the impact of steadily increasing prices and rising borrowing costs. Resultantly, there will be additional cuts to consumers' purchasing power, as well as investments, thereby sharply slowing economic activity.

1.4 In emerging markets and developing economies (EMDEs), the economic outlook is expected to vary among markets. In China, after weak growth recorded in 2022, the country's re-opening and end of zero-COVID policy in December 2022 is projected to release pent-up demand and boost consumption and growth. According to the IMF's World Economic Outlook (April 2023), the near-term economic outlook could be clouded by a surge in COVID-19 infections. In addition, weakening external demand and persisting problems in the property sector are major drags on China's economic recovery in 2023.

1.5 According to the World Bank's Global Economic Prospects (2023) Sub-Saharan Africa region is expected to register economic growth of 3.0% in 2023, compared to the estimated 3.5% in 2022. The slightly higher growth in 2023 is partly attributable to the expected increase in oil and gas exports from the region, an expected slight ease in the cost of living following reduction in prices of key imports such as fertilizers, as well as expected increase in domestic demand. The region, however, continues to face key risks such as imported inflation driven by elevated global inflationary pressures, degree of global and domestic monetary tightening that will be needed to anchor inflation, tight food markets due to limited imports coupled with erratic weather conditions, and increased credit risks amplified by high debt-levels and debt servicing costs, which are expected to hinder capital flows to the region.

Domestic Economy

1.6 The tight monetary policy stance in 2022 enabled the Bank to anchor inflation and exchange rate expectations through measures designed to sustain price and exchange rate stability. The measures included increasing interest rates and the introduction of gold coins as an alternative stable investment product. To curb speculative borrowing and reduce inflation, the Bank increased the overnight accommodation rate from 60% to 80% in April 2022 and subsequently to 200% in July 2022. This resulted in inflation trending downwards as business confidence, industry activity and exports improved significantly.

1.7 The economy is estimated to have grown by 4.0% in 2022 underpinned by growth in the mining and quarrying sectors, wholesale and retail trade, accommodation and food service industry, electricity production, construction services as well as a good rainfall season, among others.

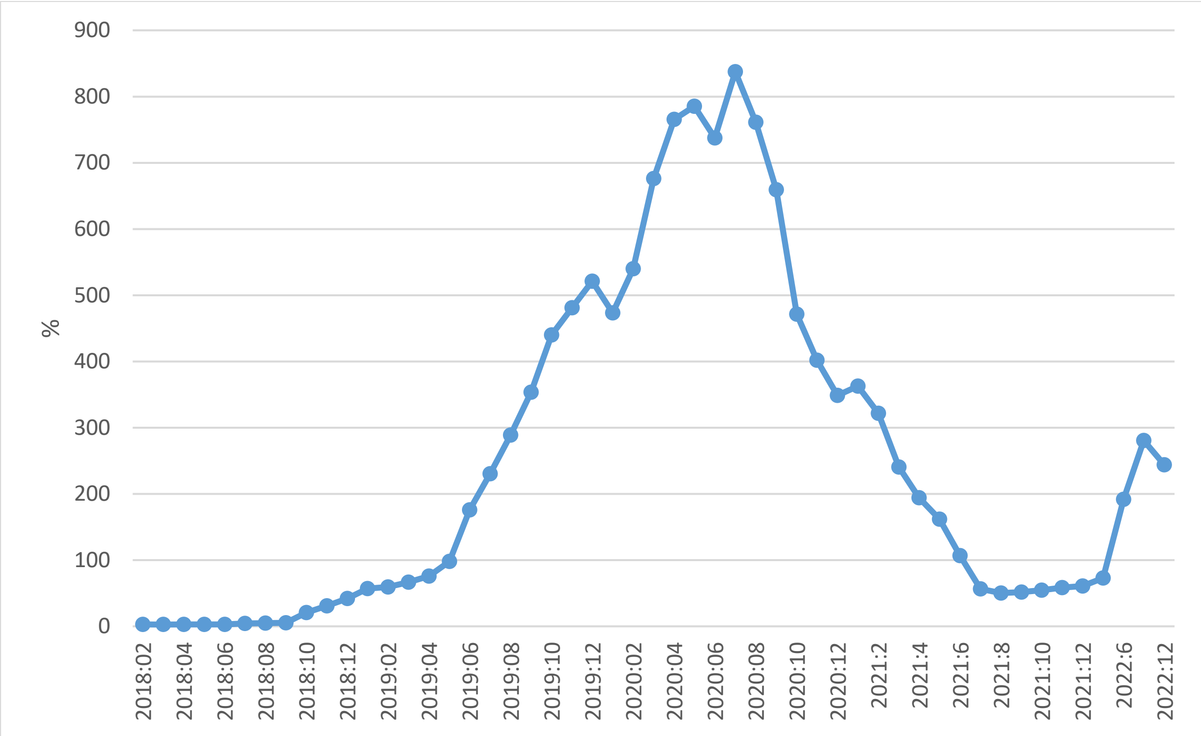
1.8 The forecasted economic growth at 3.8% in 2023, largely premised on the anticipated increase in mining output supported by the favourable international commodity prices (2023 National Budget). The recovery of the agriculture sector is also expected to contribute significantly to growth in 2023. Further, the stabilising economic conditions are expected to enhance activity in the manufacturing, wholesale, and retail trade sectors.

Inflation Developments

1.9 Annual inflation was on a downward path for the greater part of 2022, with annual headline and month-on-month inflation closing the year at 243.80% and 2.4%, respectively as shown in Fig. 1 below. The downward trend in inflation was on account of fiscal consolidation and the implementation of monetary targeting framework by the Bank.

1.10 The graph below shows the trend in annual inflation from 2018 to the end of 2022.

Figure 1: Annual Inflation (%)



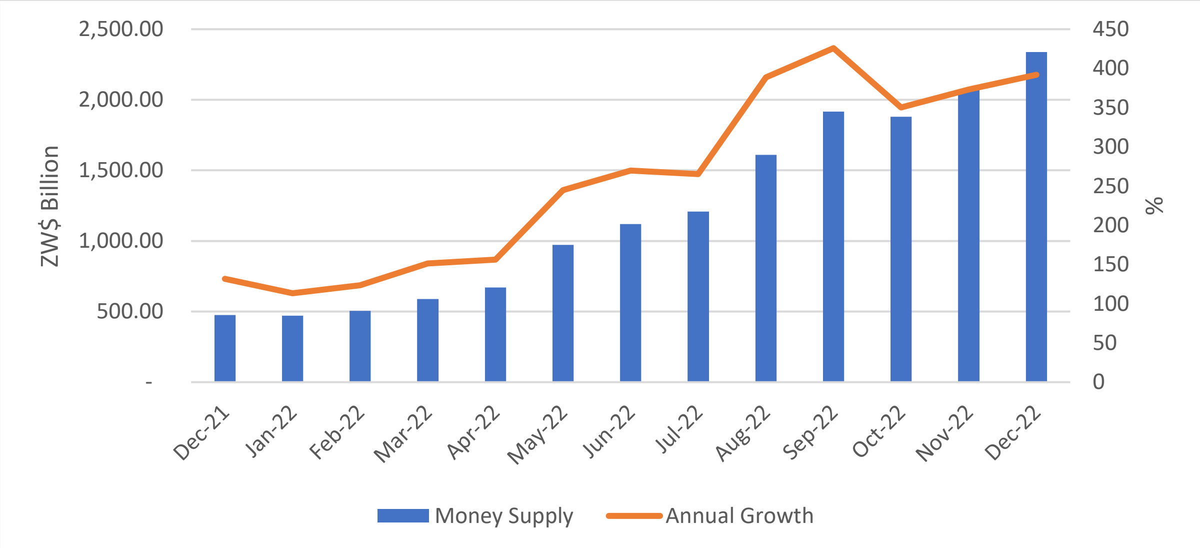
Source: ZIMSTAT (2022)

Monetary Developments

1.11 Reserve money increased from ZW$33.55 billion as at 30 June 2022 to ZW$104.04 billion as at 31 December 2022 largely due to the levying of statutory reserves on foreign currency accounts (FCA) deposits, which began on the 1st of September 2022. As a result, statutory reserves, both in local and foreign currency constituted over 90% of total reserve money.

1.12 At 56.88% of the total money supply as at December 2022, Foreign currency deposits constituted the largest component of money supply, with local currency deposits constituting 43.04%. Figure 2 shows monetary developments for the period December 2021 to December 2022.

Figure 2: Monetary Developments



2. SUPERVISORY ACTIVITIES & MAJOR DEVELOPMENTS IN THE BANKING SECTOR

Introduction

2.1 This chapter highlights supervisory activities and major developments in the banking sector during the year.

Licensing of Banking & Microfinance Institutions

2.2 Time Bank was authorised to commence banking activities while the amalgamation of CBZ Building Society with CBZ Bank Limited was consummated in terms of section 25(5) of the Banking Act [*Chapter 24:20*] during the period under review. The number of operating institutions remained at 19. The number of building societies, however, reduced from five (5) to four (4) during the period under review in the wake the of the amalgamation of CBZ Building Society with CBZ Bank Limited.

2.3 The number of development financial institutions under the purview of the Bank remained unchanged at four (4), while the number of credit-only microfinance institutions increased from 168 to 198 as more institutions were granted operating licenses during the year.

2.4 As at 31 December 2022, one of the licensed DTMFIs, CashBox Financial Services Microfinance Bank Limited was still putting in place structures and systems to facilitate commencement of operations.

BUSINESS CONDITIONS

Bank Charges

2.5 Promoting access to affordable banking products and services and ensuring fair business practices remains a key focal area for the Bank.

2.6 The majority of banking institutions cited the cost of doing business, pressures from the operating environment and the need to remain viable as the key reasons for the upward review of transactional charges and service fees.

2.7 Bank charges are currently being guided by a pricing model agreed between the Bank and Bankers Association of Zimbabwe. In addition, the Bank continued to urge banking institutions to maintain a balance between business viability and provision of affordable and accessible products and services in the spirit of promoting financial inclusion and use of electronic means of payments.

Lending and Deposit Rates

2.8 During the period under review lending rates were largely determined by the Bank Policy rate which was reviewed upwards in line with tight monetary policy designed to contain inflation.

2.9 To promote a culture of savings, the Bank, effective 1 July 2022 reviewed the minimum deposit rate for ZW$ savings to 40% per annum and the minimum deposit rate for ZW$ time deposits to 80% per annum.

New Products

2.10 In response to the revolutionary impact of digital technology on banking operations and the need to enhance financial inclusion efforts and keep pace with changing customer needs and preferences, the banking sector continued to evolve and transform through the launch of various new products. New products launched during the year included micro-mobile loan products, bancassurance, subsidised loan products for pensioners and domestic money transfer.

2.11 The new products enable banking institutions to streamline their own operations, improve performance, reduce overheads, and enhance the customer experience.

2.12 Banking institutions also increasingly leveraged on blockchain technology to improve the efficiency and security of financial transactions, use of artificial intelligence to improve customer service and support, and use of smartphone or mobile banking applications to add more scope in the virtual banking space.

SUSTAINABLE FINANCE

2.13 Cognisant that the growth and development of the Zimbabwean economy is built on the foundation of a vibrant, resilient and well functioning financial sector, the Bank remained resolutely focussed on the adoption of sustainable banking practices in the financial sector.

2.14 The Bank continued to work closely with all financial institutions in the implementation of the Sustainability Standards & Certification Initiative (SSCI) being driven by the European Organisation for Sustainable Development (EOSD). As at 31 December 2022, eleven (11) banking institutions out of eighteen (18) and one (1) deposit taking microfinance institution were participating under the central bank led Sustainability Standards and Certification Initiative.

2.15 The participating institutions have made commendable progress in implementing the key sustainability standards.

2.16 It is envisaged that implementation of sustainability standards under the above initiative will create strong and resilient financial institutions that will play a meaningful role in supporting inclusive, sustainable economic growth and development.

SUPERVISORY COLLEGES

2.17 The Basel Committee on Banking Supervision identified supervisory colleges as one of the pillars for effective and enhanced supervision of banking institutions with cross border operations. Supervisory colleges facilitate and promote a shared agenda for addressing risks and vulnerabilities of a cross-border banking group and provide a platform for addressing key topics that are relevant to the supervision of the group.

2.18 As part of on-going supervisory cooperation in the supervision of banking institutions with cross border operations, the Bank participated in virtual Supervisory Colleges for regional banks.

On-site Examinations

2.19 During the year 2022, the Bank conducted eight (8) on-site examinations, in line with the approved Annual Supervisory Plan for the year, as well as the Bank's 2021-2025 Strategic Plan. The risk-based on-site examinations covered two (2) Domestic Systemically Important Banking Institutions (D-SIBs).

2.20 The examined banking institutions were considered to be fundamentally sound, stable, and capable of withstanding business fluctuations. The banking institutions were in substantial compliance with laws and regulations and overall risk management practices were satisfactory relative to their size, complexity, and risk profiles. No material supervisory concerns were noted during the on-site examinations.

2.21 In addition to the risk-based on-site examinations discussed above, the Bank also conducted targeted examinations on some banking institutions focusing on specific areas and emerging risks such as cyber and AML/CFT risks, among others.

Service Delivery Channels

2.22 During the period under review, a number of banking institutions introduced digital online on-boarding solutions as part of efforts to enhance service delivery channels.

2.23 There were no major changes in the branch networks within the sector as evidenced by closure of only four branches for reasons related to costs reduction as well as increased automation of internal processes. Most banking institutions introduced additional point of sale (POS) machines.

Supervision of Anti-Money Laundering and Combating The Financing of Terrorism (AML/CFT)

2.24 In July 2021, the Financial Intelligence Unit (FIU) commenced the process of handing over the anti-money laundering and counter financing of terrorism (AML/CFT) risk-based supervision of banking institutions and microfinance institutions to Bank Supervision Division, as the competent supervisory authority. This is in line with the Financial Action Task Force (FATF) Recommendation 26 and Section 3 of the Money Laundering and Proceeds of Crime Act [*Chapter 9:24*].

2.25 Bank Supervision Division assumed the responsibility of the risk-based AML/CFT supervision of banks and microfinance institutions, with effect from 31 December 2022.

FINANCIAL STABILITY ENHANCEMENTS

Liquidity Coverage Ratio Prudential Standard

2.26 The Bank, in December 2022, issued **Prudential Standard No: 02-2022/BSD: Guidance on the Implementation of the Liquidity Coverage Ratio** as part of the implementation of Basel III Liquidity Standards.

2.27 The main objective of the Standard is to ensure that banking institutions have an adequate stock of unencumbered high-quality liquid assets that can be converted easily or immediately into cash to meet liquidity needs in stress situations. Banking institutions were, in terms of the provisions of the Standard, requested to submit implementation plans that incorporate the development/reinforcement of policies, processes, models and systems to ensure the availability of requisite capacity to facilitate sound determination of the components of LCR computation.

Domestic Systemically Important Financial Institutions

2.28 Following the issuance of **Prudential Standard 01-2020/BSD: Framework for Dealing with Domestic Systemically Important Financial Institutions (DSIBs)** in 2020, five banking institutions were designated as DSIBs in 2021 and 2022 through the annual assessment conducted in terms of the Framework. In line with best practice, the institutions designated as DSIBs are required to maintain a capital buffer above minimum regulatory capital thresholds, as well as apply stricter stress testing scenarios in their risk management frameworks.

Capacity Building Initiatives

2.29 The Bank continues to improve individual skills, knowledge, and organizational performance, through training, experiences, motivation and strengthening organizational systems, processes, and roles and responsibilities.

2.30 In 2022, staff in Bank Supervision Division participated in capacity building programs in various disciplines, organised by training institutions such as the International Monetary Fund, Toronto Centre, Macroeconomic and Financial Management Institute of Eastern and Southern Africa and Alliance for Financial Inclusion among others.

2.31 The Bank also received technical assistance as shown in the table below.

Table 1: Technical Assistance Received in 2022

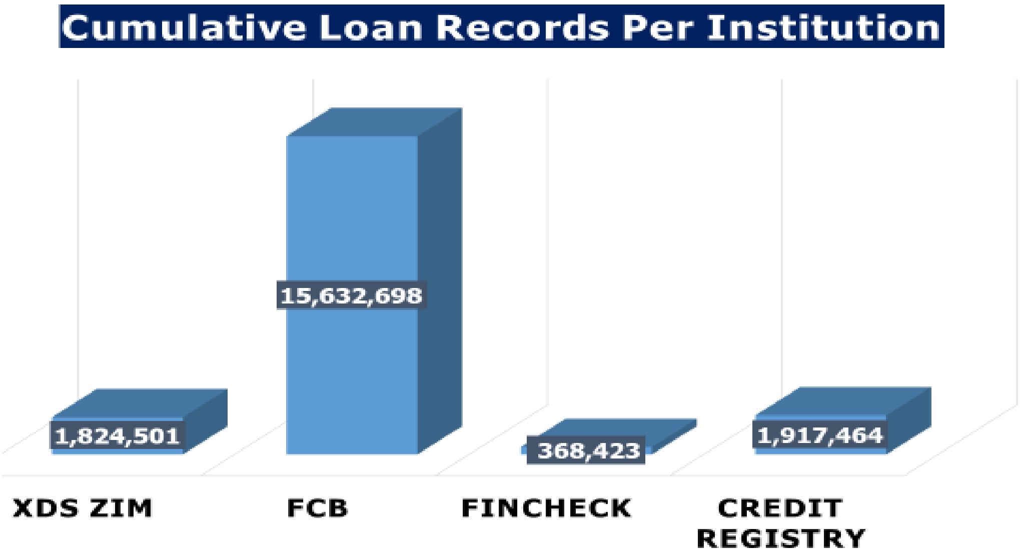
Area	**Technical Assistance Provider**
Cyber Security Guideline	International Monetary Fund (IMF)
Basel III Liquidity Standards	IMF
Enhancing Resilience of Zimbabwe Credit Reporting System	International Finance Corporation
Consolidated Supervision	IMF

CREDIT INFRASTRUCTURE

2.32 The sustained availability and growth of the credit data both at the Credit Registry and the three (3) private credit bureaus continues to play a critical role in origination and ongoing management of credit risk in the financial sector.

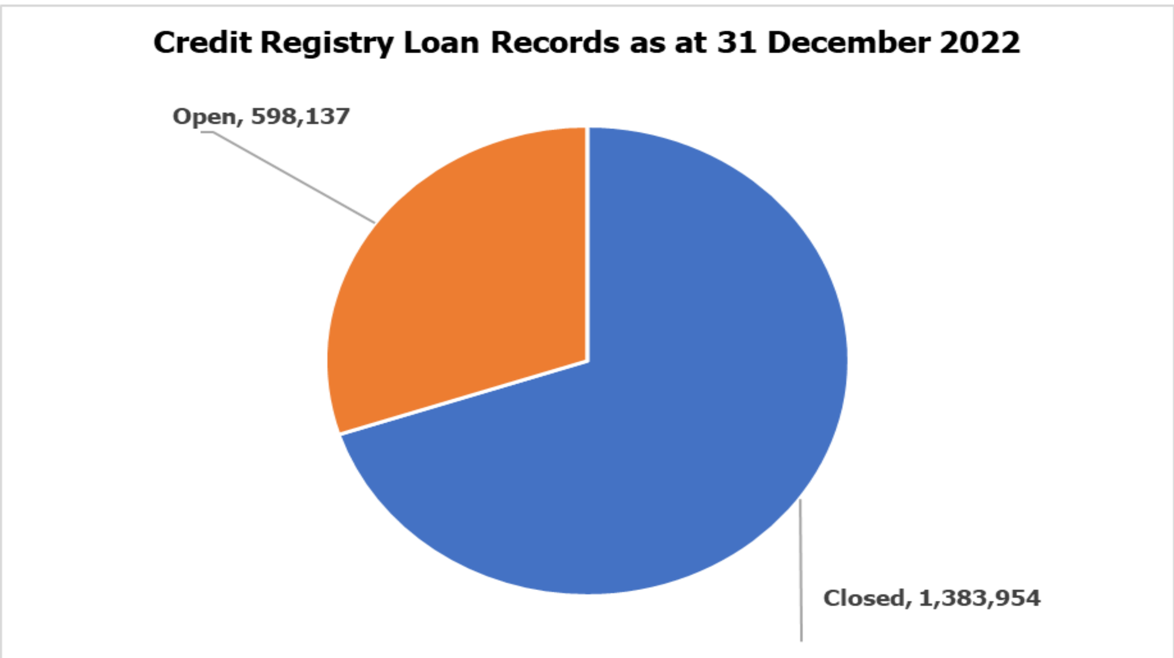
2.33 The four (4) credit reporting institutions in the country held over 20 million searchable records as at 31 December 2022. The entire database received more than 1.6 million enquiries during 2022 from users across various economic sectors. The diagram below indicates the cumulative records per institution.

Figure 3: Cumulative Loan Records



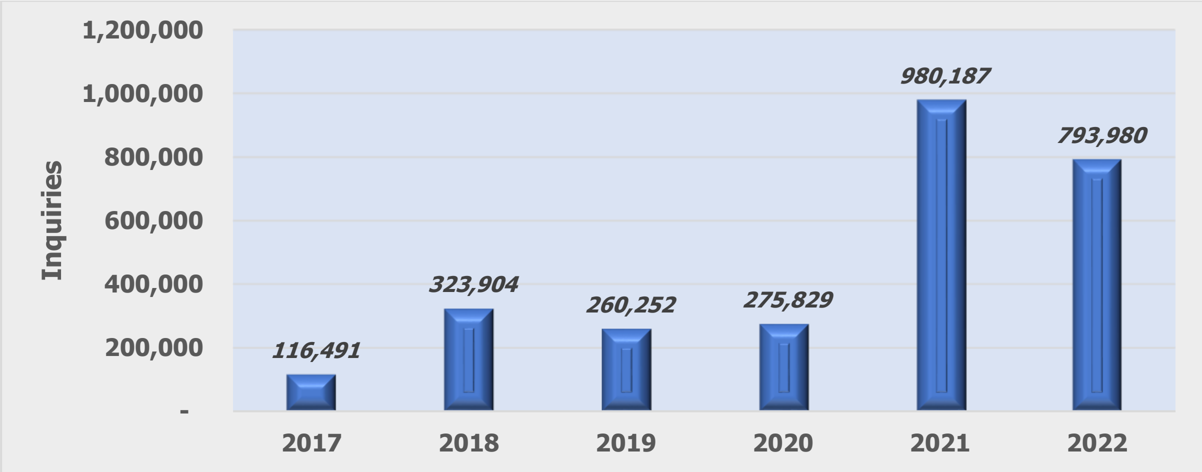
2.34 In the Credit Registry database 598,137 were active loan accounts with individual records accounting for 98% of the active loan records. Registered subscribers currently accessing the Credit Registry were 238 as at 31 December 2022.

Figure 4: Credit Registry Loan Records



2.35 The diagram below indicates the growth in Credit Registry usage since inception.

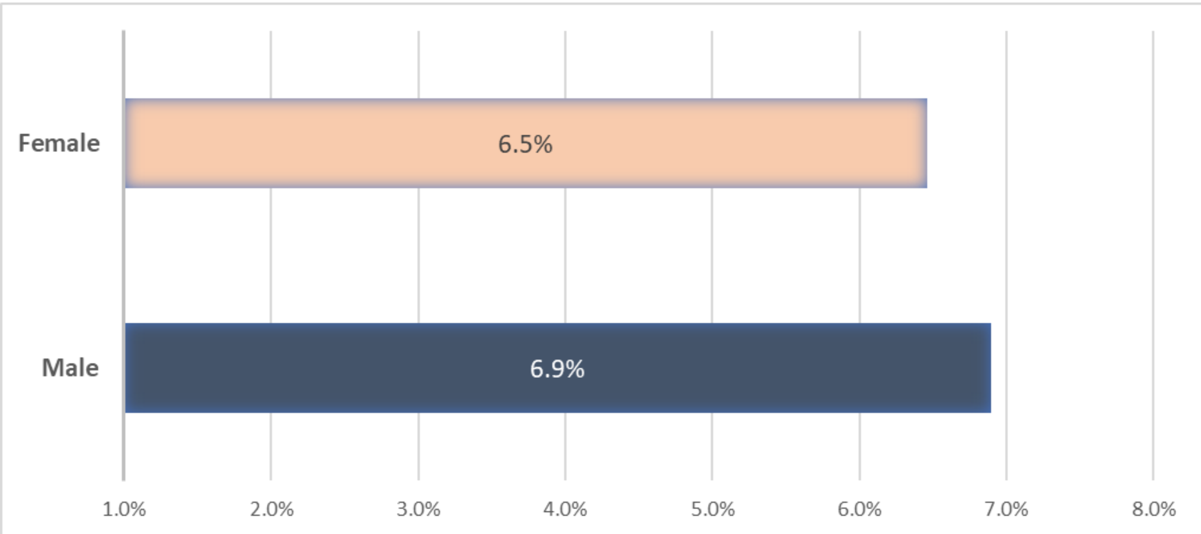
Figure 5: Credit Registry Usage Status



2.36 Gender distribution of loans is generally skewed towards male borrowers who constituted 68.4% while female borrowers constituted 31.6% of loan contracts in the Credit Registry.

2.37 The Credit Registry database indicates that 6.5% of total loans granted to female borrowers were delinquent contracts while male borrowers have more delinquent loans at 6.9% as shown below.

Figure 6: Percentage of Delinquent Loan Contracts by Gender



2.38 The Bank commenced implementation of Phase 2 of the Credit Registry which entails bringing on board microfinance institutions as data providers. This initiative is expected to enrich and broaden the scope of credit registry database for the benefit of subscribers.

Collateral Registry

2.39 The Bank has been working assiduously on initiatives for improved access to finance. As part of measures to enhance the country's financial infrastructure, the Bank successfully launched the Collateral Registry in November 2022. Banking institutions and the top microfinance institutions accounting for 80% of MFI sector loans created their profiles in the Collateral Registry system by 31 December 2022, in readiness to register movable security supporting borrowings. The sector also commenced instituting the necessary adjustments to internal policies and procedures to align with the requirements of the Collateral Registry system.

2.40 The number of registered institutional clients on the system was 31 as at 7 March 2023 as shown in the table below.

Table 2: Registered Institutional Clients

Institution Type	Number
Commercial Banks	13
*Building Societies	1
Credit Only Microfinance Institutions	12
Deposit Taking Microfinance Institutions	2
**Development Financial Institutions	2
Savings Bank	1
Total	**31**

*ZB Holdings has centralised their registrations, while NBS and CABS are yet to register.

**IDBZ and AFC Land Bank.

FINANCIAL INCLUSION

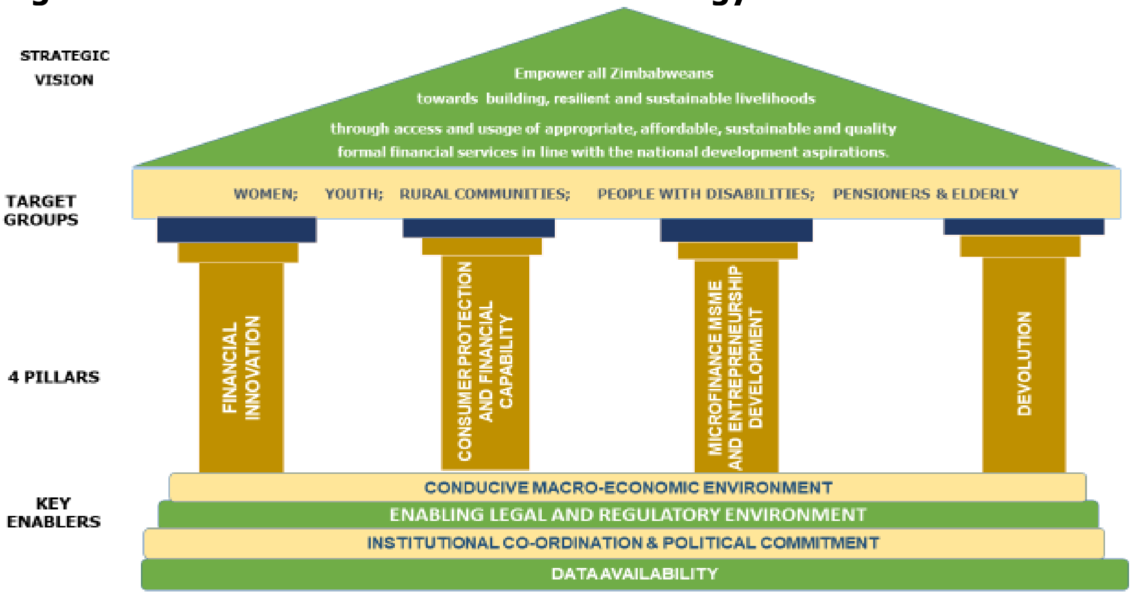
2.41 National Financial Inclusion Strategy II (2022-2026) was launched on 31 October 2022. The Strategy which builds on the successes and remarkable results from NFIS I that focused on access-oriented strategies will have its focus shifting towards sustainable usage of formal financial services and products.

2.42 NFIS II is designed to support the attainment of the objectives and outcomes of the National Development Strategy 1 (NDS 1) including the overarching goal to "ensure high, accelerated, inclusive and sustainable economic growth, socio-economic transformation and development towards an upper-middle-income society by 2030", as well as attainment of the 2030 United Nations Sustainable Development Goals (SDGs).

NFIS II Pillars

2.43 The National Financial Inclusion Strategy II is anchored on the pillars as shown in the diagram below.

Figure 7: National Financial Inclusion Strategy II



2.44 The Entrepreneurship Development dimension comes out of the realisation that Zimbabwe has a large informal sector and hence the need to drive entrepreneurship development through enhancement of dynamic capabilities, underpinned by a national entrepreneurial policy that promotes and supports micro ventures.

2.45 Pillar 1: Financial Innovation - promote the creation of new and innovative financial assets and new ways of using existing financial assets to expand access to and usage of quality, efficient and affordable digital financial services by the population at large and target groups.

2.46 Pillar 2: Consumer protection and financial capability- promote safety and protection of consumers of financial services through high quality financial knowledge and skills necessary to make informed financial decisions

2.47 Pillar 3: Microfinancing, MSME & Entrepreneurship Development- To promote entrepreneurial ventures, economic growth, and development at community level, through microfinancing and capacity building.

2.48 Pillar 4: Devolution - grow the local gross domestic product at community level, which will feed into the national GDP, through transformation of the provinces and districts into economic hubs.

NFIS II Targets

2.49 The NFIS II seeks to increase the overall usage of formal financial services from 70% in 2022 to 90% by 2026, and access to financial services from 83% to 95% over the same period. The target is also to reduce the level of financial exclusion from the current 12% to 5% in 2026.

2.50 Synergies between banking and digital technology in the provision of financial services and world class payment systems, have addressed the key challenges of access and usage to a large extent explaining growth in the financial inclusion statistics, as reflected by the 2022 FinScope Consumer Survey.

2.51 According to the 2022 FinScope Consumer Survey, the uptake of formal banking products increased to 46% in 2022 up from 30% in 2014, largely driven by the uptake of transactional products.

2.52 Uptake and usage of mobile money was a key driver in formal financial inclusion constituting 63% of the total population.

2.53 Youth financial inclusion improved significantly from 67% in 2014 to 83% in 2022, with only 14% of the youth financially excluded, down from 26% in 2014.

2.54 The table below shows the trend in the movement of the disaggregated financial inclusion indicators from during the review period.

Table 3: Financial Inclusion Indicators

Indicator	Dec-21	Mar-22	Jun-22	Sept-22	Dec 22
Number of Loans to MSMEs	35,224	22,657	37,590	13,461	24,987
Nominal Value of loans to MSMEs (ZW$ Million)	10,280.92	13,928.18	34,021.15	39,909.51	49,714.31
Inflation-adjusted - Value of loans to MSMEs (ZW$ Million)	6,395.99	8,064.96	11,668.66	10,491.46	14,461.92
Average loans to MSMEs as % of total bank loans	3.9	4.63	5.54	4.33	4.15
Number of Loans to Women	173,810	178,897	189,861	188,815	177,671
Nominal Value of Loans to Women (ZW$ Million)	14,666.06	16,296.10	42,972.89	43,861.11	49,854.41
Inflation-adjusted Value of Loans to Women (ZW$ Million)	9,124.09	9,436.07	14,738.95	11,530.26	14,502.68

Average loans to women as a % of total bank loans	5.57	5.42	7.00	4.76	4.16
Number of Loans to Youth	75,188	77,864	85,562	66,432	65,098
Nominal Value of Loans to Youth (ZW$ Million)	6,249.97	8,132.97	12,717.06	18,633.57	37,629.77
Inflation-adjusted Value of Loans to Youth (ZW$ Million)	3,888.25	4,709.31	4,361.73	4,898.41	10,946.52
Average loans to the youth as a % of total bank loans	2.37	2.7	2.07	2.02	3.14
Total number of Active Bank Accounts (Million)	8.17	7.76	6.95	8.31	7.36
Number of Low-Cost Bank Accounts (Million)	4.78	4.83	4.22	3.69	4.35

2.55 Access to credit for women, youth and MSMEs increased in real terms over the year from $9.12 billion, $6.40 billion and $3,89 billion as at 31 December 2021, to $14.50 billion, $14.46 billion and $10.95 billion respectively. However, the proportion of loans to women, MSMEs and youth remains low at 4.16%, 4.15% and 3.14% of total banking sector loans, respectively.

2.56 The number of active standard bank accounts decreased by 11.43% from 8.17 million as at 31 December 2021, to 7.36 million as at 31 December 2022. However, the number of low-cost accounts significantly increased by 17.89% from 3.69 million to 4.35 million over the same period, as more consumers of banking services move away from standard bank accounts which carry high bank charges in favour of the low-cost accounts.

3. CONDITION & PERFORMANCE OF THE BANKING SECTOR

Introduction

3.1 During the year under review, the banking sector demonstrated resilience, notwithstanding residual negative impact of the COVID-19 and other macroeconomic factors on the economy.

3.2 The banking sector remained adequately capitalized, with the banking sector average capital adequacy and tier 1 ratios of 37.15% and 26.92%, respectively, as at 31 December 2022.

3.3 Aggregate core capital increased by 504.84% from ZW$101.04 billion as at 31 December 2021 to ZW$611.11 billion as at 31 December 2022. The growth in core capital was mainly attributed to retained earnings (including revaluation gains from investment properties, translation gains from foreign exchange-denominated assets) and capital injection by shareholders.

3.4 The banking sector remained profitable during the year ended 31 December 2022 with aggregate profit of $503.13 billion, which represents 748.59% increase from a profit of $59.29 billion reported for the corresponding period in 2021.

3.5 Total loans and advances for the sector increased by 465.35% from $229.94 billion as at 31 December 2021 to $1.29 trillion as at 31 December 2022. The increase in loans and advances was attributed to new lending, inflation induced as well as translation gains through the exchange rate.

3.6 Banking sector portfolio quality remained satisfactory despite an increase in the average non-performing loans (NPLs) to total loans ratio from 0.94% as at 31 December 2021 to 1.58%, as at 31 December 2022.

3.7 As at 31 December 2022, the banking sector recorded total deposits of $2.32 trillion, an increase from $476.35 billion reported as at 31 December 2021, partly driven by the inflationary pressures.

3.8 The loans to deposit ratio increased from 48.27% as at 31 December 2021 to 55.93% as at 31 December 2022, reflecting an improvement in the level of financial intermediation.

Architecture of the Financial Services Sector

3.9 As at 31 December 2022, the architecture of the banking sector as at 31 December 2022 is indicated below:

Table 4: Architecture of the Banking and Microfinance Industry

Type of Institution	31 Dec 21	31 Dec 22
Commercial Banks	13	14
Building Societies	5	4
Savings Bank	1	1
Total Banking Institutions	**19**	**19**
Credit-only Microfinance Institutions	170	198
Deposit-taking Microfinance Institutions	8	8
Development Finance Institutions (SMEDCO, IDBZ, AFC Land & Development Bank and IDCZ)	4	4
Total	**182**	**210**

3.10 The reduction in the number of operating building societies above follows the merger between CBZ Bank and CBZ Building Society, effective 30 September 2022 and consequently the cancellation of the building society's licence. On the other hand, the increase in the number of operating commercial banks to 14 follows authorization of Time Bank to recommence operations after a pre-opening inspection by the Bank determined the institution's readiness to conduct limited banking business effective 27 October 2022.

Market Share

3.11 As at 31 December 2022, five (5) banking institutions accounted for 65.40% (2021:66.03%) of total assets, 72.54% (2021:68.16%) of total deposits and 77.09% (2021:70.82%) of total loans and advances.

3.12 Commercial banks continued to dominate the banking sector in terms of total assets, total deposits and total loans during the year ended 31 December 2022, accounting for 88.10% (2021:89.92%), 91.15% (2021:88.58%) and 87.66% (2021:83.50%), respectively.

Banking Sector Capitalisation

3.13 The banking sector remained adequately capitalized, with the banking sector average capital adequacy and tier 1 ratios of 37.15% and 26.92%, respectively.

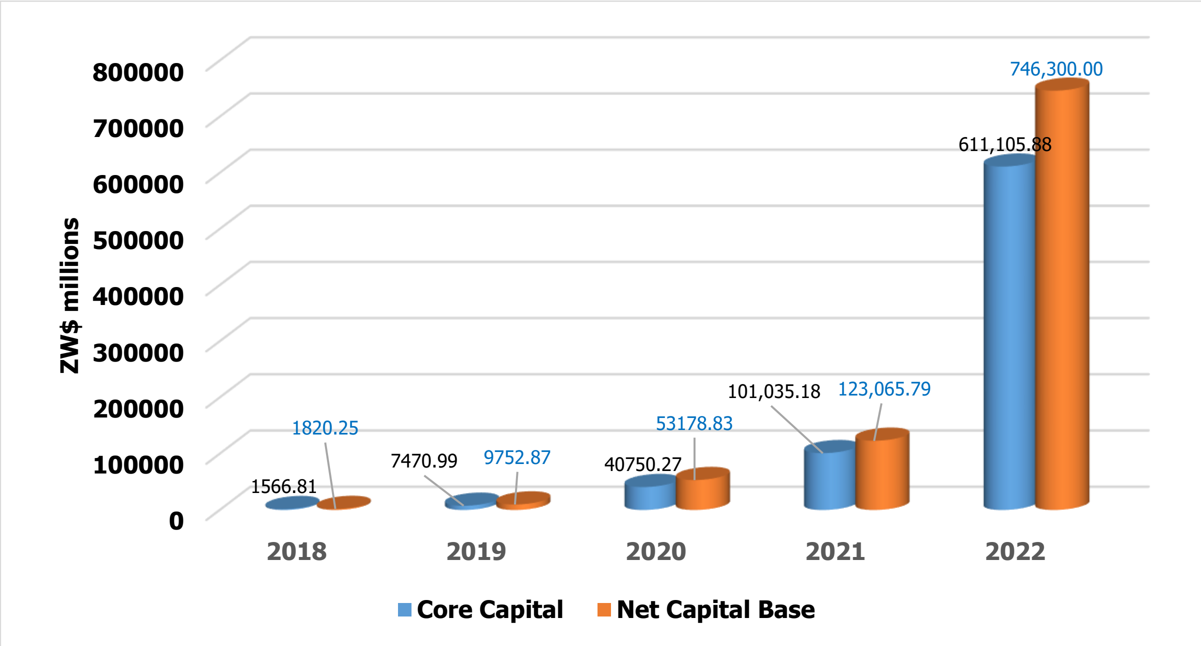
3.14 As at 31 December 2022, a total of three (3) banking institutions were non-compliant with the new minimum capital requirements and they are instituting various measures to bolster their capital position. All banking institutions were compliant with the minimum regulatory capital adequacy and tier 1 ratios as shown in the Table 5 below.

Table 5: Banking Sector Capital Adequacy

Institution	**Capital Adequacy Ratio**		**Tier 1 Capital**	
Commercial Banks	**31 December 2021**	**31 December 2022**	**31 December 2021**	**31 December 2022**
Metbank	76.46%	83.14%	75.05%	82.97%
Steward Bank	40.75%	50.42%	32.75%	37.84%
Standard Chartered	29.59%	39.14%	25.51%	27.10%
Nedbank	26.28%	33.93%	19.50%	29.81%
AFC	17.49%	32.51%	11.66%	28.49%
Stanbic	20.60%	29.40%	16.45%	25.46%
FBC Bank	19.80%	28.16%	14.81%	21.35%
First Capital Bank	36.56%	27.55%	33.74%	20.97%
Ecobank	24.52%	27.16%	21.18%	23.44%
Banc ABC	26.20%	26.11%	18.43%	18.25%
CBZ Bank	22.59%	23.27%	18.99%	17.72%
NMB Bank	25.16%	22.64%	18.82%	19.58%
ZB Bank	21.22%	21.93%	17.69%	19.36%
Building Societies				
ZB BS	56.98%	56.20%	53.49%	55.96%
FBC BS	45.15%	40.05%	34.22%	32.12%
NBS	14.99%	37.44%	12.18%	37.12%
CABS	26.91%	35.19%	18.97%	23.74%
Savings Bank				
POSB	37.64%	41.30%	30.86%	27.18%

3.15 The trend in the banking sector capitalization from 2018 to 2022 is shown in the graph below.

Figure 8: Banking Sector Capitalisation Levels – (2018 - 2022)



3.16 Aggregate core capital increased by 504.84% from ZW$101.04 billion as at 31 December 2021 to ZW$611.11 billion as at 31 December 2022. The growth was mainly attributed to retained earnings (including revaluation gains from investment properties, translation gains from foreign exchange-denominated assets) and capital injection by shareholders.

Earnings Performance

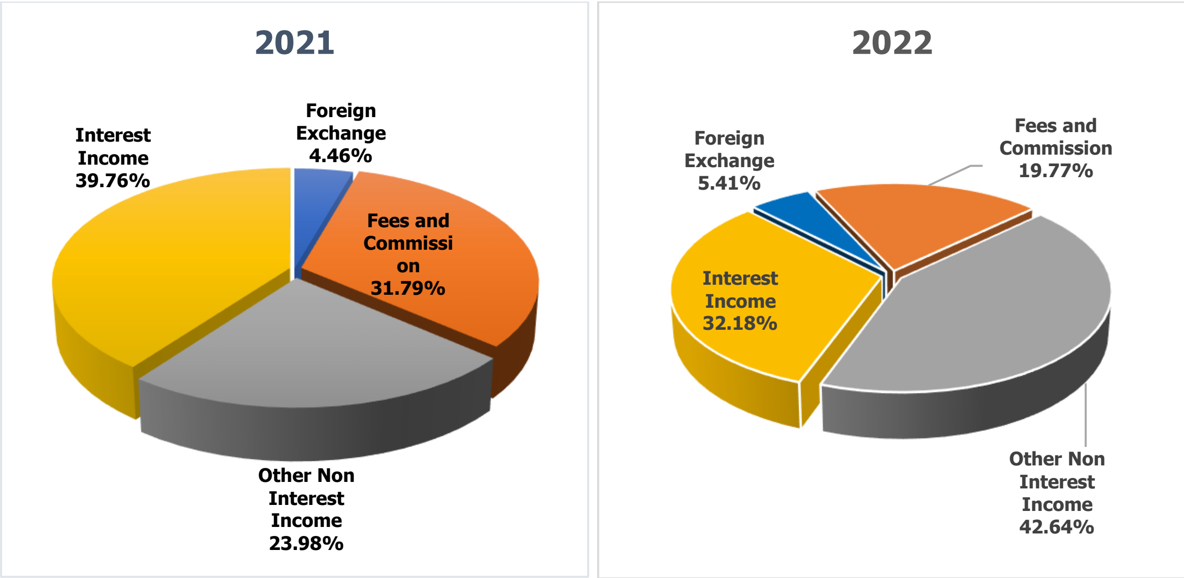
3.17 During the year ended 31 December 2022, all operating banking institutions were profitable, with aggregate profits of ZW$503.13 billion, a 744.31% increase from $59.59 billion reported in the corresponding period in 2021.

3.18 Non-interest income mainly comprising translation gains on foreign currency-denominated assets, fees and commissions as well as other non-interest income, accounted for 67.82% of total income.

3.19 Interest from loans and advances ($313.20 billion) constituted 88.52% of total interest income during the period under review. Interest income accounted for 32.18% of total banking sector income in 2022 compared to 39.79% in 2021.

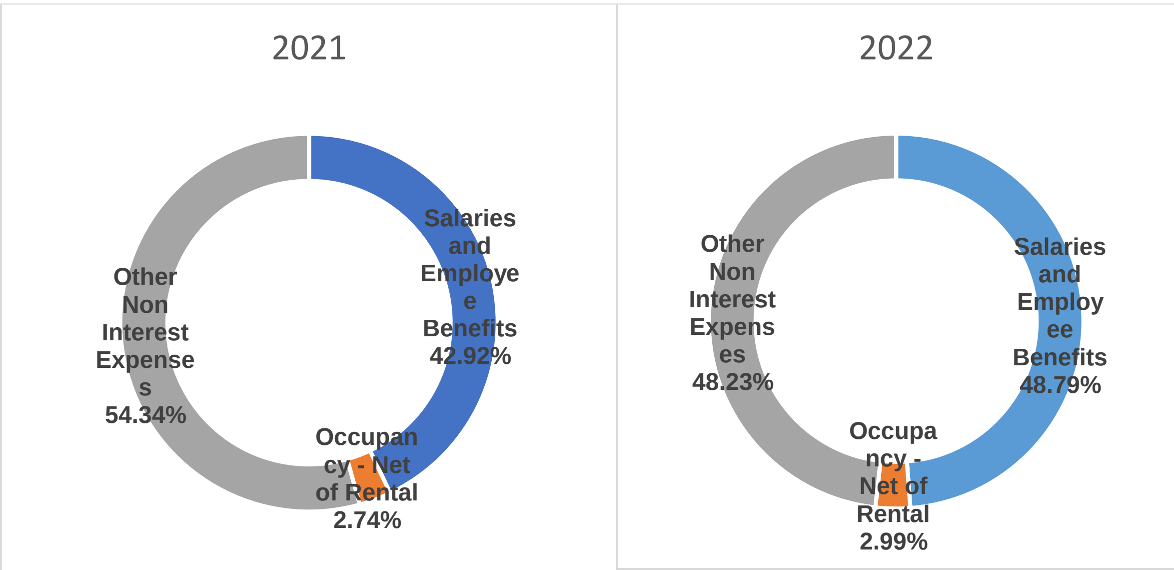
3.20 Non-interest income was skewed towards other non-interest income and fees & commission, which contributed 62.88% and 29.15% of the total non-interest income, respectively. Banking sector income mix as at 31 December 2021 and 31 December 2022, are shown in the figures below.

Figure 9: Comparison of Income Mix – 2021 and 2022



3.21 The breakdown of non-interest expenses for the period under review is indicated in the figure below.

Figure 10: Banking Sector Non-Interest Expenses – 31 December 2021 & 2022



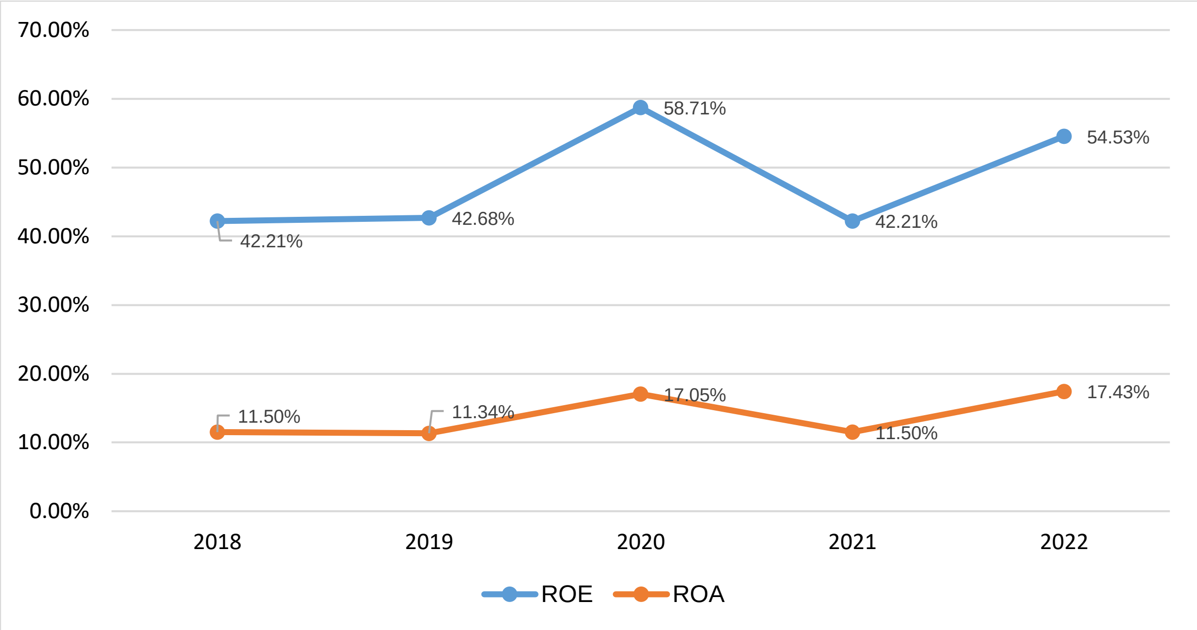
3.22 The cost to income ratio for the banking sector improved to 53.53% as at 31 December 2022 from 71.61% as at 31 December 2021.

Profitability

3.23 Banking sector profitability as measured by the return on assets and return on equity ratios improved from 11.50% and 42.21% as at 31 December 2021 to 17.43% and 54.53% as at 31 December 2022, respectively.

3.24 The figure below shows the trend in profitability indicators from 31 December 2018 to 31 December 2022.

Figure 11: Trend in Profitability Indicators

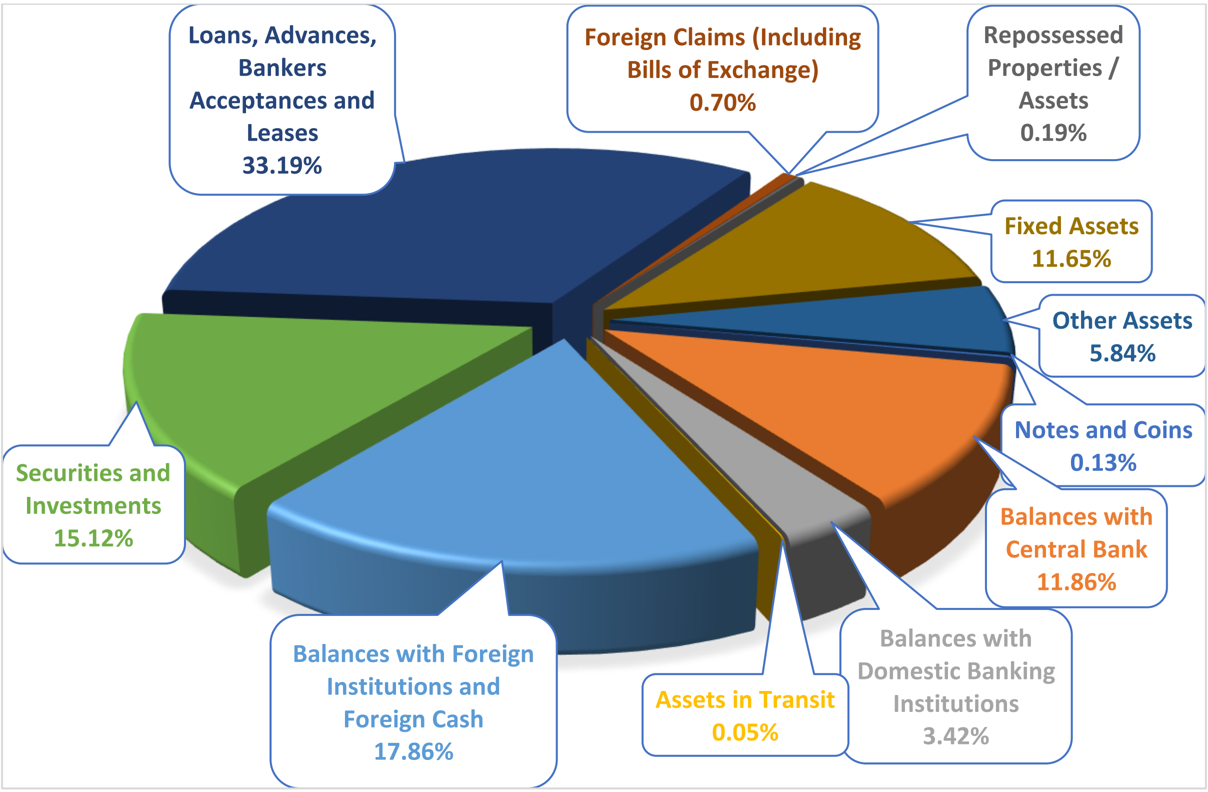


BALANCE SHEET STRUCTURE

Composition of Assets

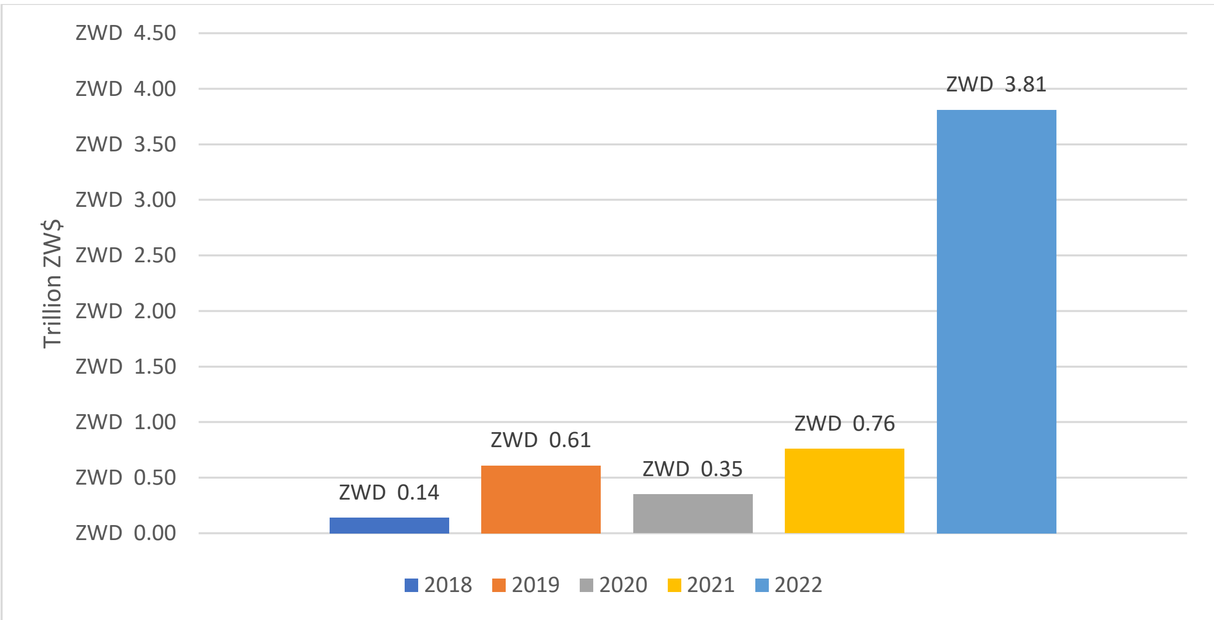
3.25 Total assets for the sector increased significantly from $762.96 billion as at 31 December 2021, to $3.81 trillion as at 31 December 2022 representing 399.37% growth. The banking sector asset mix as at 31 December 2022 is shown in the figure below.

Figure 12: Asset Mix as at 31 December 2022



3.26 The trend in the banking sector assets is presented in the figure below.

Figure 13: Trend in the Banking Sector Assets 2018 to 2022 ($trillion)

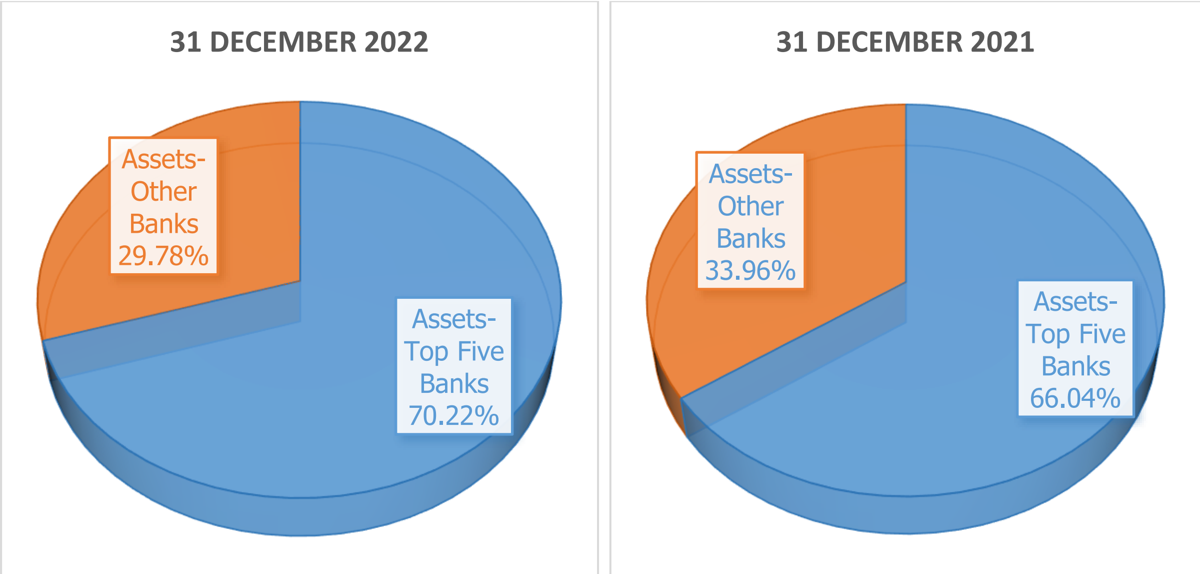


3.27 As at 31 December 2022, the top five (5) banking institutions accounted for 70.22% of assets against 66.04% in the same period in 2021. Additionally, the five (5) banking institutions constituted 72.54% (2021:70.13%) of total deposits and 77.09% (2021:

70.90%) of total loans and advances.

3.28 The figure below depicts the level of concentration with regards to banking sector total assets as at 31 December 2022.

Figure 14: Concentration of Banking Sector Assets 2022 and 2021



Composition of Liabilities

3.29 The banking sector recorded total liabilities of $3.36 trillion as at 31 December 2022 from $707.19 billion as at 31 December 2021.The total liabilities growth was driven by the general increase in the sector's total deposits emanating largely from demand and foreign currency deposit base.

3.30 As at 31 December 2022, the total deposits for the sector were $2.32 trillion, an increase from $476.35 billion reported as at 31 December 2021.

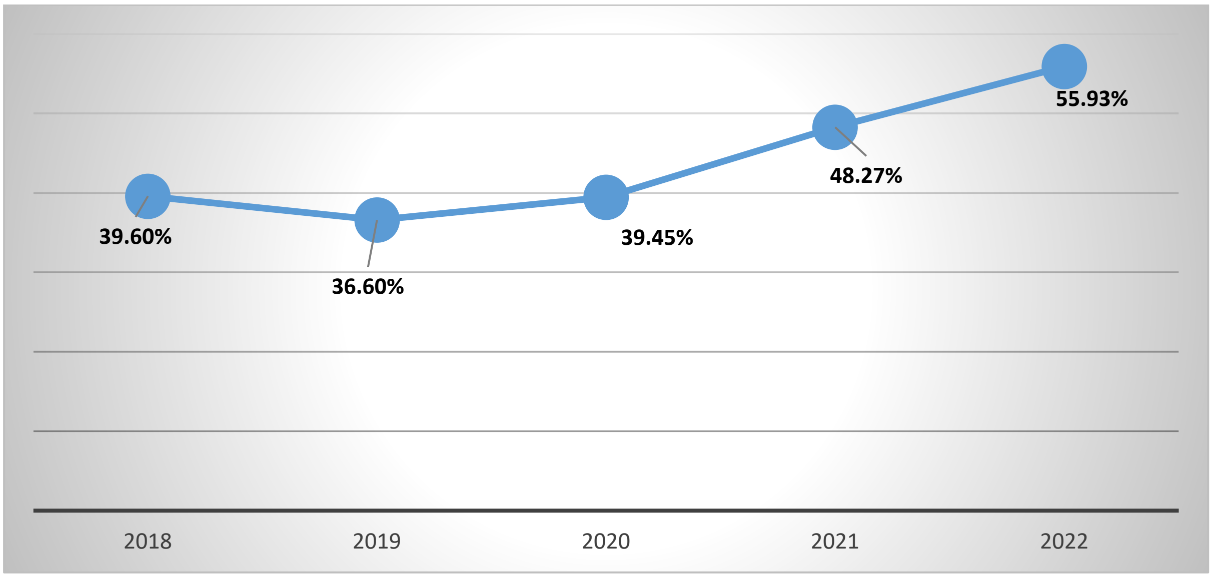
Financial Intermediation

3.31 Total loans and advances for the sector increased by 465.35% from $229.94 billion as at 31 December 2021 to $1.29 trillion as at 31 December 2022.

3.32 The loans to deposit ratio increased from 48.27% as at 31 December 2021 to 55.93% as at 31 December 2022 reflecting an improvement in the level of financial intermediation.

3.33 The figure below shows the loans to deposits ratio trend over the years past five years.

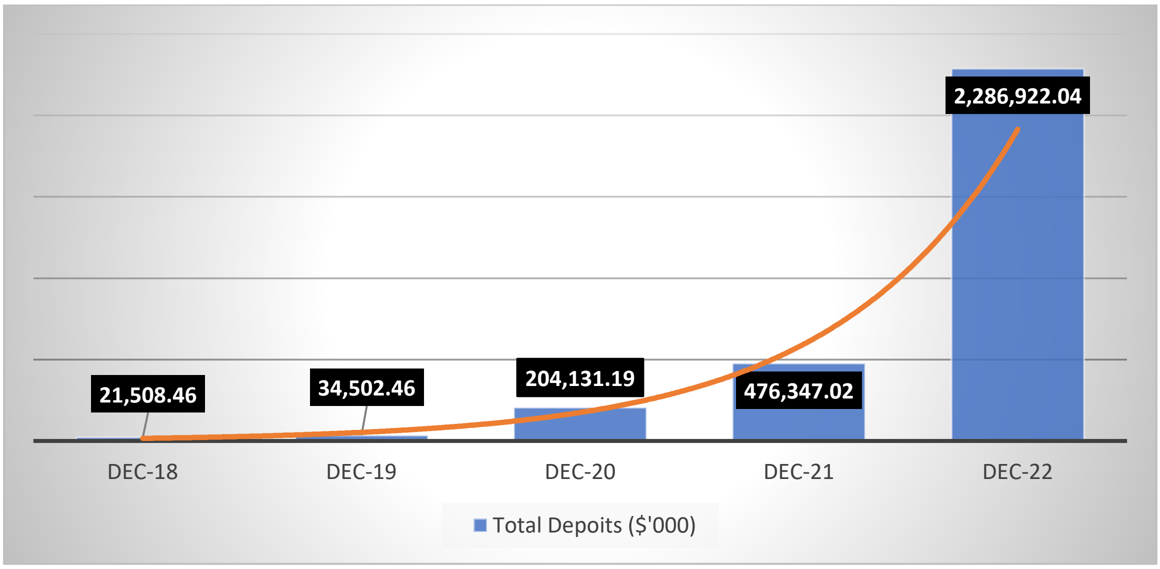
Figure 15: Loans to Deposits Ratio Trend Dec 2018 to Dec 2022



Trend in Banking Sector Deposits

3.34 The trend in banking sector deposits over the period 31 December 2018 to 31 December 2022 is shown in the figure below.

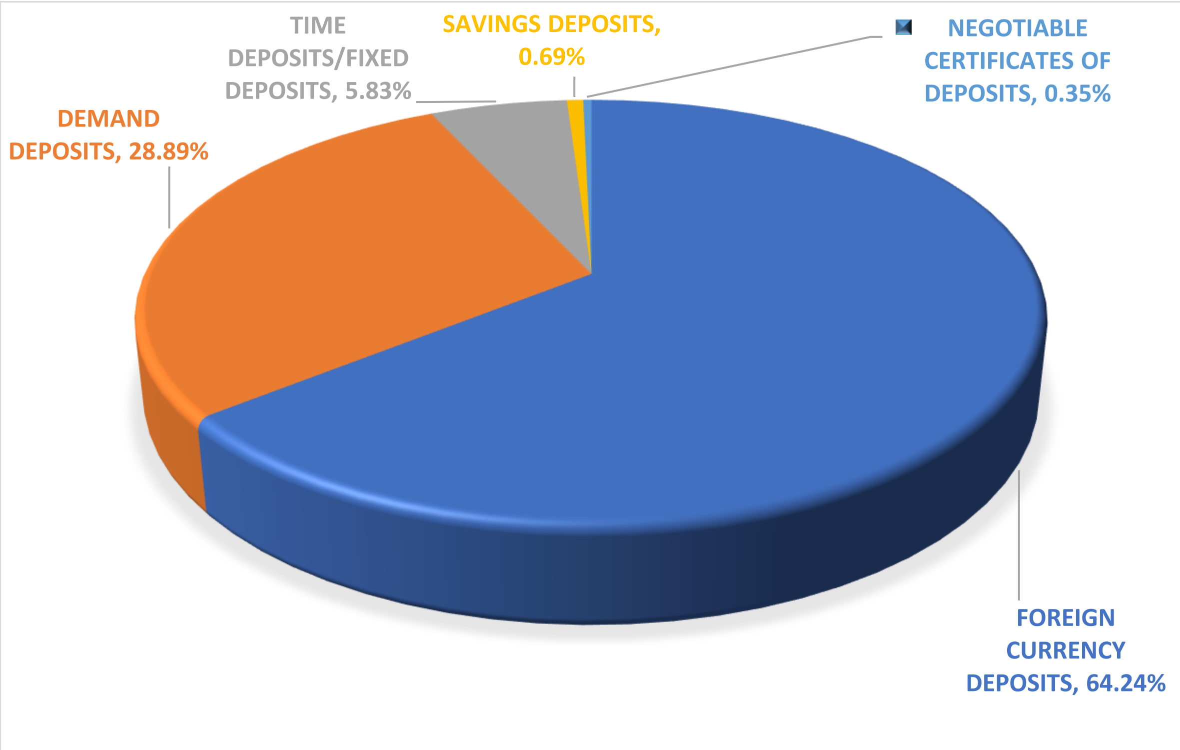
Figure 16: Trend in Banking Sector Deposits (billions)



3.35 Total banking sector deposits were largely made up of foreign currency deposits and demand deposits as at 31 December 2022 constituting 64.24% and 28.89%, respectively.

3.36 The banking sector composition of deposits is as shown in the figure below.

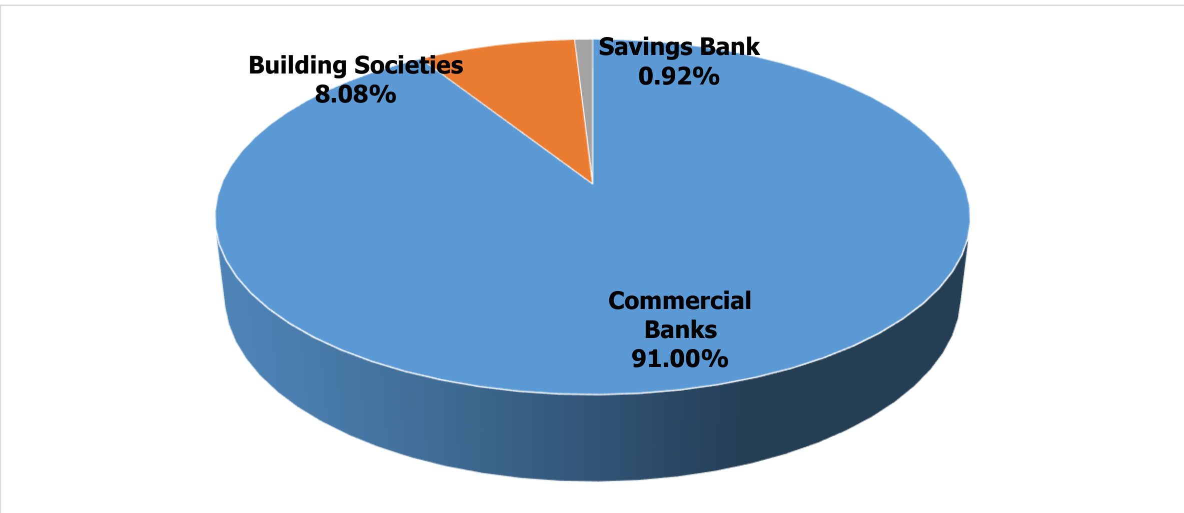
Figure 17: Composition of Deposits as at 31 December 2022



3.37 As at 31 December 2022, commercial banks had the largest share of deposits constituting 91% of the total banking sector deposits, while the building societies sub-sector had 8.08%.

3.38 The figure below shows the distribution of deposits for the entire banking sector.

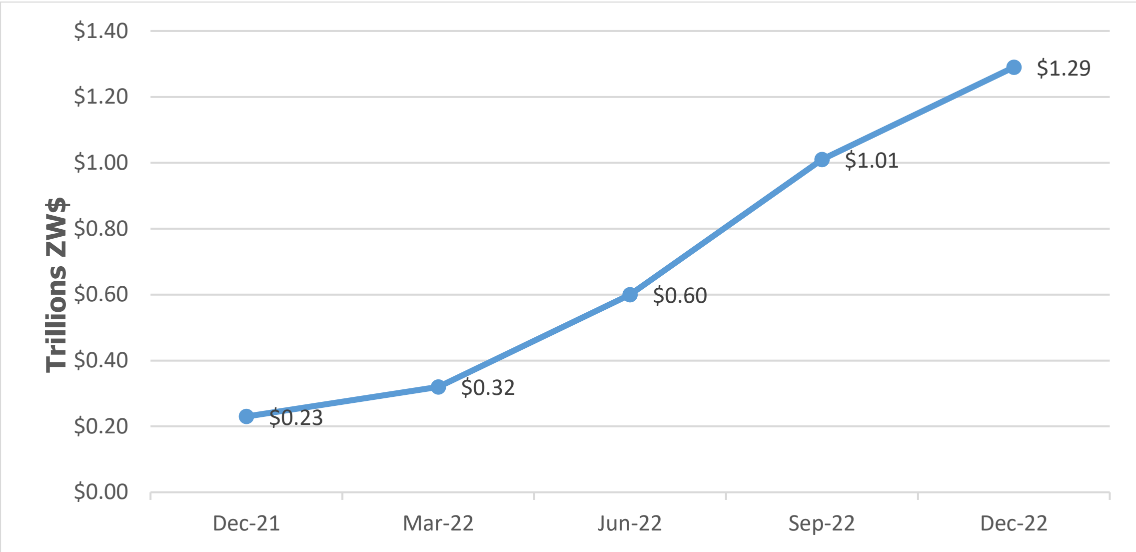
Figure 18: Distribution of Deposits



Loans and advances

3.39 There was a notable increase in the total banking sector loans and advances from \$229.94 billion, as at 31 December 2021 to \$1.29 trillion, as at 31 December 2022. The trend is depicted in the diagram below.

Figure 19: Trend in Banking Sector Loans and Advances



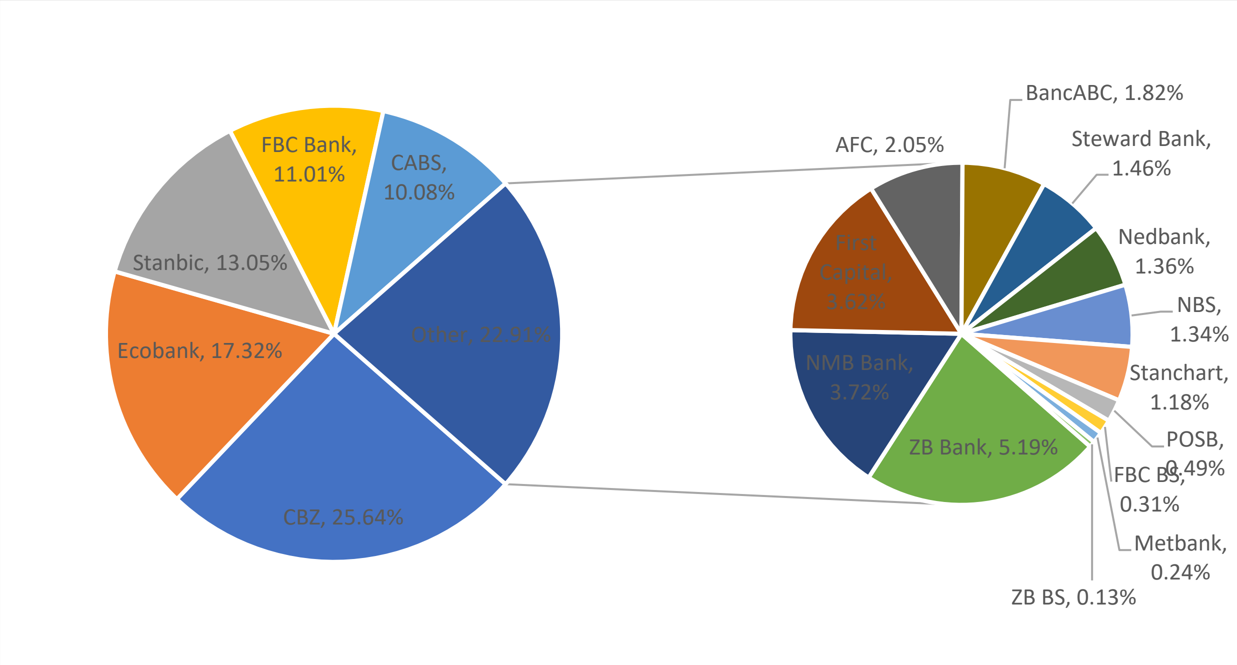
3.40 The commercial banking sub-sector accounted for 87.66% of the total banking sector loans and advances.

Loan Concentration

3.41 The top five (5) banking institutions held 77.09% of the total banking sector loans and advances as at 31 December 2022, from 70.90%% as at 31 December 2021, reflecting an increase of 6.19%.

3.42 The figure below shows the concentration of loans by bank as at 31 December 2022.

Figure 20: Loan Concentration by Banking Institution – 31 December 2022

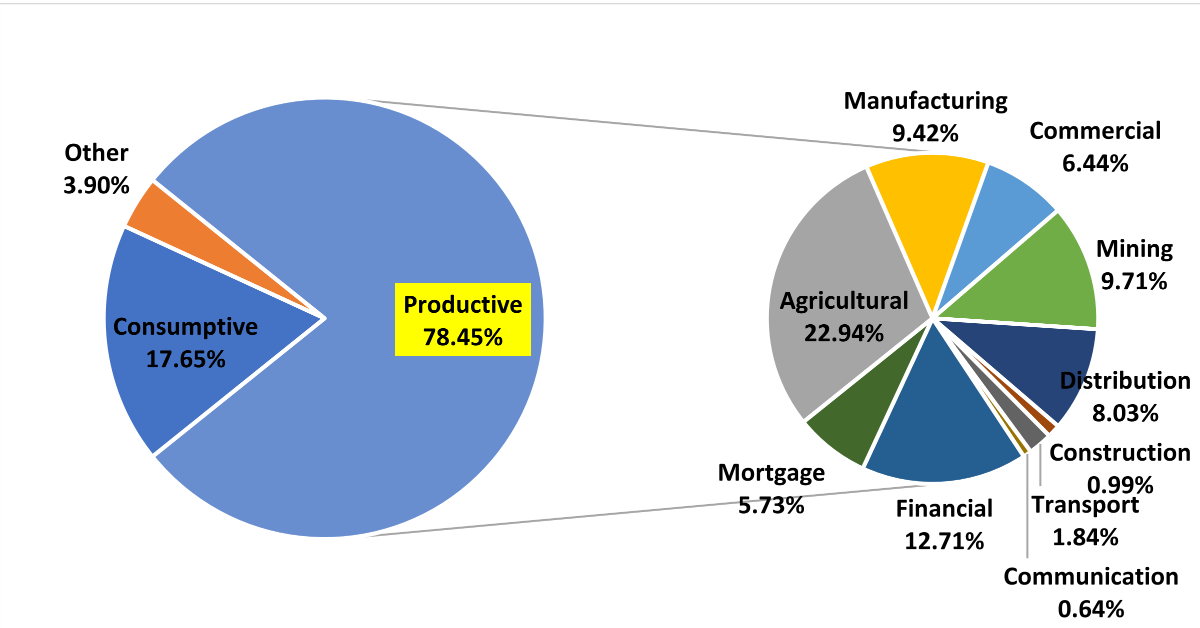


Sectorial Distribution of Loans and Advances

3.43 Lending to productive sectors of the economy constituted 78.45% of the total banking sector loans as at 31 December 2022, from 76.29% as at 31 December 2021 representing an increase of 2.16 percentage points from the previous year.

3.44 The sectorial distribution for loans and advances is shown in the figure below.

Figure 21: Sectorial distribution – 31 December 2022

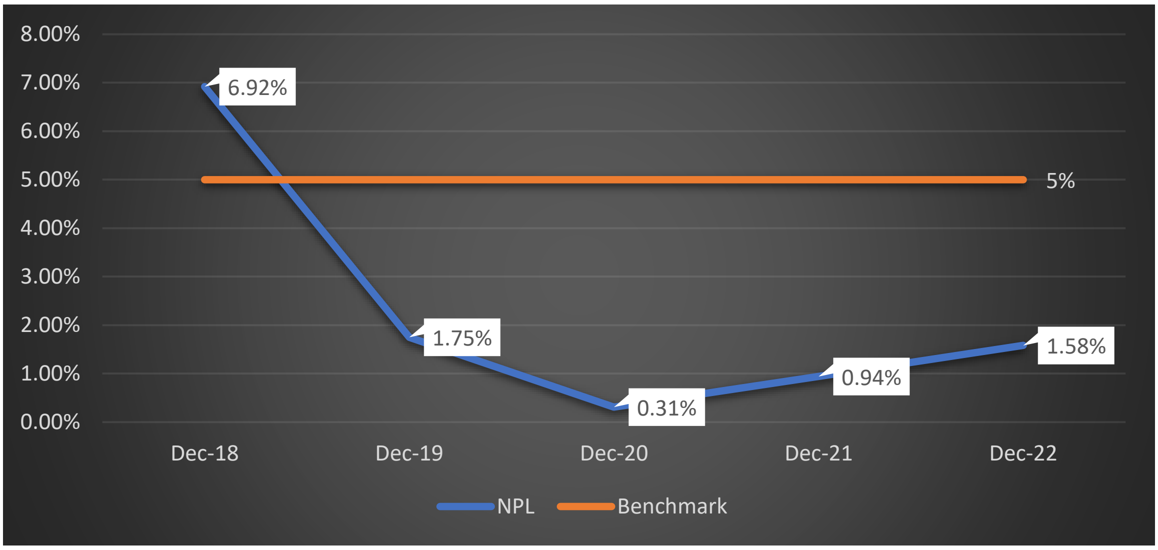


Non-Performing Loans (NPLs)

3.45 The banking sector portfolio quality remained satisfactory as reflected by the average non-performing loans (NPLs) to total loans ratio of 1.58% as at 31 December 2022.

3.46 The trend in the ratio of non-performing loans from 31 December 2018 to 31 December 2022 is indicated in the figure below.

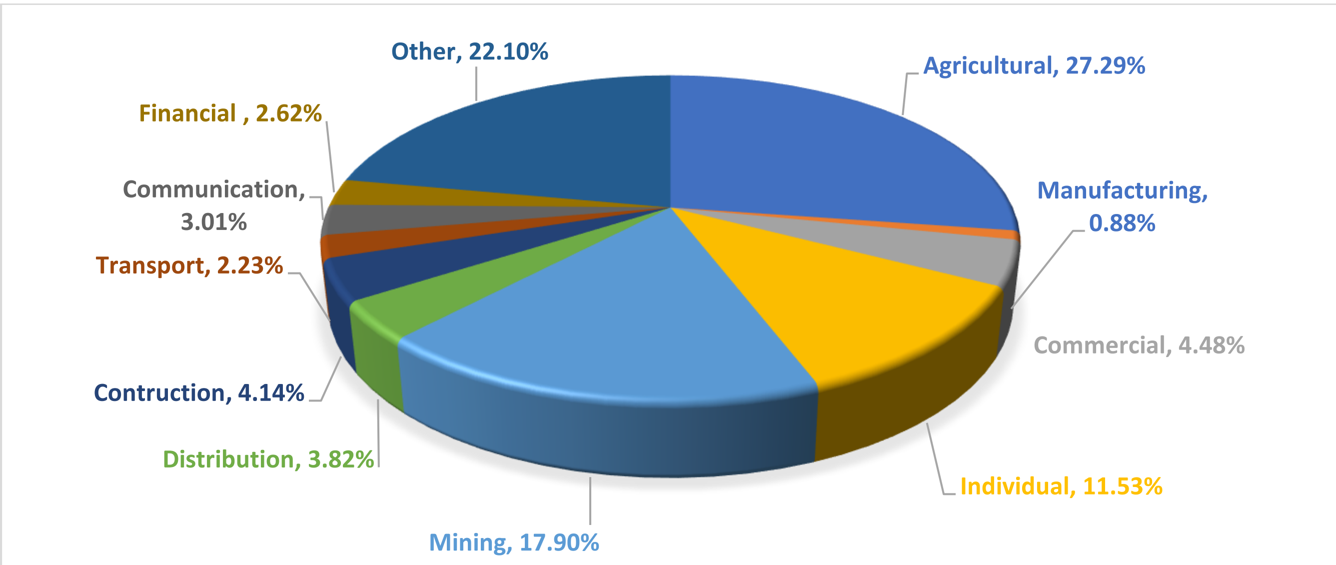
Figure 22: Trend in Non-Performing Loans: 31 Dec 2018– 31 Dec 2022



Sectorial Distribution of NPLs

3.47 In terms of the distribution of NPLs, the Agricultural sector had highest NPLs accounting for 27.29% of the total banking sector NPLs in the period under review, as shown in the figure below:

Figure 23: Sectoral Distribution of NPLs as at 31 December 2022



4. REGULATORY DEVELOPMENTS AFFECTING THE BANKING AND MICROFINANCE SECTORS

Introduction

4.1. The Bank continues to ensure alignment of the legal and regulatory framework pertaining to both local and international market developments and best practice.

4.2. This chapter summarises the major legal and regulatory developments in the banking sector during the year.

Update on Institutions Under Liquidation…

4.3. Compensation by the Deposit Protection Corporation (DPC) from the Deposit Protection Fund (DPF) to depositors for Trust Bank, Interfin Bank, Allied Bank and Afrasia Bank was terminated on 31 May 2022, on account of the low cover level (ZW$500) and elapsed timeframe of 36 months.

4.4. Total recoveries in cash, treasury bills, and properties increased from ZW$217 million in December 2021 to ZW$ 713 million in December 2022. This translated to a recovery rate of 264% as at 31 December 2022.

4.5. Total dividends paid out to concurrent creditors of the six (6) failed contributory banking institutions under liquidation were ZW$ 204 million or 108 cents per dollar.

Afrasia Bank Zimbabwe Limited (In Final Liquidation)

4.6. The banking institution's concurrent creditors were paid in full inclusive of interest payments. As at 31 December 2022, the DPC was in the process of disposing some of the banking institution's remaining immovable assets. Any residue after settlement of liquidation experiences and conveyancing will be paid to the shareholders.

Allied Bank (In Final Liquidation)

4.7. Following payment of the third interim dividend of about ZW$11.5 million in full, inclusive of interest to creditors, the major outstanding issue related to pursuit of funds blocked by Office of Foreign Assets Control (OFAC) of US$1.1 million.

4.8. As at 31 December 2022, efforts were underway to engage the relevant stakeholders to assist in facilitating release of the above funds.

Trust Bank (In Final Liquidation)

4.9. As at 31 December 2022, negotiations with Trust Holdings Limited (THL) to settle the banking institution's obligations in exchange for its remaining assets had reached an advanced stage.

Royal Bank (In Final Liquidation)

4.10. Following an out of court settlement between the DPC and Royal Bank directors, a payment of ZW$9.2 million was made by the directors of Royal Bank in favour of the banking institution in full and final settlement of the directors' obligations to the banking institution.

4.11. As at 31 December 2022, the third and final Liquidation and Distribution Account was in place and undergoing internal review. No further inflows of funds were anticipated from loan recoveries after the third account.

Interfin Bank (In Final Liquidation)

4.12. The Interfin Thirteenth Interim Liquidation & Distribution account was approved by the Master on 21 December 2022. As at 31 December 2022, the banking institution's remaining properties were in the process of being disposed.

Capital Bank (In Final Liquidation)

4.13. As at 31 December 2022, there was slow progress in winding up the affairs of Capital Bank due to a legal wrangle between Renaissance Financial Holdings (RFH) and the Liquidator of Capital Bank (Petwin Executor & Trust Company) over the ownership of some First Mutual Holdings ordinary shares.

Supervisory Action taken for Non-Compliance

4.14. The Bank took supervisory action against banking institutions that were found to be in breach of the **Banking Act [*Chapter 24:20*]**. In some cases, monetary penalties were levied and written warnings were issued for failure to publish 2021 year-end financials within the prescribed deadlines, failure to publish 2022 half-year financials within the prescribed deadlines, appointing a principal officer without regulatory approval and failure to submit accurate prudential returns.

4.15. Written instructions were also issued to six (6) banking institutions to remedy identified breaches related to capital adequacy within specified timeframes.

Consumer Complaints Management

4.16. During the review year, the Bank received some complaints from members of the banking public and these were largely centred on the issues of unauthorised debits and failure to access funds. The majority of these complaints were successfully resolved whilst a few complaints were yet to be fully addressed by 31 December 2022.

Liquidity Coverage Ratio (LCR) Prudential Standard

4.17. In order to strengthen the resilience of the financial system to liquidity risk, the Bank issued the Liquidity Coverage Ratio Prudential Standard. The Standard promotes the short-term resilience of the liquidity risk profile of banks by ensuring that they have an adequate liquidity cushion in terms of stock of unencumbered high-quality liquid assets that can be converted easily or immediately into cash to meet liquidity needs under stress scenarios.

Microfinance Institutions Lending in Foreign Currency

4.18. Subsequent to the Press Statement of 26 March 2020 on Interventions in Response to the Financial Vulnerabilities Caused by the Covid-19 Pandemic, which made available to the transacting public, an option to use free funds to pay for goods and services chargeable in local currency, microfinance institutions approached the Bank for authority to lend in foreign currency. The request by microfinance institutions was premised on increased demand for foreign currency denominated loans from both exporting and non-exporting clients, who earn significant revenue in foreign currency from local sales as well as foreign remittances.

4.19. Given the important role played by microfinance institutions in economic empowerment of MSMEs, women, youth and other marginalised communities, the Reserve Bank authorised the institutions to lend in foreign currency through the guideline on lending in foreign currency issued in January 2022.

5. OUTLOOK

5.1. The economic outlook is expected to remain relatively positive on account of macroeconomic stability. The banking sector will continue to show a good degree of resilience and banks will remain pivotal in the recovery and growth of the economy.

5.2. The Bank will continue to effectively monitor the condition and performance of banking institutions including constructively engaging banking institutions to understand their strategies and business models in the face of increasing digitisation and emerging risks.

5.3. Climate risk management has become a strategic focus area for the Bank. Activities for the year 2023 will include identification of climate risk key drivers and transmission channels in the banking sector, assessing the impact of climate risk on macroeconomic variables, and development of a Climate Risk Management Guideline. Bank supervision will also capacitate its staff to effectively manage climate risk.

5.4. In 2023, the Bank will continue with the focus on increasing usage of formal financial services by the target segments under the National Financial Inclusion Strategy (NFIS) II, 2022-2026. Special attention will be paid to the quality and sustainability of financial services for improved livelihoods. In addition, the operationalization of the Collateral Registry is expected to promote access to finance by the underserved communities. Various initiatives will be implemented to support effective use of the collateral registry by the lending institutions.

5.5. Further, as the implementation of NFIS II progresses, the Bank will continue to pay close attention to consumer protection issues, in response to the emerging risks from the innovative financial technologies and digital financial services.

5.6. The emergence of new business models and technological advancements exposes banks to cyber-attacks. In this regard, going forward, the Bank will be conducting annual cyber security assessment of banking institutions with a view to strengthen risk management systems.

5.7. Cognisant of the role that financial institutions play towards inclusive and sustainable economic development, implementation of the Sustainability Standards & Certification Initiative (SSCI) will be accelerated.

APPENDICES

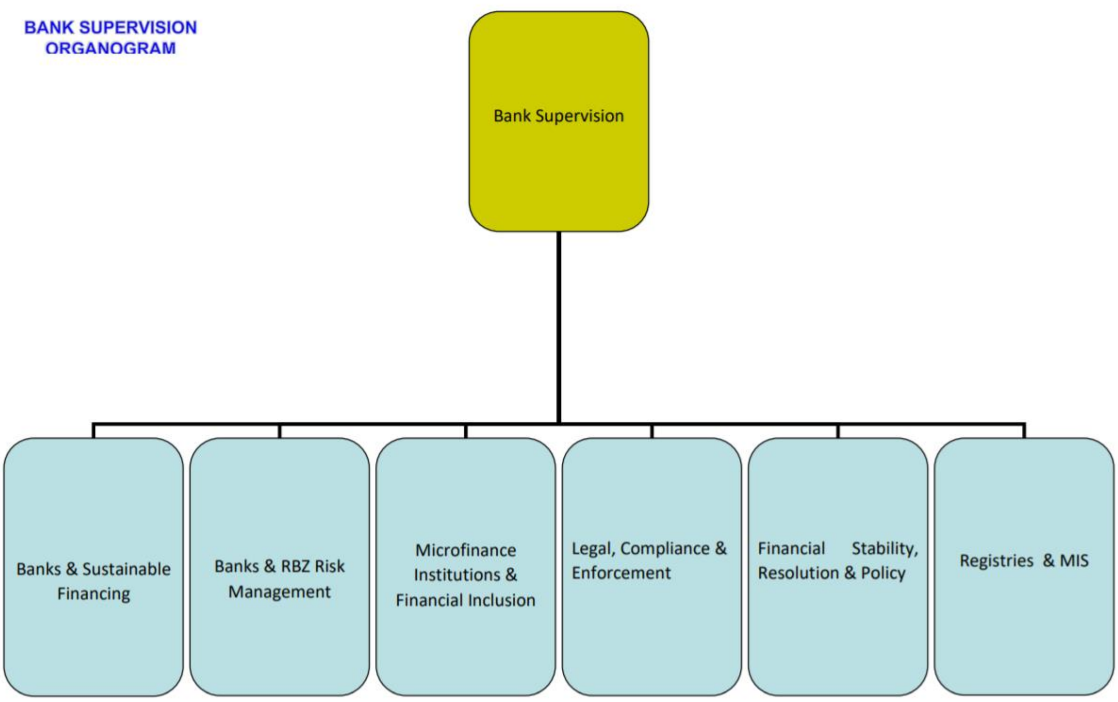
APPENDIX 1: FUNCTION AND ORGANIZATION OF BANK SUPERVISION DIVISION

Function of Bank Supervision Division

1. The Reserve Bank of Zimbabwe, in terms of **Section 6 of the Reserve Bank Act [*Chapter 22:15*]**, is mandated to foster the stability and proper function of the Zimbabwean Financial System as well as **supervision of banking institutions**, among others.

Organization of the Bank Supervision Division

2. In a bid to fulfil its mandate to foster and maintain financial stability, Bank Supervision Division is organized into six (6) departments as illustrated below.



APPENDIX 3: REGISTERED BANKING INSTITUTIONS AS AT 31 DECEMBER 2022

Banking Institution	Address & Website
AFC Commercial Bank (formerly Agribank)	15th Floor, Hurudza House 14-16 Nelson Mandela Avenue Harare Tel: 774429 or 773704/5 or 774554 Fax 774554 www.agribank.co.zw
BancABC	1 Endeavour Crescent Mt. Pleasant Business Park Harare Phone: 701636/52; 739089 Fax 727330 www.bancabc.com
First Capital Bank (formerly Barclays Bank)	3 Anchor House 1st Street/Jason Moyo Avenue Harare Phone: 758280/99 or 758324 www.africa.barclays.com
CBZ Bank	3rd Floor, Union House 60 Kwame Nkrumah Avenue Harare Phone: 749714 or 748050/79 / 759110-6 Fax 758077 www.cbz.co.zw
Ecobank	Sam Levy's Office Park Block A, Piers Road Borrowdale Harare Phone:851642/7 **or** 706036/7 701350/3 **or** 703011/2/4 / 851642 Fax: 794993 www.ecobank.com
FBC Bank Limited	FBC Centre Nelson Mandela Avenue Harare Phone:704462/704481/77 2705 Fax 704995 www.fbc.co.zw
Nedbank Zimbabwe Limited (formerly MBCA Bank Limited)	Old Mutual Centre 3rd Street/Jason Moyo Harare Tel: 701636/52 Fax 727330 www.mbca.co.zw
Metbank Zimbabwe Limited	Metropolitan House 3 Central Avenue Harare Phone: 706091/706128 /701970 Fax 733014 www.metbank.co.zw
NMB Bank Limited	19207 Liberation Legacy Way Borrowdale Harare Phone: 759651/9 or 754933/5 or 709122/68 or 709124/09 www.nmbz.co.zw

Banking Institution	Address & Website
Stanbic Bank Zimbabwe Limited	Stanbic Centre Samora Machel Avenue Harare Phone: 759471; Fax 772126 www.stanbicbank.co.zw
Standard Chartered Bank Zimbabwe Limited	1st Floor, Standard Chartered Bank Building Cnr. Sam Nujoma Street/ Nelson Mandela Avenue Harare Phone: 253801-7 or 252289 Fax 252288 www.stanchart.co.zw
Steward Bank Limited	2nd Floor, 101 Kwame Nkrumah Avenue Harare Tel:79146/791444-8 Fax 791460 www.stewardbank.co.zw
ZB Bank Limited	21 Natal Road Avondale Harare Phone: 08677002001 www.zb.co.zw
Central African Building Society (CABS)	Northridge Park Northend Close Borrowdale Harare Phone: 883823/59 Fax 883804 www.cabs.co.zw
FBC Building Society	5th Floor, FBC Centre Nelson Mandela Avenue Harare Phone: 783203-9 www.fbc.co.zw
National Building Society	14th Floor, Social Security Centre Cnr Sam Nujoma Street & Julius Nyerere Way, Harare Phone: 700032,35,39,42 www.nbs.co.zw
ZB Building Society	6th Floor, Finsure House Cnr. Kwame Nkrumah / Sam Nujoma Harare Phone: 252978, 252926, 253031, 758275 www.zb.co.zw
Time Bank of Zimbabwe Limited	12th Floor, Social Security Centre 58 Julius Nyerere Way/Sam Nujoma Street Harare Phone: 2708755; 2791125
People's Own Savings Bank (POSB)	6th Floor, Causeway Building Cnr. Third Street/Central Avenue Harare Phone: 729700-9;737911-9; 735081-8 or 791134 Fax: 749012 www.posb.co.zw