ABC BANK LIMITED

CREDIT RATING REPORT

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CREDIT RATING REPORT

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Prepared for	:	ABC Bank Limited
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Rating Type	:	Financial Institution Rating (FI Rating)
Report prepared by	:	ICRA RATING AGENCY DMCC *Corporate Office: Suite 2803, The Prism Tower, Business Bay, Dubai, UAE* *Registered Office: Unit No. 3O-01-5488, DMCC, Dubai, UAE* info@icrallc.com www.icrallc.com
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Table 1

ICRA Assigned Rating

AAA	AA	A	BBB	BB	B	CCC	CC	C	D

(The assigned rating is based on ICRA National Rating Scale for Zimbabwe)

Table 2

RATING RATIONALE

ICRA has assigned a **"BB"** rating with a **"Stable"** outlook to **"ABC Bank Limited"** on **November 8, 2024**, subject to the absence of any material adverse events that may affect the bank's business activities during the validity period. The assigned rating reflects the following strengths and challenges:

RATING STRENGTHS:

Brand Stability with Extensive Branch Network: ABC Bank is a key player in the Zimbabwean banking sector and is part of ABC Holdings. The bank holds a 6.1% market share of total deposits as of 31st March 2024. Its long-standing market presence, extensive branch network, and well-experienced leadership provide stability and confidence in its operations. The bank benefits from a stable brand and an expansive network of branches and service centres throughout Zimbabwe. This extensive reach ensures accessibility for clients across various regions, contributing to its customer base growth and retention.

Introduction of Gold-Backed Currency - Zimbabwe Gold (ZiG): The introduction of the Zimbabwe Gold (ZiG) currency in Zimbabwe can positively influence ABC Bank's rating outlook by enhancing financial stability and reducing local currency risks. This currency can mitigate inflationary pressures and provide a more stable store of value than the ZWL.

However, on the flip side, ZiG's impact will largely depend on market adoption and the currency's liquidity. If it lacks liquidity or widespread acceptance, the bank could face challenges in maintaining adequate liquidity in ZiG, which may limit its ability to offer loans and other services in this currency. Moreover, potential operational challenges, regulatory uncertainty, and the need for substantial adjustments could pose risks, especially if the bank faces difficulties managing currency liquidity or operational costs.

Strong Correspondent Banking Relationships: ABC Bank maintains strong correspondent banking relationships with multiple correspondent banks in major global currencies such as USD, EUR, and GBP. These relationships facilitate international transactions, providing the bank with global connectivity that benefits its clients and strengthens its foreign exchange capabilities.

Strong Capital Adequacy (2023): Basel II guidelines emphasize maintaining adequate capital to cover credit, market, and operational risks, with a primary focus on credit risk. ABC Bank maintains a strong capital buffer, with capital adequacy ratios well above the regulatory benchmarks in 2023. This ample capitalization provides a substantial cushion to absorb potential losses stemming from asset quality deterioration, thus stabilizing the bank's capital base. The high capital adequacy ratio underscores the bank's prudence in managing credit risk, supporting the overall resilience of the institution.

However, the recent downgrade of a few major loan accounts will have a potential impact on the bank's capital adequacy. An increase in RWAs without a corresponding increase in capital will lead to a decline in these capital ratios, potentially bringing them closer to regulatory minimums or even below them if the downgrade impacts are substantial. Due to the unavailability of data, ICRA is not in a position to comment on the latest position of the bank's capital adequacy and its risk-weighted assets.

High-Quality Portfolio: ABC Bank's loan portfolio is dominated by USD loans, which helps the bank to maintain low impairment levels and reduce the adverse effects of local currency devaluation. The overall quality of ABC Bank's loan portfolio is commendable, with a substantial share categorized as high-quality loans. The "good" and "strong" quality loans together account for 82.84% of the portfolio, with the largest portion, 38.52%, in the 'AA+ Strong' category, representing 7,474 loans. This emphasis on low-risk lending demonstrates the bank's prudent credit risk management, which bolsters the bank's overall asset quality and reduces the probability of defaults.

Resilient Non-Interest Income Streams: Despite the macroeconomic challenges, ABC Bank has consistently demonstrated the ability to generate substantial non-interest income, which remains a key driver of profitability. From 2019 to 2021 and again in 2023, non-interest income played a critical role in offsetting pressures from inflation and rising operating expenses. This segment continues to be a reliable source of financial stability for the bank.

In our opinion, the non-interest income streams will continue to play a dominant role in overall profitability, particularly in hyperinflationary conditions. The consistent growth in this area will allow the bank to navigate a volatile economic environment.

Strong Financial Performance in 2023: In fiscal year 2023, interest income surged by 81%, from ZWL 116.09bn in 2022 to ZWL 210.18bn, reflecting strong performance from interest-earning assets. However, the rise in operating expenses partially offset the benefits of this growth. The bank still recorded a significant jump in profit after tax, demonstrating resilience.

Strong Leadership and Governance: The bank's leadership team is well-experienced, with strong oversight from various board committees, ensuring sound governance and risk management. This supports strategic decision-making and enhances operational efficiency.

CHALLENGES:

Credit Concentration Risk: The bank's USD portfolio concentration within the 'services' segment, amounting to USD 36.83 million spread across 426 clients. This introduces a concentration risk, potentially impacting stability if this segment experiences economic stress. The portfolio concentration ratio for the 'services' sector stands at 30% of the bank's total USD portfolio. A notable 47% of the 'services' segment loans are granted to schools (USD 17.18 million), which is highly concentrated. While schools are generally considered stable borrowers, however, such concentration exposes the bank to sector-specific risks. Furthermore, the mining sector is also concentrated with only 26 clients, with a total loan of USD 19.47 million. ICRA emphasizes a broader portfolio diversification that would enhance the bank's resilience to sectoral downturns.

Elevated Credit Risk of Top-Tier Clients: Another area of concern is the concentration of the USD portfolio in the top five clients, which account for 28.10% of the total USD portfolio. The bank's top customer with the largest exposure of USD 12.66 million is classified as 'CC, Sub-Standard.' Another client, which is also among the top five clients of the bank, is categorized under 'CC, Sub-Standard. Both clients are from the mining industry, highlighting the underlying challenges in this segment. These credit exposures are at a heightened risk of default, which has elevated the bank's non-performing loan (NPL) ratio and poses a risk to regulatory capital.

However, a substantial portion of the bank's mining clients are focused on the gold mining segment, which is generally regarded as less risky relative to other mining activities. This concentration in gold mining mitigates some of the inherent risks associated with the mining sector and could contribute positively to the bank's overall asset quality and resilience against market fluctuations.

As clarified by the ABC Bank team, the bank's largest exposure is secured through substantial collateral in the form of Treasury Bills (TBs) valued at USD 6.5 million and USD 14.4 million, respectively. These TBs come with different maturities, which provides ABC Bank with a structured risk management approach by securing the loan against highly liquid government-backed securities. This collateral acts as a financial cushion, reducing the potential loss if the borrower defaults. Treasury Bills are considered low-risk assets, backed by the government, and are generally seen as reliable and easily liquidated. This feature enhances the bank's position by offering reassurance regarding potential recoveries from the collateral. In our view, the bank has reduced its vulnerability to credit risk by having collateral in place, which could partially or fully recover the loss.

Increased Provision for Loan Losses: The downgrade of ABC Bank's major exposures will necessitate an increase in its provision for loan losses, reflecting the heightened risk of default and reduced credit quality of these assets. It will also directly impact profitability and capital ratios, as the higher provisions will lower the available earnings and core capital resources, potentially influencing the bank's capital adequacy and regulatory standing.

Depositor Concentration Risk: The high concentration of deposits from a limited number of top depositors represents a considerable risk to the bank. The bank's top depositor forms 30.44% of total deposits, while the top five depositors constitute 80.72% of the total deposit base. The reliance on a few major depositors makes the bank susceptible to potential liquidity strain if any of these depositors decide to withdraw or reduce their funds significantly. Such concentration exposes the bank to abrupt funding volatility and limits its capacity to maintain a diversified funding base, which is essential for sustained financial stability.

Deteriorating Asset Quality and High Non-Performing Loan (NPL) Ratio in 2024: Under Basel II, the effective management of credit and operational risks is essential. The bank's non-performing loan (NPL) ratio, which remained steady in the first half of 2024 (ranging between 1.38% and 2.64%), increased sharply to 14.36% in July following the downgrade of two major loan accounts, both among the top 10 exposures. The elevated NPL ratio, which slightly improved to 12.8% in August and 11.52% in September, remains a substantial risk factor, especially given ABC Bank's exposure to the mining sector. The mining industry itself recorded an exceptionally high NPL ratio of 84.25% in July 2024, primarily due to operational challenges and volatility in commodity markets, indicating ongoing vulnerabilities in this sector. Given the bank's significant exposure to this sector, asset quality pressures are likely to persist in the short to medium term, adding strain to the bank's credit profile.

Weakening Liquidity Position (2023): The bank's liquidity ratio declined from 63% in 2022 to 51% in 2023, indicating a decline in liquidity despite remaining above the regulatory minimum of 30% and the bank's internal threshold of 35%. This current level, however, is below the industry average of 60.33%, suggesting a relatively lower liquidity reserve. The fall in liquidity is partly due to a sharp 119% rise in deposits in 2023, which outpaced growth in liquid assets. This trend implies a reduction in liquidity reserves, potentially heightening the bank's sensitivity to liquidity pressures or sudden withdrawal demands. Although still within regulatory limits, the trend indicates a need for more balanced liquid asset growth to sustain a healthy liquidity position.

Profitability and Earnings (2023): The bank's earnings ratios reveal a mixed trend, reflecting both competitive strengths and areas of concern. While the return on equity (ROE) aligns with local industry benchmarks, signalling adequate profitability for shareholders, the net interest margin (NIM) has shown declines, indicating potential profitability challenges. Furthermore, the cost-to-income ratio remains high, suggesting that ABC Bank could benefit from efficiency improvements and cost reductions to enhance operational profitability.

Declining Asset Base in 2024: Another notable concern is the decline in ABC Bank's asset base as of 31st May 2024. The gross loan portfolio has contracted by 12%, and equity levels have also fallen, indicating reduced financial strength. This downward trend in 2024 raises concerns about the bank's long-term asset quality and profitability.

Operational Cash Flow Challenges: Cash generation from core activities has decreased, signalling underlying operational inefficiencies. While interest income increased by 81% in 2023, these gains were offset by rising operational costs and the need to service debt, reflecting a less-than-optimal cash flow position.

Declining Interest Income and Profitability in 2024 (Jan-May): Despite substantial non-interest income, the bank saw declining interest income and profitability during the first five months of 2024 compared to the same period in 2023. This decline highlights the need for a more balanced income mix and suggests difficulties in maintaining strong performance from interest-earning assets.

Upward Trend in Risk Management Indicators: A key concern is the overall upward trend in ABC Bank's risk management indicators. Rising credit risk and an increased non-performing loan (NPL) ratio present a significant threat to the bank's financial stability. This calls for immediate attention to improve credit assessment and risk mitigation strategies.

FACTORS THAT COULD, INDIVIDUALLY OR COLLECTIVELY, LEAD TO AN UPGRADE

The following factors can influence a rating upgrade for the bank:

- A sustained reduction in the non-performing loan (NPL) ratio, particularly within high-risk sectors like mining, would indicate effective risk management and can positively impact the bank's credit profile.
- Improvements in return on assets (ROA) and net interest margin (NIM) ratios could signal better profitability and efficiency, especially if coupled with a reduced cost-to-income ratio through effective cost-control measures.
- An increase in the liquidity ratio would bolster the bank's buffer against liquidity shocks, enhancing overall stability.
- A further strengthening of the capital adequacy ratio, well beyond regulatory requirements, would provide a greater buffer against unexpected losses and contribute to the bank's financial resilience.
- Reducing reliance on specific sectors or segments would improve resilience and support revenue stability, especially during economic downturns. A well-diversified and balanced portfolio could enhance financial resilience and reduce credit risk.
- The bank actively works to diversify its depositor base, reducing reliance on its top depositors, who currently account for a substantial portion of total deposits.
- Implementation of robust risk management strategies can improve the overall risk environment for the bank.

FACTORS THAT COULD, INDIVIDUALLY OR COLLECTIVELY, LEAD TO A DOWNGRADE

The following factors can influence a rating downgrade for the bank:

- A continued or significant increase in the NPL ratio would negatively impact the bank's asset quality and creditworthiness.
- A further decline in the liquidity ratio could increase vulnerability to liquidity shocks and limit flexibility in managing deposit withdrawals.
- Sustained pressure on profitability ratios, including lower ROA and NIM and a consistently high cost-to-income ratio, would indicate inefficiencies and could erode the bank's earnings capacity.
- Any downfall in the capital adequacy ratio toward regulatory minimums could increase the bank's vulnerability to losses and reduce its ability to absorb risks.

- Increased concentration in high-risk sectors, such as mining, without sufficient diversification, would expose the bank to sector-specific downturns and increase earnings volatility with elevated credit risk.
- Non-compliance with regulatory requirements or adverse regulatory actions could negatively impact the bank's operational capabilities and reputation, potentially leading to a rating downgrade.

CONTENTS

ICRA RATING APPROACH

SCOPE OF THE REPORT

ICRA conducts a comprehensive evaluation of the financial institution's overall business and financial performance before assigning the final credit rating. The objective of the credit rating report is to provide a thorough assessment of the issuer's creditworthiness. To achieve this, ICRA utilizes a combination of financial and non-financial factors, along with qualitative and quantitative credit analysis tools and techniques based on the BASEL III / II and CAMELS frameworks. ICRA aims to offer valuable insights into the institution's credit profile, helping investors and stakeholders make well-informed decisions regarding their investment and lending activities.

SOURCES OF THE INFORMATION

The credit analysis is carried out based mainly on the documents and information available from reliable third-party sources or provided by the issuer. Further, ICRA also conducts interviews to clarify and gain additional information regarding the institution when needed. Additionally, publicly accessible data is gathered from reputable online domains, research reports, news flows, and third-party databases. Below are the main categories of information sources:

- KYC documents
- Annual audited financial reports
- Industry research articles
- News articles
- Institution/Government press releases
- Third-party data providers (paid/unpaid)
- Management interviews

METHODOLOGY

The credit analysis is carried out based on the *'ICRA methodology for financial institutions credit rating'* which was designed by the in-house ICRA credit risk department. We continuously review the methodology for improvements in line with industry peers and the latest developments in the rating world.

COMPONENTS	Weightage
Business Model/Profile Review Size of the Business Competitive Advantages Uncertainty (Future Revenues & Profitability) Concentration Risk	**15%**
Management Quality Governance, Regulatory, and Legal Compliance Board of Directors Management Team Ownership	**10%**
Industry Risk Country Risk with Economic, Political, and Social Stability Industry Risk	**15%**
Financial Analysis Performance Financial Position Cash Flows	**20%**
Ratio Analysis Capital Adequacy Earnings Asset Quality Liquidity	**40%**

Table 3

ICRA CREDIT RATING SCALE

CATEGORY	SCALE	DEFINITION
Extremely Low Credit Risk	**AAA**	The entity is in an exceptionally stable and strong position to fulfil its financial commitments. There is a zero or minimal risk of being adversely affected by foreseeable events.
Very Low Credit Risk	**AA**	The entity is in a highly stable and strong position to fulfil its financial commitments. There is a low risk of being adversely affected by foreseeable events.
Low Credit Risk	**A**	The entity is in a stable and strong position to fulfil its financial commitments. There is a marginal risk of being adversely affected by foreseeable events.
Moderate Credit Risk	**BBB**	The entity has a controllable risk level to fulfil its financial commitments. There is a moderate risk of being adversely affected by foreseeable events.
Elevated Credit Risk	**BB**	The entity has a considerable risk level to fulfil its financial commitments. There is a considerable risk of being adversely affected by foreseeable events.
Substantial Credit Risk	**B**	The entity has a high-risk level of fulfilling its financial commitments. There is a high risk of being adversely affected by foreseeable events.
Very High Credit Risk	**CCC**	The entity is in a doubtful position to fulfil its financial commitments. There is a significantly high risk of being adversely affected by foreseeable events.
Extremely High Credit Risk	**CC**	The entity is in a highly unlikely position to fulfil its financial commitments. The entity has a high vulnerability to being adversely affected by foreseeable events.
On the Verge of Default	**C**	The entity is incapable of fulfilling its financial commitments and is on the verge of default. The continuity of the business is highly doubtful.
Default Entity	**D**	The entity is already defaulted on or in the process of bankruptcy filing, liquidation, or winding up procedures.
No Rating Assigned	**NRA**	A rating has not been assigned due to insufficient information, legal or regulatory requirements, a lack of reliability of information, or a new or unique entity structure.

ICRA National Credit Rating Scale

Outlook: *(+) Positive - Entity's creditworthiness is expected to improve in the near future, potentially leading to rating upgrade.*
( ) Stable - Entity's creditworthiness is expected to remain stable in the near future, with no significant changes anticipated.
(-) Negative - Entity's creditworthiness is expected to deteriorate, potentially leading to rating downgrade.

Table 4

BUSINESS PROFILE OF THE BANK

OVERVIEW

ABC Bank Limited is one of Zimbabwe's leading financial institutions, providing a wide range of banking and financial services. Established in XXXX, the bank has evolved over the decades to become a significant player in the country's financial sector. With its headquarters in Harare, ABC Bank operates through a network of branches, ATMs, and digital platforms, catering to a diverse customer base including individuals, small to medium enterprises (SMEs), corporates, and institutions.

HISTORICAL BACKGROUND

ABC Bank's history dates back to XXXX. Ten years later, the financial services organization from which the bank originated had grown to nine branches countrywide. That organization was sold to the XYZ in XXXX. In XXXX, the company rebranded itself as the Rhodesia Banking Corporation, and in XXXX, it was renamed XYZ. After the government acquired a majority stake in the company, it adopted the name Zimbabwe Banking XYZ in XXX.

In XXXX, the company underwent restructuring and became part of XYZ Limited, a holding company. This restructuring enabled the bank to function as an independent subsidiary within a broader financial conglomerate that included various non-banking financial services subsidiaries. Over time, the acquisition of additional subsidiaries expanded the group's offerings to include services such as commercial banking, hire purchase, and leasing.

On October XX, XXXX, the group rebranded itself and officially changed its name to ABC Holdings Limited. This rebranding took place alongside its merger with the former XYZ Holdings. The merger brought new subsidiaries into the group, including a bank, two insurance companies, and a building society, all of which adopted the ABC brand.

ABC HOLDINGS LIMITED (ABCHL)

ABC Holdings Limited is an innovative and dynamic holding company providing a comprehensive range of financial services, including commercial and merchant banking. The group is publicly traded on the Zimbabwe Stock Exchange and is organized into three main clusters: banking, insurance, and investment. The flagship of ABCHL is ABC Bank, which is part of the banking cluster along with ABC Building Society. XYZ Microfinance Institution, wholly owned by ABCHL, is strategically placed within the investment cluster. The Group also extends its reach into reinsurance, operating in Botswana through XYZ Reinsurance, another wholly-owned subsidiary of ABCHL.

VISION

To be the leading, globally acclaimed financial services firm of choice in Africa.

MISSION

To create happy people by providing exceptional financial services that improve lives.

BRANCH NETWORK

ABC Bank operates an extensive branch network across Zimbabwe, ensuring accessibility to customers in both urban and rural areas. The bank has invested significantly in digital banking infrastructure, allowing customers to perform transactions, access services, and manage their finances through mobile apps and online platforms. The bank has XX service centres across the country's ten provinces. The bank's operations are present in all the cities, as well as most of the major towns in Zimbabwe.

PRODUCTS AND SERVICES

Personal Banking

The bank provides an extensive selection of retail banking products designed to meet the diverse needs of individual customers. These include savings and current accounts, fixed deposits, personal and vehicle loans, and credit cards. The bank is dedicated to serving various customer segments and offers competitive interest rates across its products.

Corporate Banking

The bank's Corporate Banking division offers a comprehensive suite of services tailored to meet the diverse needs of businesses. This includes specialized financing for the mining and energy sectors, providing critical support for large-scale projects and operations. Manufacturing companies benefit from dedicated financial solutions like working capital loans and equipment financing, aiding in production and growth. Corporate loans and overdraft facilities offer flexibility in managing cash flow and funding business expansions, while advisory services are also offered on strategic financial decisions. Additionally, corporate current and savings accounts help businesses manage funds efficiently, offering competitive interest rates and easy access to liquidity.

Treasury and Investment

The bank's Treasury and Investments division offers a range of services designed to optimize financial management and investment strategies for clients. These services include fixed deposits and savings deposit accounts for secure savings with competitive returns and Treasury bills for short-term, low-risk investments. Bankers' acceptances provide flexible financing options, while foreign currency accounts and foreign lines of credit facilitate international transactions and financing. Additionally, the division offers structured facilities, providing customized financial solutions tailored to meet specific client needs and investment goals.

International Banking

ABC Bank is also providing services to support global business operations and trade. Its key offerings include correspondent banking, which facilitates international transactions through a network of global partner banks; commodity finance; and import-export finance, which provides tailored financial solutions for trading raw materials and goods across borders. The bank also offers exchange control and advisory services to help clients navigate complex foreign exchange regulations. Clean documentary collections and documentary letters of credit are provided to ensure secure and efficient handling of international trade transactions, offering assurance to both buyers and sellers in cross-border deals.

Custodial Services

The bank's custodial services provide comprehensive support for managing and safeguarding client assets. These services include safe custody of valuable assets, securities registration, and accurate valuations to ensure proper record-keeping and asset protection. The bank facilitates seamless securities settlement and manages the receipt of payments for sold securities and dividends on behalf of clients. Additionally, the bank handles corporate actions, including rights issues, takeover bids, redemptions, and scrip dividends, ensuring that clients' interests are effectively managed and executed in line with their investment strategies.

MARKET COMPETITION

ABC Bank operates in a competitive environment within Zimbabwe's banking sector, which currently consists of 19 banking institutions. This includes ABC Bank and its affiliate, ABC Building Society. The sector is divided into 14 commercial banks, 4 building societies, and 1 savings bank. Excluding ABC Building Society, ABC Bank competes directly with 17 other banking institutions.

Additionally, the financial services landscape has become increasingly competitive, both globally and locally. This has led to growing competition from non-traditional entities such as microfinance institutions (MFIs), mobile network operators (MNOs), money transfer agencies (MTAs), and various payment platforms, among others.

Under the regulatory oversight of the Reserve Bank of Zimbabwe (RBZ), there are also 239 credit-only microfinance institutions and 8 deposit-taking microfinance institutions (DTMFIs). The RBZ further supervises 4 development finance institutions.

ABC BANK'S COMPETITIVE ADVANTAGES

Extensive Geographical Presence: The bank boasts a network of 46 service centres across Zimbabwe. In areas where physical branches are not present, the bank has established agency banking arrangements to ensure accessibility.

Customer-Centric Business Model: The bank has implemented a distinctive "One ABC" model, making it the only financial institution in Zimbabwe to successfully transform its branches into one-stop service centres. These centres cater to customers across the ABC Holdings Group, providing services in banking, insurance, and investments.

Long-Standing Brand Stability: The bank has maintained a stable and resilient brand since its inception in 1951, demonstrating consistent growth and trust within the market.

Highly Skilled Workforce: The bank prides itself on its talented and skilled human capital, which plays a crucial role in delivering superior customer service and innovative solutions.

Unique Educational Sector Value Proposition: ABC Bank has established a strong presence in the education sector, banking over 60% of primary and secondary schools in Zimbabwe. Additionally, the bank is a significant supporter of tertiary education in the country.

MARKET SHARE

The bank is one of the top six banks in Zimbabwe, with a XX market share of total deposits as of 31st March 2024.

ACHIEVEMENTS

The bank has registered its achievements in the industry over the years and continues to grow its asset and liability portfolio through a well-crafted business model that is premised on business intelligence, relationship management, and adherence to the best banking practices. The bank has positioned itself as the preferred choice for customers when it comes to retail, businesses, and high-net-worth SMEs for corporate banking, all of whom desire to experience world-class service and financial solutions.

The bank has a long history of stability as one of the oldest banking institutions in Zimbabwe, having been established in 1951. It is surviving and growing in a challenging environment, whose headwinds over the years have included, among others, hyperinflation, OFAC, and targeted US sanctions. ABC Bank is the pioneer of the service centre concept in Zimbabwe by converting bank branches into customer service centres under a unique customer centric One ABC business model. These service centres serve all ABCHL Group customers under banking, insurance, and investment clusters.

LEADERSHIP REVIEW

BOARD OF DIRECTORS

The Board of Directors of ABC Bank is responsible for overseeing the governance, strategy, and operations of the bank, ensuring alignment with both regulatory requirements and the institution's long-term objectives. Comprising experienced professionals from diverse sectors, the board plays a critical role in providing strategic guidance and effective leadership to the bank.

The composition of the board currently comprises nine members, which is a mix of executive directors and non-executive directors. This balanced mix ensures that there is both operational insight from within the bank and independent oversight. The Board members bring expertise in finance, banking, law, and corporate governance, enabling robust decision-making and effective oversight.

The Board formulates the strategic direction of the bank, including its expansion plans, product innovation, and risk management strategies. They monitor the execution of these strategies by senior management to ensure alignment with shareholder and stakeholder interests.

The Board regularly interacts with various committees, which help to streamline the management of key operational areas. Their engagement with these committees ensures a collaborative approach to addressing risks and operational challenges, such as those arising from customer complaints and litigation issues currently affecting the bank.

Name of Director	Position	Date of Appointment	Qualifications
XXXX	Chairman Independent Non-Executive Director	16/06/2023	BSc Business Studies MBA, Institute of Marketing Management (IMM)
XXXX	Independent Non-Executive Director	16/06/2023	Chartered Accountant (Zimbabwe) – Institute of Chartered Accountants of Zimbabwe Bachelor of Accountancy Degree (UZ)
XXXX	Independent Non-Executive Director	16/06/2023	Master's degree in public administration, Honours in Law Degree (LLBS)
XXXX	Independent Non-Executive Director	16/06/2023	PhD in Business Administration, Master of Business Administration (MBA), Bachelor of Business Studies, Computer Science, Diploma in Banking (AIOBZ), and Fellow Chartered Governance Professional (FCGP)
XXXX	Independent Non-Executive Director	01/05/2019	B.Sc (Rural & Urban Planning) (Hon), MBA
XXXX	Independent Non-Executive Director	22/07/2019	MBA, BSc. Psychology
XXXX	Non-Executive Director	20/09/2021	Actuary, BCom (Hons), FASSA, FIA
XXXX	Chief Executive Officer	01/01/2023	BBS(Hons), MBA, AIOBZ.
XXXX	Finance Director	28/04/2014	Chartered Accountant, B. Accountancy (NUST), Bachelor of Computing Science (Accounting) (UNISA)

Table 5

BOARD COMMITTEES

The Board extensively relies on its committees by delegating a wide array of responsibilities to ensure effective independent oversight and stewardship. It is essential to maintain strong connections between the committees and the board as a whole, especially since it is not feasible for all non-executive directors to participate in every committee.

The Board has the following sub-committees to ensure a high standard of corporate governance throughout the year:

Board Credit Committee: The Board Credit Committee's primary duties include reviewing and overseeing the bank's overall lending policy. They are responsible for deliberating on loan applications that exceed the discretionary limits set by the ABC Bank Credit Committee (ABCBCCI) and reviewing lending decisions made by ABCBCCI. The committee also guides the development, evaluation, and monitoring of the bank's credit principles and policies.

Risk Management Committee: The Risk Management Committee is entrusted with ensuring the quality, integrity, and reliability of ABCHL's risk management in banking operations. This committee supports the Board of Directors in fulfilling its responsibilities related to corporate accountability and risk management, including oversight and reporting. Key responsibilities include evaluating the effectiveness of risk control systems and ensuring that risk policies and strategies are properly managed.

Loans Review Committee: This committee is primarily responsible for supporting the board in reviewing the quality of the bank's loan portfolio. The committee conducts these reviews independently of those responsible for approving credit. Its main duties include ensuring that the loan portfolio and lending practices align with a sound, documented, and Board-approved lending policy. The committee also ensures that the credit policy and risk lending limits are reviewed at least annually or as needed based on changes in the environment.

ABC Bank Executive Committee: The Committee serves as the connection between the Board and Management, responsible for executing operational plans, overseeing the annual budget, and conducting periodic reviews of the bank's operations, strategic plans, ALCO strategies, and credit proposals. It also identifies and manages key risks and opportunities. The Executive Committee is established to support the Chief Executive Officer in managing ABCHL's banking operations. This committee aids the Chief Executive Officer, steers the overall direction of the bank's operations, and facilitates communication and coordination between business units and the Board.

ALCO Committee: The ALCO is responsible for determining the optimal strategy for the bank concerning the composition of assets and liabilities, based on anticipated future conditions and their potential impact on capital adequacy, interest rate risk, liquidity risk, credit risk, foreign exchange exposure, and fund transfer pricing. The committee ensures that all strategies align with ABCHL's risk appetite and exposure levels as defined by the Risk Management Committee.

Bad Debts Review Committee: The Bad Debts Review Committee convenes at least quarterly to evaluate stressed assets, special mention loans, and non-performing loans (NPLs) and to discuss recommendations for write-offs.

Group Business Risk: The primary goal of group risk is to identify, measure, control, and monitor risks, as well as to ensure the implementation of the credit risk strategy and policies approved by the Board of Directors. Additionally, group risk contributes to the development of procedures for effective credit risk management. The unit maintains an oversight, support, and monitoring relationship with credit committees and business units, ensuring compliance with credit policies and alignment with the bank's strategy.

Group Internal Audit: Group Internal Audit offers independent assurance to the Board regarding the effectiveness of the credit risk management framework and conducts audit reviews of departments and business units in accordance with international best practices. The group internal audit assures the effectiveness of risk management processes.

MANAGEMENT TEAM

ABC Bank is led by a management team that is both highly skilled and experienced in the financial and banking sectors. Their expertise and deep industry knowledge were particularly evident during the pandemic, where they successfully steered the group through challenging times with fewer adverse impacts than many of its industry counterparts. This highlights the strong leadership and strategic acumen of the management team.

XXXX – Chief Executive Officer: With over 25 years of experience in the financial services industry, XXXX was appointed as Chief Executive Officer of the Banking Cluster at ABC Holdings in January 2023. He drives strategy and oversees the integration of banking, investments, and insurance services. He comes from a diverse background, which includes leadership positions such as Head of Retail Banking at Steward Bank and General Manager of Retail Banking at XXXX, where he steered strategic initiatives across retail banking, digital channels, and high-value segments. He has also served as a managing consultant at XXXX Capital, advising on strategy, governance, and risk management. His expertise extends to board-level roles, including Non-Executive Director at XXXX Development Trust and Vice Chairman of the Executive Committee at the Zimbabwe Association for XXXX. Additionally, he has contributed to the banking sector as Head of Risk at and as a Senior Bank Examiner at the XXXX Bank of Zimbabwe, with early career experience in various financial services roles.

XXXX – Finance Director:

XXXX is currently the ABC Bank Finance Director and has held this position since 16 September 16, 2020. He has been serving in the ABC Holdings Limited Group in various financial roles since 2005. He is a highly motivated person with over 14 years of working experience in senior managerial and financial positions in financial institutions. XXXX has vast experience in accounting, financial management, Treasury management, procurement services, strategy, as well as insurance operations. He had an opportunity to acquire regional experience when he worked in Zambia from 2007 to 2008 as the acting finance manager for XXXX Banking Corporation Limited Zambia. His human resources experience includes leading the finance teams and being responsible for managing the human capital cost strategies. XXXX also sits on the board of directors for XXXX Investments Limited.

XXXX – Chief Risk Officer: XXXX has extensive experience in risk management and financial supervision, currently serving as the Chief Risk Officer at ABC Holdings since April 2018, where he oversees the risk management function, develops comprehensive risk frameworks, and ensures regulatory compliance. Before this role, he was the Group Head of Operational and Market Risk (Deputy CRO) from July 2012 to March 2018, where he managed the identification, measurement, and monitoring of operational, market, and regulatory risks while developing risk management frameworks aligned with international standards. Before joining ABC Holdings, he served as a bank examiner in the Financial Modelling & Basel II Division at the XXXX Bank of Zimbabwe from July 2008 to June 2012, where he assessed financial models and ensured compliance with Basel II standards. His career began at the XXXX Bank of Zimbabwe as a Field Facilitator in Exports and Exchange Control from October 2006 to June 2008, where he ensured compliance with exchange control regulations for export transactions.

XXXX – Executive Head of Digital Banking: Hope is a seasoned executive with extensive experience across the financial services industry, currently serving as the Executive Head of Digital Banking at ABC Holdings since September 2023. Before this role, she held the position of Country Head of Retail & Business Banking at BancABC for over four years, where she demonstrated strong leadership in driving retail and business banking initiatives. She has also served in various senior roles, including Head of Marketing, Client Experience & Corporate Affairs at XXXX Zimbabwe, and General Manager of Retail Banking & Operations at XXXX. With a career spanning over two decades, XXXX has developed a diverse skill set that includes strategic leadership, digital transformation, customer experience management, and business development.

XXXX – Group Head Internal Audit: XXXX has vast experience in finance and auditing. He began his career as an auditor at XXXX, where he worked with major clients across various sectors. He then transitioned into banking, holding roles such as management accountant at XXXX Corporation and head of finance and senior accountant at XXXX Banking Corporation, where he contributed to the setup of key financial and administrative systems. He further advanced to Head of Finance and Administration at ABC Reinsurance, overseeing multiple critical functions. Currently, he is serving as Group Head of Internal Audit at ABC Holdings and as a Non-Executive Director at XXXX Reinsurance, playing a key role in the strategic and operational leadership of these institutions.

XXXX – Group Head Compliance: XXXX has been working with ABC Holdings for nine years and is currently heading the compliance segment of the group. He is a Certified Anti-Money Laundering Specialist (CAMS) and a certified Associate of the Institute of Bankers of Zimbabwe (AIBZ) and South Africa (CAIBSA). His professional experience spans across banking, auditing, internal controls, insurance, and AML/CFT compliance. XXXX has honed his expertise in compliance practices, internal controls, and anti-financial crime measures, bringing a robust understanding of the financial regulatory environment in Zimbabwe.

CORPORATE GOVERNANCE

Corporate governance involves balancing the interests of various stakeholders, including shareholders, management, customers, employees, suppliers, the government, and the community. In the context of a bank, the board of directors plays a crucial role in corporate governance. The Board of ABC Bank has separate committees, the board credit committee, the board risk management committee, the board audit committee, and the board executive committee, which reflect a high standard of corporate governance throughout the bank. Additionally, the bank's operations are managed by a skilled and professional team, reflecting a strong commitment to operational excellence, efficient resource allocation, and the pursuit of strategic goals that drive overall performance.

Effective corporate governance is essential for the bank's long-term success and sustainability. It guarantees that the bank functions with transparency, accountability, and integrity, effectively managing risks and protecting the interests of all stakeholders.

RISK MANAGEMENT FRAMEWORK

ABC Bank's risk management framework is a comprehensive system designed to safeguard the bank's financial stability and operational integrity within the context of Zimbabwe's dynamic economic environment. This framework encompasses the identification, assessment, monitoring, and mitigation of key risks such as credit, market, operational, liquidity, and compliance risks. It aligns with both the bank's strategic goals and the regulatory requirements set forth by the Reserve Bank of Zimbabwe. The bank employs robust policies, procedures, and governance structures to manage these risks effectively, leveraging advanced analytics and technology to monitor and control potential exposures. Regular risk assessments and continuous improvements to the framework are done to ensure that the bank remains resilient against emerging threats and maintains its commitment to financial soundness and regulatory compliance.

The principal risks that may significantly impact the ABC Bank's strategies and development are mainly operational and financial, as mentioned below.

CREDIT RISK

Credit risk refers to the potential for financial loss arising from the failure of borrowers or counterparties to meet their contractual obligations. Managing this risk is critical to maintaining the bank's financial health and ensuring long-term sustainability. ABC Bank implements a robust credit risk management framework that includes thorough credit assessments, stringent lending criteria, and ongoing monitoring of the credit portfolio. The framework also incorporates credit risk mitigation techniques, such as collateralization and diversification of the loan portfolio, to minimize exposure to any single borrower or sector. Additionally, the bank conducts regular stress testing and scenario analysis to evaluate the impact of adverse economic conditions on its credit exposures. By maintaining a proactive approach to credit risk management, ABC Bank aims to protect its asset quality, ensure compliance with regulatory capital requirements, and sustain profitability.

The latest credit risk assessment of ABC Bank indicates an increasing credit risk, primarily driven by a rise in the non-performing loan (NPL) ratio, which is noted at 14.36% in July, 12.18% in August, and 11.52% in September 2024, compared to 2.64% in June 2024. These are considerably above the regulatory threshold of 5%. Strict monitoring is highly warranted, especially for clients who have large exposures and are delinquent. The deteriorating trend in the NPL ratio suggests that a growing number of borrowers are struggling to meet their repayment obligations, which poses a threat to the bank's asset quality and financial stability. In response, the bank is likely to intensify its credit monitoring efforts, implement stricter lending criteria, and enhance its credit risk mitigation strategies, such as collateral enforcement, to manage this escalating risk. The exposure to the top 20 customers' accounts for 44.04% of the total loan book as of 30 June 2024. These customers are predominantly from the services, agriculture, manufacturing, and mining sectors. ICRA considers this a potential concentration risk since a large chunk of loans and advances is concentrated among 20 customers. The bank needs to further diversify its loan portfolio to mitigate the risk of potential defaults and reduce the overall impact on its financial stability.

The bank continues to face funding pressure on USD-approved loans and facilities. There are disbursement backlogs for these facilities, which may harm the reputation of the bank and pose legal consequences in case the bank fails to honour its commitment to extend facilities. The management is expected to abruptly regularize this position of the bank to avoid any financial and reputational loss.

CAPITAL RISK

There is a risk that the bank won't have enough capital to support its regular business operations and satisfy regulatory capital requirements under typical operating circumstances. ABC Bank has developed an Internal Capital Adequacy Assessment Plan (ICAAP), which defines capital targets, stress testing, and risk appetite across various sections of the bank. The minimum regulatory capital requirement for a commercial bank in Zimbabwe is set at US$ 30 million. ABC Bank maintains a capital level well above the regulatory requirement, providing a strong buffer against potential risks. The bank's capital adequacy ratios also surpass the minimum regulatory requirements. While the current capital adequacy offers a safeguard, the bank must continue to enhance its risk management practices and diversify its loan portfolio to ensure that its capital remains resilient against future shocks.

INTEREST RATE RISK

The profitability of banks is susceptible to fluctuations in interest rates. The value of assets and liabilities can change in response to a swift and considerable change in interest rates, which can influence net interest income. ABC Bank's loan products offer a floating rate, which becomes a natural hedge against adverse interest rate movements. Changes in interest rates can significantly impact the bank's net interest margin, asset values, and overall profitability. A rise in interest rates could increase the cost of funding, while a decline could reduce the return on the bank's interest-earning assets, particularly loans and securities. The bank's reliance on short-term deposits for funding adds to this risk, as any sudden changes in interest rates could lead to a mismatch between the interest rates on its assets and liabilities. To manage this risk, ABC Bank must actively monitor interest rate movements, implement effective asset-liability management strategies, and consider hedging techniques to protect against adverse rate fluctuations.

LIQUIDITY RISKS

This is the risk that a bank may not have sufficient liquid assets to meet its short-term obligations. It can arise from mismatches between assets and liabilities as well as abrupt changes in deposit levels. The bank's liquidity position is influenced by the volatile economic environment and the potential for sudden withdrawals by depositors, particularly in times of financial stress. ABC Bank maintains a liquidity ratio well above the regulatory threshold and internal benchmark. However, there has been a declining trend in the bank's liquidity ratio, indicating some early signs of liquidity challenges.

The bank's top five depositors account for 80.72% of the bank's total deposits as of June 2024, indicating a rather significant focus on these customers and ultimately exposing the bank to depositor concentration risk. Despite the modest liquidity ratio, the bank is still vulnerable to liquidity risk due to the potential for sudden large withdrawals by depositors, particularly given the concentration of deposits among a few key customers. To diversify its deposit base and lower concentration risk, the bank must have a plan in place for managing depositor concentration risk through aggressively soliciting new deposits, diversifying its funding sources, and implementing stringent liquidity management practices, including stress testing and contingency planning.

MARKET RISK

ABC Bank is exposed to market risk, which arises from fluctuations in market variables such as interest rates, exchange rates, and equity prices. Given the volatile economic conditions in Zimbabwe, the bank faces the risk of adverse movements in these factors, which could negatively impact its earnings and capital. For instance, significant currency depreciation could lead to losses on foreign currency-denominated assets, while sharp changes in interest rates could affect the value of the bank's investment portfolio. Additionally, exposure to the local stock market may result in valuation losses during periods of market downturns. To manage market risk, ABC Bank must employ comprehensive risk assessment and monitoring processes, diversify its investment portfolio, stress testing in extreme scenarios, and consider the use of hedging strategies to protect against adverse market movements.

FOREIGN EXCHANGE RISK

ABC Bank faces significant foreign exchange risk due to the country's volatile currency environment and the bank's exposure to foreign currency transactions. This risk arises from fluctuations in exchange rates, which can lead to substantial losses if the value of the Zimbabwean dollar depreciates against other currencies. The bank's foreign currency-denominated assets and liabilities, as well as its involvement in cross-border transactions, make it vulnerable to exchange rate volatility. As of 31

December 2023, ABC Bank had an aggregate net open foreign exchange position equivalent to 0.48% of the bank's capital. This very low exposure indicates a conservative approach to managing foreign exchange risk, suggesting that the bank has limited its vulnerability to fluctuations in exchange rates.

The Reserve Bank of Zimbabwe has implemented a number of policies to reduce foreign exchange risk, one of which is the replacement of the Zimbabwean dollar with a new currency, 'Zimbabwe Gold', or ZiG, which is backed by gold and is valued at a rate of 13.56 ZiG for every US dollar. Additionally, the regulator changed the bank policy rate from 130% per annum to 20% per annum. ABC Bank has adopted robust risk management strategies, including currency hedging, careful monitoring of exchange rate movements, and maintaining a balanced foreign currency position.

OPERATIONAL RISK

ABC Bank faces operational risk, which stems from the potential for losses due to failures in internal processes, systems, human errors, or external events. The bank operates in a complex and rapidly changing environment, where operational risks are heightened by factors such as technological disruptions, fraud, and regulatory changes. Employees were concerned about their job security in light of the proposed merger between XYZ and ABC. However, as clarified by the management of ABC Bank, the merger has been put on hold for three years. Mergers often lead to uncertainty within the workforce, as employees may worry about potential redundancies, changes in roles, or restructuring that could affect their positions. As a result of this, people are more likely to change employment while the bank still needs their skill set. To address these concerns, transparent communication from management is crucial, providing clarity on the proposed merger's impact and offering reassurances or support to those affected. Managing these concerns effectively is essential to maintaining employee morale and ensuring a smooth transition during the merger process.

Additionally, the reliance on legacy systems and the need for continuous updates to maintain cybersecurity resilience present ongoing challenges. Human errors, whether in transaction processing, compliance, or risk management, can also lead to significant financial and reputational damage. To mitigate operational risk, ABC Bank must invest in modernizing its IT infrastructure, enhance employee training, and strengthen its internal controls and risk management frameworks. Regular audits, incident reporting, and contingency planning are essential to ensure that the bank can quickly identify and respond to operational failures, thereby safeguarding its assets and reputation.

COMPLIANCE AND LEGAL RISK

The bank faces compliance and legal risks, which arise from the potential for regulatory breaches, legal disputes, or non-compliance with laws and regulations. The dynamic regulatory environment in Zimbabwe, coupled with the increasing complexity of financial regulations, heightens these risks. The bank must navigate stringent anti-money laundering (AML) requirements, data protection laws, and evolving banking regulations, any breach of which could result in significant financial penalties, legal actions, and reputational damage.

ABC Bank is currently engaged in litigation with various external parties, which adds to its compliance and legal risks. These ongoing legal disputes can lead to financial liabilities, reputational damage, and potential disruptions to the bank's operations. To mitigate these risks, the bank must adopt a proactive legal strategy, ensuring that its legal team is well-prepared to handle these cases effectively. Additionally, the bank should focus on strengthening its internal controls and compliance practices to minimize the likelihood of future legal challenges.

REPUTATION RISK

Reputation risk arises from various factors such as customer dissatisfaction, regulatory breaches, legal disputes, or negative media coverage. In a highly competitive and scrutinized financial sector, maintaining a strong and positive reputation is crucial for the bank's long-term success. ABC Bank is facing an increase in customer complaints due to frequent downtime of ABC swipe cards and prolonged reversals of failed transactions. These issues have the potential to significantly damage the bank's reputation, as customers may perceive the bank as unreliable and inefficient in handling their transactions. The frustration and inconvenience caused by these technical problems can lead to a loss of customer trust, driving them to seek alternative banking options. To mitigate this reputation risk, ABC Bank must urgently address the technical issues causing downtime and delays, improve the efficiency of transaction reversals, and enhance its customer service to reassure and retain its clientele. Proactive communication with customers about the steps being taken to resolve these issues can also help in maintaining trust and minimizing reputational damage.

RISING RISKS THREATENING ABC BANK'S STABILITY

The overall upward trend in ABC Bank's risk management indicators is a growing concern, as it poses a significant threat to the bank's financial stability. This increase in risk is reflected in the rising levels of non-performing loans, concentration risk in loans and deposits, escalating customer complaints, ongoing litigation, and heightened concerns among employees regarding job security due to the proposed merger with XYZ. Additionally, the bank's exposure to various risks, including operational, compliance, legal, and reputational risks, further exacerbates the situation. If these risks are not effectively managed, they could lead to substantial financial losses, erode capital reserves, and undermine the bank's long-term viability. To safeguard its financial stability, ABC Bank must adopt a more aggressive risk mitigation strategy, focusing on strengthening its internal controls, enhancing risk monitoring processes, and ensuring that its risk management framework is robust enough to handle the increasing challenges.

MACRO ENVIRONMENTAL ANALYSIS

COUNTRY RISK REVIEW

Zimbabwe, officially the Republic of Zimbabwe, is a landlocked country in southern Africa, between the Zambezi and Limpopo Rivers, bordered by South Africa to the south, Botswana to the southwest, Zambia to the north, and Mozambique to the east. The capital and largest city is Harare, and the second largest is Bulawayo. The economy has excellent human capital, comparable to that of upper-middle-income economies in Sub-Saharan Africa, although some skill shortages are emerging in some sectors. Moreover, Zimbabwe possesses abundant mineral and natural resources that, if well managed, can support the country's development objectives.

In March 2022, the Financial Action Task Force (FATF) removed Zimbabwe from the 'grey list' of countries. Several international banks had cut off correspondent relationships with Zimbabwean banks as part of their de-risking strategy. Except for Standard Chartered and FBC Bank, Zimbabwean banks no longer have direct correspondent banking relationships with the United States. Stanbic, Ecobank, and Nedbank have indirect correspondent banking relationships through their foreign ownership structures.

POLITICAL ENVIRONMENT

Robert Mugabe became Prime Minister of Zimbabwe in 1980 when his ZANU-PF party won the general election following the end of white minority rule and has remained the country's dominant party since. He was the President of Zimbabwe from 1987, after converting the country's initial parliamentary system into a presidential one, until his resignation in 2017. From 1997 to 2008, the economy experienced a consistent decline (and, in the latter years, hyperinflation), though it has since seen rapid growth after the use of currencies other than the Zimbabwean dollar was permitted. In 2017, in the wake of over a year of protests against his government as well as Zimbabwe's rapidly declining economy, a coup resulted in Mugabe's resignation. Emmerson Mnangagwa has since served as Zimbabwe's president.

ECONOMIC LANDSCAPE

Zimbabwe's economic progress remains hindered by multiple challenges. In 2023, as per the World Bank, the real GDP is estimated to have increased by 5.5%, following a 6.5% rise in 2022, driven by growth in agriculture, mining, and services boosted by remittances. However, economic activity in Zimbabwe falls short of its potential due to macroeconomic volatility caused by monetary instability, significant exchange rate distortions, high inflation, and erosion of the fiscal revenue base. This is further worsened by underinvestment due to the difficult business environment, raising the cost of doing business, and power shortages, which are estimated to cost Zimbabwe 6.1% of its GDP per year. However, tailwinds include Zimbabwe being one of the fastest-growing SADC economies in 2023 and 2022.

INFLATION CRISIS

In 2024, inflation is estimated to remain high due to the local currency losing value. In February, annual inflation rose for the fourth consecutive month, driven by sharp depreciation in both official and parallel foreign exchange markets. The annual inflation rate increased from 26.5% in December 2023 to 47.6% in February 2024. Additionally, the official exchange rate depreciated by 788% in 2023, and the parallel market premium was estimated at 30% as of February 2024.

BUDGETARY CHALLENGES

Real GDP was estimated to have increased by 5.5% in 2023 cf. 6.5% growth in 2022 on the back of expansion in agriculture, mining, and remittances-induced services growth. Fiscal pressures grew in 2023 due to national elections and the transfer of the Reserve Bank of Zimbabwe's (RBZ) external liabilities to the Treasury. The government raised civil servants' salaries in both foreign and local currency. The Treasury assumed responsibility for servicing USD 1.8bn in RBZ's external debt. Additionally, some revenue proposals from the 2024 budget were reversed, raising concerns about the budget's credibility. Despite this, taxes like the sugar tax led to higher prices. The current account surplus decreased in 2023 as remittances from non-governmental organizations declined.

The national budget's overall deficit was 1.5% of the GDP in 2023, equating to USD 336.8bn. Furthermore, additional financing requirements of USD 575.5bn were prevalent, inclusive of amortisation of loans and government securities of USD 248.6bn. Due to the inflationary pressures of the economy, which peaked from May to June 2023, the macroeconomic fiscal framework was revised, including one that widened the budget deficit to USD 3.6tn in nominal terms. This also led to the revision of the borrowing plan for 2023.

MOUNTING EXTERNAL DEBT

Zimbabwe's external debt has surged significantly in recent years, largely due to external arrears and legacy debt. The debt increased from USD 9.5bn in 2018 to USD 17.5bn in 2023, which approximately represents a rise from 26% to 95% of GDP. This increase is partly attributed to debt arrears, as the Government of Zimbabwe ceased servicing its external debt in 2000. By 2023, Zimbabwe's external arrears had accumulated to USD 6.9bn, mostly owed to international financial institutions including the World Bank, the IMF, the Arab Bank for Economic Development in Africa, the OPEC Fund for

International Development, and the Kuwait Fund. It is noteworthy that the World Bank's lending program in Zimbabwe is inactive due to arrears, and the role is now limited to only providing technical assistance and analytical work through Trust Funds. Currently, the government is executing an arrears clearance and debt resolution strategy, which is crucial for resolving debt issues and securing financial support. As part of this strategy, Zimbabwe resumed token payments to multilateral creditors in 2021.

FISCAL AND ECONOMIC CHALLENGES

The fiscal balance was in surplus during the first half of 2023 as the government slowed spending to contain inflation and exchange rate pressures. The government transferred all quasi-fiscal operations from the Central Bank to the Treasury, and this will increase interest payments during the second half of 2023. The current account surplus narrowed during the first half of 2023 as the widening of the trade deficit outpaced the growth of remittances.

Despite a decline in extreme poverty since 2020, poverty levels remain significant (estimated at 44% in 2022) due to fluctuating agricultural production and elevated food prices. The ongoing inflation, reliance on low-productivity agriculture, slow structural changes, and periodic shocks such as droughts, natural disasters, and the COVID-19 pandemic have all contributed to the high levels of poverty and vulnerability in Zimbabwe. Additionally, the high, unsustainable debt and arrears to international financial institutions (IFIs) further limit its fiscal flexibility and growth potential.

FOREIGN EXCHANGE SHORTAGES

Zimbabwe suffers from a shortage of foreign exchange. To address the shortage, the Government of Zimbabwe implements a foreign currency retention system where exporters must convert a proportion of their export receipts (currently 25 percent) into local currency at the official interbank market rate. This acts as a tax on exporters, particularly when there is a significant gap between the interbank and parallel market rates. Exporters consistently lose money when forced to exchange U.S. dollars at the interbank rate. International firms have also faced challenges in repatriating profits.

IMPORTS AND EXPORTS

According to the Reserve Bank of Zimbabwe annual report, merchandise exports marginally rose by 2.9% from USD 7000.2m in 2022 to USD 7203.5m in 2023, largely driven by agricultural and manufactured exports. During 2023, merchandise imports rose by 6.5% to USD 8656.4m, from USD 8131.8m in 2022. The growth was driven by increased imports of fuel, machinery, electricity, and grain.

OUTLOOK AND RISKS

Real GDP growth is expected to decline further to 3.3% in 2024, partly due to structural bottlenecks, macroeconomic instability caused by high inflation and severe exchange rate volatility, an El Niño-related drought, and lower commodity prices. The El Niño-induced drought will impact most rain-fed crops and may worsen electricity supply shortages. However, ongoing increases in remittances will help boost growth in services (wholesale and retail trade) and construction. Inflationary pressures will rise in 2024 due to drought conditions and domestic tax increases. The fiscal deficit is expected to widen in 2024, driven by high-interest payments on external debt, spending related to drought mitigation, wage pressures, and the reversal of several budget revenue measures. The fiscal deficit is projected to reach 2.5% of GDP in 2024 before decreasing to under 2% in the medium term. The current account surplus is anticipated to shrink further due to increased imports prompted by drought conditions and lower commodity prices.

Zimbabwe's risk outlook remains precarious due to the confluence of economic, political, and social challenges. The country faces significant inflationary pressures, driven by currency instability and a reliance on imports, which has eroded purchasing power and increased the cost of living. Political uncertainty, marked by governance issues and policy inconsistencies, further undermines investor confidence and economic stability. Additionally, the drought and agricultural challenges threaten food security and livelihoods. Despite these challenges, efforts towards economic reforms and international re-engagement offer a glimmer of hope, but substantial risks persist in the near to medium term.

BANKING INDUSTRY IN ZIMBABWE

OVERVIEW

Zimbabwe has a well-developed banking sector modelled on the British system. The Reserve Bank of Zimbabwe (RBZ) is the central bank that, following years of dollarization, is once again responsible for monetary policy with the reintroduction of the local currency, the Zimbabwe dollar, in 2019. The government allows the U.S. dollar to be used for all domestic transactions to facilitate economic activity.

The rest of the banking system is composed of commercial banks, which are the largest subsector; merchant banks, whose function is to finance trade, underwrite rights offerings of listed companies, and assist in mergers and acquisitions; building societies, which provide mortgages for real estate transactions; the People's Own Savings Bank, a government-owned bank; development financial institutions; and microfinance institutions. Other key players in Zimbabwe's financial sector include insurance companies, pension and provident funds, investment trusts, and offshore portfolio investors. The re-introduction and collapse of the Zimbabwe dollar have challenged balance sheets for many banks, particularly when U.S. dollar assets were converted into local currency balances while U.S. dollar liabilities remained.

The banking sector in Zimbabwe plays a critical role in the country's economy, providing essential financial services including savings accounts, loans, and payment systems. Despite a challenging economic environment characterized by hyperinflation, currency volatility, and regulatory changes, the sector remains a cornerstone of financial intermediation in the country.

The Zimbabwean economy has experienced significant challenges with hyperinflation and currency instability over the past decades. These conditions have affected the banking sector's performance, particularly in terms of profitability and asset management. While the introduction of the Zimbabwean Dollar (ZWL) in 2019 aimed to stabilize the currency, the sector still grapples with currency volatility and high inflation rates.

De-risking by international banks has resulted in very few international correspondent banking relationships despite FATF's decision to remove Zimbabwe from its grey list in March 2022. In addition, Zimbabwe's high external debt of approximately USD 14.4 billion limits its ability to access official development assistance at concessional rates and credit from international capital markets.

BANKING SECTOR STRUCTURE

Major Players

The banking sector in Zimbabwe is comprised of both local and international banks. Key players include commercial banks, microfinance institutions, and developmental banks. Major commercial banks like CBZ Holdings and Standard Chartered Zimbabwe have a significant presence in the market.

Regulatory Framework

The Reserve Bank of Zimbabwe (RBZ), which is the central regulatory authority, implements regulations related to monetary policy, banking supervision, and financial stability. The sector is subject to stringent regulatory requirements, including capital adequacy norms and anti-money laundering (AML) measures.

BANKING SECTOR CAPITALISATION

According to the Reserve Bank of Zimbabwe's annual report, as of December 31, 2023, all banking institutions in Zimbabwe were well-capitalized. The banking sector's average capital adequacy ratio stood at 37.21%, and the Tier 1 capital ratio was 25.64%, both of which exceeded the prescribed minimums of 12% and 8%, respectively. Over the year ending December 31, 2022, aggregate core capital saw a significant increase of 506.08%, rising from ZWL 101.38bn to ZWL 611.11bn. This growth was primarily driven by an increase in retained earnings, fuelled by revaluation gains from investment properties and translation gains from foreign currency-denominated assets.

ASSET QUALITY OF BANKING SECTOR

As of December 31, 2023, the aggregate loans and advances within Zimbabwe's banking sector reached ZWL 11.26tn, marking a 16.08% increase from ZWL 1.29tn as of December 31, 2022. This growth was primarily driven by an increase in foreign currency-denominated loans, which made up 84.67% of the total loans in the sector. The total loan-to-deposit ratio declined from 55.67% on December 31, 2022, to 49.27% on December 31, 2023. According to the Reserve Bank of Zimbabwe's report, the quality of the banking sector's loan portfolio remained sound, with the non-performing loans (NPLs) to total loans ratio at 2.09% as of December 31, 2023, well within the internationally accepted threshold of 5%.

BANKING SECTOR PERFORMANCE

In 2023, Zimbabwe's banking sector continued to be profitable, with all institutions reporting gains during the period under review. The sector's aggregate profits reached ZWL 5.7tn by December 31, 2023, a significant increase from ZWL 503.13bn in the same period in 2022. This growth was primarily driven by an increase in non-interest income, largely resulting from the revaluation of foreign currency assets and investment properties. Non-interest income accounted for 84.27% of total income (ZWL 10.45tr) as of December 31, 2023. Additionally, the sector saw improvements in key profitability metrics, with the return on assets rising from 17.43% to 23.97% and the return on equity increasing from 54.33% to 68.99% over the same period.

LIQUIDITY TREND

As of December 31, 2023, the banking sector's liquidity ratio stood at 60.33%, significantly surpassing the regulatory benchmark of 30%. This strong liquidity position was maintained as banking institutions adopted cautious lending strategies as part of their credit risk management efforts.

INDUSTRY SENSITIVITIES AND CHALLENGES

Economic Instability

The banking industry in Zimbabwe is notably sensitive to economic instability, characterized by fluctuations in inflation rates and currency values. Hyperinflation and currency devaluation have been persistent issues, directly impacting the stability and profitability of banks. This instability complicates financial planning and affects the overall economic environment in which banks operate.

Currency Volatility

Currency volatility is another significant concern. With the local currency experiencing high levels of fluctuation, banks face challenges in managing foreign exchange risks and ensuring liquidity. The instability in currency values can lead to difficulties in maintaining stable financial operations and dealing with currency shortages.

Regulatory Changes

Frequent changes in financial regulations and policies add another layer of sensitivity. Banks must continuously adapt to new regulatory requirements, including those related to anti-money laundering and capital adequacy. These changes can increase compliance costs and impact operational efficiency.

Political Risk

Political risk also plays a crucial role in the banking sector's sensitivity. Political instability can create uncertainties in the business environment, affecting investor confidence and the stability of economic policies that are vital for banking operations.

Credit Risk

Credit risk is heightened by the prevalence of non-performing loans (NPLs) and a challenging economic climate. High levels of NPLs can strain banks' financial health and impact their profitability.

Liquidity Challenges

Liquidity challenges are a significant concern due to fluctuations in deposit levels and difficulties accessing international financial markets. Banks may struggle to maintain adequate liquidity in a volatile economic environment.

Market Competition

Market competition, both from domestic and international banks, affects pricing strategies and market share. The competitive landscape requires banks to continually innovate and adjust their strategies to maintain their position.

Global Economic Conditions

Global economic conditions have an impact on Zimbabwe's banking sector. International trade relations and global economic trends can influence foreign investment flows and trade financing, which are crucial for the local banking industry.

OPPORTUNITIES

Digital Transformation

The rise of fintech and digital banking presents opportunities for Zimbabwean banks to modernize their operations, reduce costs, and enhance customer experiences. Investing in digital platforms can help banks reach underserved populations and offer more convenient services.

Economic Recovery

As Zimbabwe works towards economic recovery and stabilization, there may be opportunities for banks to benefit from improved economic conditions, increased foreign investment, and a more stable business environment.

Innovation in Product Offering

Introducing innovative financial products is crucial to staying competitive in banking and positively looking at the challenges and opportunities. Banks constantly explore new ways to meet customer needs and preferences through unique savings accounts, investment options, or payment solutions. Additionally, collaborating with fintech startups offers banks access to cutting-edge technologies and fresh ideas, enabling them to develop innovative products more efficiently. With innovation in product offerings, banks can differentiate themselves in the market, attract new customers, and retain existing ones.

INDUSTRY OUTLOOK

The banking industry in Zimbabwe is navigating a challenging environment characterized by high inflation, currency volatility, and regulatory changes. Despite these challenges, the sector remains resilient, supported by digital transformation initiatives and diversification into non-interest income streams. However, the industry's profitability is under pressure due to a combination of declining economic activity, high operating costs, and foreign exchange shortages. Going forward, the sector's outlook is cautiously optimistic, contingent on macroeconomic stabilization, policy consistency, and the ability of banks to innovate and manage risks effectively in an unpredictable environment.

CORRESPONDENT BANKING

A correspondent bank serves as a financial intermediary between domestic and international banks, facilitating transactions on behalf of the foreign bank with the domestic institution. This third-party bank acts as an agent, offering a range of services that may include processing international wire transfers, providing treasury services, managing global investments, and supporting trade financing. The foreign bank typically pays a fee to the correspondent bank for these services.

ABC Bank has established relationships with multiple third-party financial institutions in different countries. These correspondent banks facilitate international transactions on behalf of the ABC Bank, enabling it to conduct business globally even if it does not have a direct presence in those countries. Having multiple correspondent banks also helps ABC Bank to transact in a wider range of currencies and regions and to spread out its operational risks despite the country's challenging economic environment and the complexities of the global financial system. This also means that the bank could negotiate better terms and fees, potentially lowering the cost of international transactions for its clients.

ABC Bank maintains its relationships with the correspondent banks in all major foreign currencies, including USD, EUR, GBP, ZAR, and BWP, indicating its strong global connectivity and ability to support a diverse array of international transactions for clients in various regions.

Name of Bank	Branch	Currency
XXXX	Cairo	USD
XXXX	Cairo	EUR
XXXX	Frankfurt	EUR, USD FX trades
XXXX	Johannesburg	ZAR, USD FX trades
XXXX	Gaborone	BWP
XXXX	Frankfurt	EUR, GBP, USD
XXXX	Johannesburg	ZAR
XXXX	Pretoria	ZAR (SADC RTGS SETTLEMENT:(SIRESS)

Table 6

FINANCIAL PERFORMANCE ANALYSIS

1. INCOME STATEMENT ANALYSIS

1.1 *The financial performance analysis below consists of the period of five months of 2024, from January to May, and is compared with the same period of the year 2023.*

Performance Overview

A comparison of key financial metrics suggests that the financial performance significantly plummeted. Gross interest income dropped by 30%, from USD 17.74m to USD 12.49m, while net interest income fell by 24%, from USD 12.80m to USD 9.71m. Despite a 44% drop in interest expenses, this dip appears to be the result of a smaller lending portfolio or lower interest rates. Loan impairment allowance improved a bit, going from USD 1.64m to USD 1.34m, while recoveries also improved, which helped offset some of the credit risk.

However, fair value adjustments and a large decline in exchange income were the primary drivers of the overall income's 17% decline to USD 34.27m. Lower staff and administrative costs were primarily responsible for an 18% decrease in total operating expenses, which went from USD 33.64m to USD 27.74m. Despite these efforts, a combination of declining revenue and subpar performance in other revenue streams caused profit after taxes to fall from USD 7.79m to USD 5.22m, a 33% decrease.

Declining Interest Income and Expenses

Interest income was recorded at USD 12.49m during the five months of 2024, a 30% reduction from the same period of the previous year. This drop signifies a decrease in the bank's lending activity, which could be brought on either by smaller loan volumes or lower interest rates. As a result, the net earnings from lending operations fell to USD 8.75m in 2024 from USD 11.37m in 2023, a 23% decline.

Similarly, the interest expense also witnessed a declining trend. It dropped by 44% in 2024, suggesting a reduction in the bank’s borrowing costs. Lower interest costs on fixed deposits and savings accounts were the major driving factors for the decrease in overall interest expense of the bank.

Net Interest Income			
USD	31-May-23	31-May-24 (YTD)	Change %
Gross interest income	17,741,690	12,489,324	-30%
Interest expense	(4,944,074)	(2,782,724)	44%
Net interest income	**12,797,616**	**9,706,600**	-24%
Expected credit loss (ECL)	(1,426,743)	(952,492)	33%
Net earnings from lending activities	**11,370,873**	**8,754,108**	-23%

Revenue Components			
USD	31-May-23	31-May-24 (YTD)	Change %
Net interest income	12,797,616	9,706,600	-24%
Allowance for loan impairment	(1,426,743)	(952,492)	33%
Net earnings from lending activities	**11,370,873**	**8,754,108**	**-23%**
Commission	14,353,232	20,664,046	44%
Exchange	11,590,299	1,404,577	-88%
Dividend income	272,042	5,833	-98%
Fair value adjustment	3,011,567	1,898,443	-37%
Sundry income	697,338	1,540,987	121%
Total Income	**52,666,224**	**43,022,102**	**-18%**

Interest Expense by Deposit Type				
			% Contribution	
USD (million)	31-May-23	31-May-24 (YTD)	31-May-23	31-May-24 (YTD)
Fixed	1.97	0.67	40%	24%
Savings	1.94	1.02	39%	37%
Current	0.08	0.15	2%	5%
FCA	0.12	0.14	2%	5%
Lease liabilities	0.17	0.46	3%	17%
Productive sector facility	0.08	0.10	2%	4%
Loans from other banks	0.58	0.24	12%	9%
Total	**4.94**	**2.78**	**100%**	**100%**

Table 7

Substantial Contribution of Non-Interest Income

The bank's overall income in 2024 is calculated to be USD 34.27m, a 17% drop from USD 41.30m in 2023. Of this, non-interest revenue components account for USD 29.92m or 74% of total income. This implies that the bank is growing its fee-based services and loan portfolio cautiously, as evidenced by the rise in the number of transactions in both local and international currencies. In 2024, there was a significant 44% growth in revenue from commissions and fees. This segment is the major source of non-interest income for the bank and accounts for 81% of the total non-interest income.

USD	Non-Interest Income 31-May-23	31-May-24 (YTD)	Change %
Commission	14,353,232	20,664,046	44%
Exchange	11,590,299	1,404,577	-88%
Dividend income	272,042	5,833	-98%
Fair value adjustment	3,011,567	1,898,443	-37%
Sundry income	697,338	1,540,987	121%
Total	**29,924,478**	**25,513,886**	**-15%**

Table 8

Significant cost reductions amid rising occupation and communication expenses

Significant cost-cutting measures are evident in the operational expenses for the period under review in 2024, which reflect an overall decrease of 18% from USD 33.64m to USD 27.74m. A concerted effort to streamline operations was noticeable in the 16% decrease in staff expenses and a staggering 24% fall in administrative expenses. It is noteworthy that while communication expenses went up by 64% because of improved communication infrastructure, occupation expenses increased by 68% as a result of higher rent or facility-related charges. However, there was a 24% decline in transformation (IT) expenses and a 35% decrease in transport expenses, indicating a reduction in IT-related spending. The company's attention to cost control is further demonstrated by the 17% total reduction in cash-based OPEX and the 35% fall in depreciation and amortisation (D&A) charges. This further underscores the company's emphasis on cost control, despite the increases in certain areas.

USD (million)	Operating Expenses 31-May-23	31-May-24 (YTD)	Change %
Staff	12.61	10.55	-16%
Administration	13.88	10.58	-24%
Occupation	1.13	1.90	68%
Transformation (IT)	5.09	3.86	-24%
Communication	0.25	0.41	64%
Transport	0.34	0.22	-35%
Cash based OPEX	**33.30**	**27.52**	**-17%**
D & A Expense	0.34	0.22	-35%
Total	**33.64**	**27.74**	**-18%**

Table 9

Decline in Profitability Despite Cost Reductions

The operating income of the bank before taxes dropped by 14.8%. The fall in total income had a bigger impact on operating profitability than the reduction in expenses. The bank had a 33% reduction in net profitability overall when its tax expense of USD 1.30m for the period ending in May 2024 further lowered profitability. The net profit after taxes was computed at USD 5.22m in 2024, down from USD 7.8m in 2023.

Profit & Loss Account		
USD	**31-May-23**	**31-May-24 (YTD)**
Interest income	17,741,690	12,489,324
Interest expense	(4,944,074)	(2,782,724)
Net interest income	**12,797,616**	**9,706,600**
Allowance for loan impairment	(1,639,085)	(1,342,312)
Recoveries	212,342	389,820
Net lending income	**11,370,873**	**8,754,108**
Other income		
Commission	14,353,232	20,664,046
Exchange	11,590,299	1,404,577
Dividend income	272,042	5,833
Fair value adjustment	3,011,567	1,898,443
Sundry income	697,338	1,540,987
Total other income	**29,924,478**	**25,513,886**
Total income	**41,295,351**	**34,267,994**
Operating Expenses		
Staff expenses	(12,607,533)	(10,550,654)
Other expenses	(21,027,658)	(17,194,585)
Total operating Expenses	**(33,635,191)**	**(27,745,239)**
Operating income before taxation	**7,660,160**	**6,522,755**
Tax credit / (expense)	133,487	(1,307,506)
Profit after tax	**7,793,647**	**5,215,249**

Table 10

***1.2** The financial performance analysis below consists of the period from 31 Dec 2022 to 31 Dec 2023. ICRA has considered the most recent inflation-adjusted figures for both years.*

Overall Financial Performance

The bank's non-interest income category had a major role in its strong growth in profitability during the 2023 fiscal year. Total other income climbed by nearly 270% over the prior year, driven primarily by significant increases in commission and fee income, operational income, and fair value adjustments. The bank's profitability was mainly supported by the non-interest income segment's outstanding performance, which allowed it to manage the challenges provided by a hyperinflationary environment and offset increased operating expenses. The bank's capacity to produce significant non-interest income was crucial to its financial performance for the year, even though interest income also increased. This emphasizes the bank's strategic focus on diversifying its income streams and reducing reliance on traditional lending activities to sustain and enhance profitability.

Interest Income and Expense Analysis

Interest income increased significantly in the 2023 fiscal year, from ZWL 116.09bn in 2022 to ZWL 210.18bn. This is an 81% gain, which suggests that interest-earning assets have performed well. Higher lending volumes (+54%), more placements with other banks (+957%), and more investments in treasury bills (+666%) are all attributed to this gain. It is crucial to mention that other interest and related income also saw a significant boost, rising from ZWL 78.04m in 2022 to ZWL 1.01bn in 2023, indicating better returns on other interest-making assets.

Conversely, interest expenses also increased considerably, from ZWL 26.06bn in 2022 to ZWL 94.41bn in 2023. This 262% surge in interest expense indicates a significant rise in the cost of funds, which is attributed to increased customer deposits and a significant rise in lease liabilities.

As a result, the net interest and related income increased from ZWL 90.10bn in 2022 to ZWL 116.73bn in 2023, an increase of 30%. However, this increase was partially offset by higher loan impairment charges, which rose by 62% from ZWL 32.38bn in 2022 to ZWL 52.49bn in 2023. After accounting for these impairment charges, the net interest income from lending activities increased modestly by 11%, from ZWL 57.72bn in 2022 to ZWL 64.24bn in 2023.

Interest Income Streams			
ZWL	31-Dec-22	31-Dec-23	Change %
Advances	88,878,609,956	137,015,797,864	54%
Overdraft	11,422,162,924	21,558,375,340	89%
Establishment fees	6,884,473,635	19,312,789,912	181%
Placement with other banks	1,050,761,759	11,106,339,881	957%
Financial assets at amortised cost	1,315,237,231	87,346,794	-93%
Treasury bills at FVTOCI	2,053,494,766	15,732,296,621	666%
Treasury bills at FVTPL	4,486,198,459	5,370,009,363	20%
Total	**116,090,938,730**	**210,182,955,775**	81%

Table 11

Interest Expense Segments			
ZWL	31-Dec-22	31-Dec-23	Change %
Customer deposits	16,901,087,477	27,846,017,477	65%
Placements from other banks	3,087,023,108	17,144,282,005	455%
Offshore borrowings	2,054,106,121	13,152,710,380	540%
Lease liabilities	2,915,747,970	32,634,294,411	1019%
Productive sector facility	1,105,082,844	3,633,133,113	229%
Total	**26,063,047,520**	**94,410,437,386**	262%

Table 12

Other Income Segment Contributing Significantly

The other income streams underwent a massive boost in 2023, with commission and fee income rising nearly fourfold, from ZWL 71.16bn in 2022 to ZWL 272.53bn in 2023. This substantial growth suggests a significant increase in transactional activity. Management and service fees contributed the highest in commission income structure and grew by 395% in 2023. Operating income also showed strong growth, increasing from ZWL 78.38bn in 2022 to ZWL 303.05bn in 2023, reinforcing the positive trend in non-interest income.

Fair value adjustments contributed significantly to other income, increasing from ZWL 42.18bn in 2022 to ZWL 132.82bn in 2023. Overall, total other income surged from ZWL 191.72bn in 2022 to an impressive ZWL 708.40bn in 2023, a staggering 270% increase, which had a considerable positive impact on the overall profitability of the company. This also reflects the bank's heavy reliance on non-interest income streams to drive overall profitability.

Rise In Operating Expenses

Despite the significant increase in income, operating expenses also rose sharply, almost threefold from ZWL 183.06bn in 2022 to ZWL 546.95bn in 2023. Staff expenses were the most significant factor in this increase, rising from ZWL 60.20bn in 2022 to ZWL 227.62bn in 2023, indicating the bank's substantial investment in human resources.

Administration expenses followed a similar pattern, expanding twice from ZWL 95.87bn to ZWL 199.30bn. Other categories of operating expenses, such as occupation, transport, communication, and travel expenses, also saw substantial increases, further contributing to the overall rise in costs. The sharp rise in operating expenses, while reflecting the company's growth and expansion efforts, also poses a challenge to profitability and cost management.

Profitability Analysis

Despite the significant rise in operating costs, the company reported a profit from ordinary activities of ZWL 225.69bn in 2023, more than three times from ZWL 66.37bn in 2022. This robust performance was further amplified by a net monetary gain of ZWL 147.95bn in 2023, compared to a loss of ZWL 2.18bn in 2022. This monetary gain likely reflects the company's ability to manage hyperinflationary conditions effectively, contributing positively to its financial results.

Profit before tax surged from ZWL 64.19bn in 2022 to ZWL 373.64bn in 2023, a nearly sixfold increase, underscoring the strong overall financial performance. However, the income tax expense of ZWL 6.89bn in 2023 reflects the higher taxable income generated during the year. Consequently, the profit after income tax skyrocketed from ZWL 68.46bn in 2022 to ZWL 366.75bn in 2023, showcasing the company’s remarkable growth and profitability in a challenging economic environment.

However, it is pertinent to mention that the bank is deriving its profit substantially from non-interest income, which raises potential concerns about the sustainability and stability of its earnings. While this diversification strategy helps mitigate risks associated with traditional lending activities, it also exposes the bank to different types of risks, such as market fluctuations and changes in regulatory policies affecting fee-based and investment-related income. Therefore, while the current profitability appears strong, the bank needs to focus on balancing its income sources to ensure long-term financial stability.

Profit & Loss Account		
ZWL	**2022**	**2023**
Interest income calculated using the effective interest rate method	116,090,938,730	210,182,955,775
Other interest and related income	78,039,115	1,013,690,579
Interest expense calculated using the effective interest rate method	(26,063,047,520)	(94,410,437,386)
Other interest and related expense	(5,463,604)	(54,646,840)
Net Interest and related income	**90,100,466,721**	**116,731,562,128**
Loan impairment charges, net of recoveries	(32,383,783,417)	(52,488,486,470)
Net Interest Income from lending activities	**57,716,683,304**	**64,243,075,658**
Other Income		
Commission and fee income	71,156,518,632	272,530,842,085
Operating income	78,378,983,671	303,048,788,657
Fair value adjustments	42,181,991,909	132,822,180,217
Total Other Income	**191,717,494,212**	**708,401,810,959**
Total Income	**249,434,177,516**	**772,644,886,617**
Operating Expenses		
Staff expenses	(60,200,444,872)	(227,620,410,877)
Communication expenses	(2,868,628,443)	(9,451,860,679)
Computer and information technology	(16,558,138,790)	(61,325,443,206)
Occupation expenses	(5,046,103,189)	(41,056,684,239)
Transport expenses	(1,306,564,781)	(3,977,535,652)
Travelling expenses	(1,213,872,328)	(4,217,615,210)
Administration expenses	(95,870,474,053)	(199,304,214,501)
Total operating Expenses	**(183,064,226,456)**	**(546,953,764,364)**
Profit from ordinary activities	**66,369,951,060**	**225,691,122,253**
Net monetary (loss) / gain	(2,180,077,759)	147,951,678,007
Profit before tax	**64,189,873,301**	**373,642,800,260**
Income tax (expense) / credit	4,274,286,310	(6,892,270,843)
Profit After Income Tax	**68,464,159,611**	**366,750,529,417**
Other Comprehensive Income		
Items that will not be reclassified to profit or loss		
Gain on revaluation-property, plant and equipment	1,935,566,998	60,948,016,944
Related tax	(351,328,447)	(15,048,971,306)
Items that may be reclassified to profit or loss		
Fair value gains / (loss) on FVTOCI Financial assets	(16,293,418,340)	(61,377,362,564)
Related tax	4,027,733,013	2,541,301,705
Other comprehensive income net of tax	**(10,681,446,776)**	**(12,937,015,221)**
Total comprehensive income for the year	**57,782,712,835**	**353,813,514,196**

Table 13

***1.3** The financial performance analysis below consists of the period from 31 Dec 2019 to 31 Dec 2021. ICRA has considered the most recent inflation-adjusted figures for three years. We have reviewed the yearly performance without comparative analysis amid substantial hyperinflation adjustments.*

2021 Performance Analysis: Non-Interest Income Remains the Driving Force

In 2021, the bank reported sizable amounts of revenue and profits. Total income was reported at ZWL 32.79bn, largely driven by an extraordinary increase in net interest income from lending activities, which reached ZWL 8.3bn. This was supported by substantial other income contributions totaling ZWL 24.49bn, with commission and fee income being the largest contributor of other income segments, followed by income from fair value adjustments, reflecting highly favorable market conditions for the bank. It is imperative to note that the bank followed its trend of relying on non-interest income sources, which outlines 75% of the bank's total income in 2021. The interest payments during the period were 17% of the interest income and remained on the lower side, depicting a lower rate of interest on customer deposits.

The bank incurred operating expenses at a significant cost of ZWL 24.38bn. Administration expenses are noted at ZWL 13.93bn, constituting 57% of the total operating costs. The total operating expenses represent 74% of the bank's total income in 2021. This reflects the increasing costs of operations amid hyperinflation and on a larger operational scale.

Despite the higher operating expenses, the bank reported an operating profit before tax of ZWL 8.41bn in 2021. The income tax expenses were posted at ZWL 384m, while the net monetary loss was noted at ZWL 1.62bn. Even so, the bank achieved a remarkable profit after income tax of ZWL 6.41bn, showcasing the bank's ability to leverage growth opportunities and maintain profitability even in a high-cost environment.

2020 Performance Analysis: Strong Profitability Despite High Operating Costs

The year 2020 saw the bank's total income rise to ZWL 4.70bn, reflecting growth from both net interest income from lending activities, which increased to ZWL 592.22m, and total other income, which rose to ZWL 4.11bn. The other income segment remains the steering factor, contributing 87% to the total income. Notably, the operating income stands out in the other income segment and contributed 48%, resulting in a more tempered overall performance in non-interest income. Interest payments during the period were calculated at 19% of the interest income.

Total operating expenses were calculated at ZWL 3.67bn, forming 78% of the total income. Administration expenses remain the highest contributor to operating expenses, constituting 49% of the operating cost.

Despite high operating costs, the bank maintained an operating profit before tax of ZWL 1.03bn. After a lower income tax expense of ZWL 49.69m and a net monetary gain of ZWL 31.99m, the bank posted a profit after income tax of ZWL 1.02bn. This reflects the bank's resilience in managing costs while benefiting from strong income growth across multiple streams.

2019 Performance Analysis: Sustainable Profitability Amid Strong Net Interest Margin

In 2019, the bank achieved a total income of ZWL 3bn, driven by net interest income from lending activities amounting to ZWL 353.13m and significant other income contributions of ZWL 2.646bn. Commission and fee income contributed the highest in the non-interest income segment and accounted for ZWL 1.146bn. Fair value adjustments contributed to ZWL 964.15m, highlighting strong performance from financial instruments. Non-interest income streams contributed a notable portion of 88% to the total income of the bank in 2019. The interest expense was calculated at ZWL 183.64m, representing 24% of the interest income. This suggests that the bank has a relatively low cost of funds and maintains a strong net interest margin, which is critical for sustaining profitability, especially in a challenging interest rate environment.

On the expense side, total operating expenses were noted at ZWL 1.63bn, of which administrative expenses were the largest at ZWL 788.82m. Other notable costs included communication expenses and computer and IT expenses. Despite these expenses, the bank managed to post an operating profit before tax of ZWL 1.37bn. The bank's net monetary loss of ZWL 360.83m partially offsets profits. After accounting for an income tax expense of ZWL 187.51m, the bank achieved a profit after income tax of ZWL 818.97m, reflecting healthy profitability amid a moderate cost base and solid income growth.

Profit & Loss Account			
ZWL	**2019**	**2020**	**2021**
Interest received	779,971,027	1,263,975,280	12,430,516,490
Interest paid	(183,645,000)	(236,164,301)	(2,070,405,079)
Net Interest and related income received	**596,326,027**	**1,027,810,979**	**10,360,111,411**
Loan impairment charges, net of recoveries	(243,195,794)	(435,587,166)	(2,059,999,984)
Net Interest Income from lending activities	**353,130,233**	**592,223,813**	**8,300,111,427**
Other Income			
Commission and fee income	1,146,431,976	1,701,945,193	10,791,014,634
Operating income	535,443,912	1,993,190,337	3,791,516,041
Fair value adjustments	964,147,270	419,742,847	9,910,243,245
Total Other Income	**2,646,023,158**	**4,114,878,377**	**24,492,773,920**
Total Income	**2,999,153,391**	**4,707,102,190**	**32,792,885,347**
Operating Expenses			
Staff expenses	(481,180,466)	(1,008,998,329)	(6,629,482,946)
Communication expenses	(78,381,959)	(116,804,735)	(641,462,080)
Computer and information technology	(200,055,923)	(581,938,547)	(2,299,774,438)
Occupation expenses	(52,393,378)	(115,010,158)	(680,110,557)
Transport expenses	(14,794,746)	(18,647,906)	(84,370,549)
Traveling expenses	(16,216,806)	(17,127,075)	(115,169,793)
Administration expenses	(788,819,485)	(1,812,764,517)	(13,929,402,410)
Total operating Expenses	**(1,631,842,763)**	**(3,671,291,267)**	**(24,379,772,773)**
Operating Profit Before Taxation	**1,367,310,628**	**1,035,810,923**	**8,413,112,574**
Income tax credit / (expense)	(187,510,377)	(49,694,934)	(383,999,252)
Net monetary (loss) / gain	(360,826,976)	31,998,226	(1,616,223,718)
Profit After Income Tax	**818,973,275**	**1,018,114,215**	**6,412,889,604**
Other Comprehensive Income			
Items that will not be reclassified to profit or loss			
Gain on revaluation-property, plant and equipment	554,793,173	988,767,570	18,349,991,712
Items that may be reclassified to profit or loss			
Fair value gains / (loss) on FVTOCI Financial assets	(35,020,433)	2,549,040	189,581
Related tax	(126,346,782)	(247,155,755)	(4,536,164,815)
Other comprehensive income net of tax	**393,425,958**	**744,160,855**	**13,814,016,478**
Total comprehensive income for the year	**1,212,399,233**	**1,762,275,070**	**20,226,906,082**

Table 14

2. BALANCE SHEET ANALYSIS

***2.1** The balance sheet analysis below consists of the period from 31 December 2023 to 31 May 2024.*

ASSETS ANALYSIS

Declining Asset Portfolio

The asset analysis between 31-Dec-2023 and 31-May-2024 shows a decline in total assets, which dropped by 10% from USD 358.03m to USD 321.17m. Earning assets saw a drop of 7%, driven by significant decreases in investment properties (-82%) and investment securities (-58%), despite growth in money market instruments (+23%) and treasury bills (+26%). Advances also declined by 6%. Non-earning assets fell by 14%, largely due to a substantial 85% decline in property and equipment, although cash and short-term funds saw a 53% growth, and right of use assets rose by 79%. The contribution of earning assets to the total asset base increased by 2% from 55% to 57%, indicating a slight shift towards a higher proportion of income-generating assets, despite the overall asset decline. On the other hand, non-earnings asset contribution fell from 45% to 43%.

Assets Analysis			
USD	**31-Dec-23**	**31-May-24**	**Change %**
Earning Assets			
Money market instruments	5,819,038	7,130,740	23%
Treasury bills	22,502,067	28,392,379	26%
Advances	150,847,991	141,063,349	-6%
Investment properties	2,945,438	540,544	-82%
Investment securities	15,519,857	6,588,436	-58%
Total earning assets	**197,634,391**	**183,715,448**	**-7%**
Non-earning assets			
Cash and short-term funds	68,641,273	104,910,453	53%
Right of use assets	450,300	807,938	79%
Property and equipment	65,217,157	10,089,953	-85%
Other assets	26,089,379	21,646,708	-17%
Total non-earning assets	**160,398,109**	**137,455,052**	**-14%**
Grand total	**358,032,500**	**321,170,500**	**-10%**
Earning assets contribution	**55%**	**57%**	**2%**
Non-earning assets contribution	**45%**	**43%**	**-2%**

Table 15

Loans and Advances

The loans and advances analysis for the period ending May 31, 2024 shows a notable overall decline. Gross loans by product dropped by 12% from USD 164.89m on 31-Dec-2023 to USD 145.36m on 31-May-2024. This decrease was largely driven by significant reductions in short-term loans, which fell by 12%, and offshore loans, which declined by 23%. The most substantial drop occurred in guarantees, which plummeted by 65%. In contrast, mortgage advances increased by 53%, indicating some growth in this segment and the bank's focus on this sector.

Net advances also saw a decrease, falling by 6% from USD 150.86m to USD 141.07m during the same period. The reduction in guarantee facilities and impairments contributed to this decline, with impairments seeing a sharp 74% drop, which suggests an improvement in loan quality. However, the overall downward trend in gross loans and net advances highlights potential challenges in loan demand and the bank's conservative lending approach.

Loans and Advances Analysis			
USD (million)	**31-Dec-23**	**31-May-24**	**Change %**
Gross loans by product			
Mortgage advances	9.14	13.97	53%
Short term loans	132.00	116.04	-12%
Offshore loans	16.80	12.90	-23%
Guarantees	6.95	2.45	-65%
Total	**164.89**	**145.36**	**-12%**
Net Advances			
Gross advances	164.89	145.36	-12%
Less: Guarantees	(6.95)	(2.45)	-65%
Less: Impairments	(7.08)	(1.84)	-74%
Net advances	**150.86**	**141.07**	**-6%**

Table 16

Liabilities Analysis

Deposits and other accounts representing the bulk of the bank's liabilities saw a notable increase of 12%, rising from USD 183.1m to USD 204.2m. This increase indicates growth in customer deposits, which could be seen as a positive indicator of customer confidence and liquidity inflow. There was a significant reduction in lease liabilities, decreasing by 44% from USD 1.83m to USD 1.03m. The bank's offshore borrowings declined by 22%, from USD 16.4m to USD 12.7m. This reduction might indicate the repayment of foreign debts or a strategic decision to reduce exposure to foreign currency liabilities, which could be due to foreign exchange risks or changes in the funding strategy of the bank.

Overall, the liability analysis reflects the bank's effort to reduce its liabilities in several areas while maintaining a strong position in customer deposits and other accounts. The reduction in offshore borrowings and other liabilities is particularly noteworthy, as it could suggest a more conservative approach to managing external debt and overall risk. However, the increase in deposits signals ongoing customer trust and a strong liquidity position, which is crucial for the bank's operations.

Statement of Financial Position		
USD	**31-Dec-23**	**31-May-24**
Assets		
Cash and short-term funds	41,185,018	57,666,301
Money market instruments	5,819,038	7,130,740
Treasury bills	22,502,067	28,392,379
Local banks	27,456,255	47,244,152
Advances	150,847,991	141,063,349
Investment properties	2,945,438	540,544
Investment securities	15,519,857	6,588,436
Right of use assets	450,300	807,938
Property and equipment	65,217,157	10,089,953
Other assets	26,089,379	21,646,708
Total Assets	**358,032,500**	**321,170,500**
Liabilities		
Deposits and other accounts	183,096,072	204,229,058
Lease Liabilities	1,830,959	1,032,985
Offshore borrowings	16,363,636	12,727,273
Other liabilities	50,242,786	37,501,874
Total liabilities	**251,533,453**	**255,491,190**
Total equity	106,499,047	65,679,308
Total equity and liabilities	**358,032,500**	**321,170,498**

Table 17

2.2 *The balance sheet analysis below consists of the period from 31 December 2022 to 31 December 2023.*

ASSETS ANALYSIS

Growing asset base and loan portfolio

The bank's total assets experienced robust growth, expanding from ZWL 911.03bn in 2022 to ZWL 2.17tn in 2023. This significant increase reflects the bank's strategic initiatives to enhance its financial strength and operational capabilities across various asset categories.

Cash and Cash Equivalents: The most notable increase is seen in cash and cash equivalents, which rose from ZWL 244.82bn in 2022 to ZWL 433.42bn in 2023. The bank substantially increased its deposit placements with other banks, potentially increasing its interest income. This growth underscores the bank’s improved liquidity position, ensuring it has sufficient cash on hand to meet short-term obligations and take advantage of investment opportunities.

Advances and Other Accounts: Another major contributor to the asset growth is the surge in advances and other accounts, which nearly tripled from ZWL 291.01bn in 2022 to ZWL 932.52bn in 2023. Loans and overdraft segments are the driving force for this substantial growth, which rose by 174% in 2023. The bank’s off-balance sheet exposure also grew from ZWL 48bn in 2022 to ZWL 520bn in 2023, a growth of 983%. Corporate lending represents the largest segment of the bank’s loan portfolio, with a significant amount of ZWL 1.19tn in loans advanced (off and on balance sheet exposure). This segment's growth reflects the bank’s strong engagement with large corporations, providing substantial financial support for their operations and growth initiatives. SME lending and consumer lending are the second and third largest segments of the portfolio, respectively. While this significant expansion in the bank’s lending portfolio indicates a potential boost in interest income, at the same time it also heightens the bank’s exposure to credit risk.

Advances and Other Accounts Classification			
ZWL	31-Dec-22	31-Dec-23	Change %
Loans, overdraft and other accounts at amortized cost	301,258,748,854	825,488,927,838	174%
Mortgage loans	10,456,720,724	55,765,144,946	433%
Finance leases	13,046,763,901	119,460,456,513	816%
Bills discounted	664,474,246	-	-
Gross Advances	**325,426,707,725**	**1,000,714,529,297**	208%
Less: Allowance for loan impairment	(19,620,273,637)	(46,675,713,152)	
Less: Staff benefit liability	(14,801,020,133)	(21,518,651,832)	
Net Advances	**291,005,413,955**	**932,520,164,313**	220%

Lending Segments			
ZWL	31-Dec-22	31-Dec-23	Change %
Corporate Lending	272,566,298,390	1,190,970,535,667	337%
Small Business Lending	13,169,842,301	31,884,028,832	142%
Consumer Lending	77,277,634,328	242,751,315,010	214%
Mortgage Lending	10,456,720,724	55,765,144,946	-
Total	**373,470,495,743**	**1,521,371,024,455**	307%

Table 18

LIABILITIES ANALYSIS

Growing Customer Deposits

Alongside the growth in assets, the bank's liabilities also expanded considerably, rising from ZWL 668.53bn in 2022 to ZWL 1.58tn in 2023. This increase is largely driven by a surge in customer deposits and offshore borrowings, indicating the bank's growing reliance on external funding sources to support its asset growth.

Deposits from Customers: Customer deposits, which form the bulk of the bank's liabilities, increased significantly from ZWL 516.52bn in 2022 to ZWL 1.13tn in 2023. Savings and call accounts form the largest segment of the bank's deposit base, with ZWL 800.27bn in total deposits. These accounts are typically held by individuals and businesses who seek to earn interest on their idle funds while maintaining some level of liquidity. The significant growth in this segment highlights the bank's ability to attract and retain customers looking for secure and accessible savings options. Bank deposits, totaling ZWL 144.62bn, consist of deposits made by other banks, often as part of interbank transactions or correspondent banking relationships. This is the second-biggest segment of the bank's deposit portfolio, which signifies the bank's robust standing in the interbank market and its role as a trusted counterparty for other financial institutions. The growing deposit base of the bank reflects its success in attracting and retaining depositors, a critical factor in maintaining liquidity and funding its lending operation.

Deposits Classification			
ZWL	31-Dec-22	31-Dec-23	Change %
Current accounts	67,004,274,707	81,918,521,915	22%
Savings and call accounts	382,164,630,373	800,273,228,871	109%
Term deposits	48,501,343,035	105,228,580,246	117%
Bank deposits	18,846,944,798	144,621,078,432	667%
Total	**516,517,192,913**	**1,132,041,409,464**	119%

Table 19

Deposits Contribution by Sectors				
ZWL	31-Dec-22	% Contribution	31-Dec-23	% Contribution
Private	79,034,650,823	15%	160,566,918,825	14%
Agriculture	27,774,863,410	5%	25,957,346,086	2%
Mining	11,777,131,686	2%	29,793,843,801	3%
Manufacturing	28,247,074,992	5%	21,359,793,368	2%
Distribution	18,371,102,381	4%	30,080,358,550	3%
Construction	2,708,386,698	1%	28,424,743,308	3%
Transport	2,811,561,519	1%	7,260,821,150	1%
Services	232,307,018,040	45%	477,639,154,976	42%
Financial	69,636,168,976	13%	294,301,471,743	26%
Communication	43,849,234,388	8%	56,661,957,657	5%
Total	**516,517,192,913**	**100%**	**1,132,046,409,464**	**100%**

Table 20

Trade and Other Payables: The increase in trade and other payables, from ZWL 89.28bn in 2022 to ZWL 298.98bn in 2023, indicates higher operational obligations and possibly increased business activity. The trade and other payables structure of the bank consists of items in transit, interest accrued on deposits, accrued expenses, sundry creditors, deferred income, amounts clearing to other banks, provision for guarantees, and loan impairment on loan commitments.

Offshore Borrowings: Offshore borrowings also saw a significant rise, growing from ZWL 32.27bn in 2022 to ZWL 99.90bn in 2023. This suggests the bank is leveraging international funding sources to finance its expansion, which could provide access to lower-cost capital but also expose the bank to foreign exchange risks.

Statement of Financial Position		
ZWL	**2022**	**2023**
Assets		
Cash and cash equivalents	244,824,870,638	433,419,934,265
Treasury bills	80,552,503,787	146,462,737,890
Advances and other accounts	291,005,413,955	932,520,164,313
Inventories	1,365,034,955	3,171,561,506
Trade and other receivables	54,824,804,933	129,301,289,104
Financial assets at fair value through profit or loss	39,485,612,395	77,019,349,794
Financial assets held at amortised cost	3,135,936,427	3,926,716,299
Investment in subsidiary company	101,281,198,189	222,460,212,669
Right of use assets	10,492,992,451	63,224,961,152
Intangible assets	6,637,800,401	7,334,574,015
Property and equipment	75,194,509,572	144,522,819,728
Current tax asset	-	4,954,771,931
Deferred tax asset	2,231,093,845	-
Total Assets	**911,031,771,548**	**2,168,319,092,666**
Liabilities		
Deposits from customers	516,517,192,913	1,132,046,409,464
Offshore borrowings	32,265,529,480	99,895,460,705
Trade and other payables	89,284,242,699	298,979,632,686
Lease Liabilities	28,419,198,785	40,404,309,314
Current tax liabilities	2,043,593,272	-
Deferred tax liabilities	-	11,986,358,393
Total Liabilities	**668,529,757,149**	**1,583,312,170,562**
Equity and Reserves		
Share capital	1,995,089,822	1,995,089,822
Share premium	36,320,246,459	36,390,145,325
Functional currency translation reserve	-	-
Property revaluation reserves	91,534,306,637	137,159,454,154
Investment reserves	(12,294,621,810)	(71,130,682,669)
Retained income	124,946,993,291	480,592,915,472
Total Equity	**242,502,014,399**	**585,006,922,104**
Total Equity and Liabilities	**911,031,771,548**	**2,168,319,092,666**

Table 21

***2.3** The balance sheet analysis below consists of the period from 31 December 2029 to 31 December 2021.*

ASSETS ANALYSIS (2021)

The company's total assets stand at ZWL 127.29bn, divided into various categories. The most significant asset classes include advances and other accounts at ZWL 40.02bn, which represents the largest portion of assets, reflecting the company's substantial lending and accounts receivable activities. Loans and overdrafts to the corporate segment represent the largest portion of total loans and advances. Cash and cash equivalents are also considerable at ZWL 30.26bn, indicating strong liquidity. This represents the deposit placements with RBZ and other banks. Other notable assets include property and equipment valued at ZWL 19.25bn and investment in a subsidiary company at ZWL 12.39bn, which underscores the company's investment in its subsidiary, potentially contributing to its strategic growth.

LIABILITIES ANALYSIS (2021)

Total liabilities were calculated at ZWL 87.74 billion, with deposits from customers being the most substantial at ZWL 67.96bn. This indicates the company's heavy reliance on customer deposits as a primary funding source. Trade and other payables are also substantial, totaling ZWL 12.20 billion, which reflects the company's short-term obligations to suppliers and other creditors. The company also has offshore borrowings amounting to ZWL 2.26 billion, indicating some level of exposure to foreign debt.

OVERALL FINANCIAL HEALTH

The company's liquidity appears strong during the period under review, with significant cash and cash equivalents, providing a cushion against short-term liabilities. However, the reliance on customer deposits as a major liability suggests that any significant withdrawal or reduction in deposits could impact liquidity. The equity base is solid, providing a buffer against potential losses, but the negative investment reserves could raise concerns if these losses are realized. The balance between assets and liabilities suggests sound financial management, although continued monitoring of liquidity and investment performance will be essential to maintaining financial stability.

ASSETS ANALYSIS (2020)

Total assets in 2020 were ZWL 19.99bn, with cash and cash equivalents being the most significant component, valued at ZWL 7.43bn. This indicates that the bank maintained a robust liquidity position, ensuring it could meet short-term obligations with ease. Advances and other accounts also made up a considerable portion of the assets at ZWL 4.81bn. Corporate lending in the private sector remains the focus of the bank, reflecting the largest portion of loans and advances to this segment. Property and equipment assets stood at ZWL 2.11bn, reflecting the company's substantial investment in long-term assets. Additionally, investment in a subsidiary company contributed ZWL 2.54bn, emphasizing the company's strategic investments to support growth.

LIABILITIES ANALYSIS (2020)

Total liabilities stood at ZWL 13.68bn in 2020, with the major portion coming from deposits from customers, which amounted to ZWL 11.16bn. This signifies that customer deposits were the primary source of funding for the company, underscoring the importance of customer confidence and stability. Trade and other payables were also significant at ZWL 1.40bn, which include various accrued expenses and deferred income. The presence of offshore borrowings amounting to ZWL 390.92m shows some level of foreign exposure and debt.

OVERALL FINANCIAL HEALTH (2020)

In 2020, the company displayed a strong financial position with well-balanced assets, liabilities, and equity. The high liquidity and substantial equity reserves provided the company with a strong foundation for its operations. However, the negative investment reserves indicated a need for careful management of investments to avoid potential losses. Overall, the company appeared to be in a stable financial state, with a solid structure to support future growth and stability.

ASSETS ANALYSIS (2019)

In 2019, the company's total assets were valued at ZWL 10.24bn. Cash and cash equivalents were the largest component, amounting to ZWL 4.17bn, indicating a strong liquidity position that would allow the company to meet its immediate obligations. Advances and other accounts followed at ZWL 1.83bn, demonstrating the bank's involvement in credit extension. The private corporate sector stands at the forefront of getting the major share of loans and advances. Investment in the subsidiary company was a significant long-term asset, valued at ZWL 1.59bn, reflecting strategic investments aimed at supporting the company's growth and diversification. Property and equipment were recorded at ZWL 905.91m, showcasing the company's investment in physical assets necessary for operations.

LIABILITIES ANALYSIS (2019)

The company's total liabilities for 2019 were ZWL 7.27bn, dominated by deposits from customers at ZWL 6.03bn. This highlights the reliance on customer deposits as the primary source of funding, which is crucial for maintaining liquidity and supporting lending activities. Trade and other payables were significant as well, at ZWL 726.77m, indicating the bank's short-term obligations. Offshore borrowings stood at ZWL 335.62m, showing some level of exposure to foreign debt, which could have implications for currency risk.

OVERALL FINANCIAL HEALTH (2019)

In 2019, the company demonstrated a strong financial position with a stable structure of assets, liabilities, and equity. The high liquidity and solid equity reserves provided a stable foundation for the company's overall operations. The positive investment reserves and property revaluation reserves indicated the company's strategic management of its assets, contributing to its overall financial health and readiness for future growth.

Statement of Financial Position			
ZWL	**2019**	**2020**	**2021**
Assets			
Cash and cash equivalents	4,168,810,565	7,433,858,407	30,260,873,938
Treasury bills	973,641,269	832,802,108	8,285,750,617
Advances and other accounts	1,828,863,815	4,810,006,562	40,021,778,126
Inventories	52,200,852	51,341,598	186,854,152
Trade and other receivables	167,039,604	830,277,136	6,486,457,466
Financial assets at fair value through profit or loss	126,462,247	651,919,814	7,228,386,606
Financial assets held at amortised cost	95,993,737	109,476,401	967,032,023
Investment in subsidiary company	1,594,657,624	2,536,708,281	12,387,825,532
Right of use assets	59,441,451	311,915,750	1,627,607,937
Intangible assets	271,140,015	309,069,829	587,672,171
Property and equipment	905,914,609	2,108,812,482	19,249,517,645
Total Assets	**10,244,165,788**	**19,986,188,368**	**127,289,756,213**
Liabilities			
Deposits from customers	6,033,655,651	11,157,084,945	67,964,837,457
Offshore borrowings	335,619,414	390,923,496	2,261,634,883
Trade and other payables	726,766,933	1,395,649,691	12,199,198,177
Lease Liabilities	59,441,451	333,893,214	1,341,688,787
Current tax liabilities	16,120,316	72,611,323	144,820,873
Deferred tax liabilities	93,651,422	331,081,291	3,829,382,926
Total Liabilities	**7,265,255,187**	**13,681,243,960**	**87,741,563,103**
Equity and Reserves			
Share capital	75,138,687	120,775,808	415,178,768
Share premium	1,367,886,092	2,198,701,558	7,558,253,774
Functional currency translation reserve	-	-	-
Property revaluation reserves	443,935,144	1,441,640,633	18,747,155,276
Investment reserves	89,039,206	(2,882,389)	(6,021,691)
Retained income	1,002,911,472	2,546,708,798	12,833,626,983
Total Equity	**2,978,910,601**	**6,304,944,408**	**39,548,193,110**
Total Equity and Liabilities	**10,244,165,788**	**19,986,188,368**	**127,289,756,213**

Table 22

3. CASH FLOW ANALYSIS

OPERATING ACTIVITIES

There is a significant decrease in cash generated from operating activities from ZWL 131.15bn in 2022 to ZWL 21.04 billion in 2023. Interest income almost doubled, increasing from ZWL 116.17bn in 2022 to ZWL 211.20bn in 2023, suggesting that the bank earned significantly more from its interest-bearing assets due to an increased investment in interest-generating assets. Interest expenses also increased, from ZWL 26.07bn in 2022 to ZWL 48.68bn in 2023, indicating a higher cost of funds.

The net cash generated from operating activities decreased significantly from ZWL 205.51bn in 2022 to ZWL 127.29bn in 2023. Despite higher interest income, the substantial increases in interest paid and lease liabilities contributed to the decline in net operating cash flow.

INVESTING ACTIVITIES

Proceeds from disposal of property and equipment increased substantially from ZWL 53.51 in 2022 to ZWL 1.68bn in 2023, indicating the sale of more assets in 2023. Purchase of property, equipment, and intangible assets saw substantial investments, with property and equipment purchases increasing from ZWL 20.37bn to ZWL 31.45bn. Intangible asset spending decreased from ZWL 4.82bn to ZWL 1.39bn. The cash outflow from investing activities increased from ZWL 31.81bn in 2022 to ZWL 37.17bn in 2023, indicating increased capital expenditure, particularly on property and equipment.

FINANCING ACTIVITIES

A significant increase was noted in offshore loans from ZWL 132.89bn in 2022 to ZWL 446.13bn in 2023, indicating significant new borrowing for refinancing purposes. Offshore capital repayments also increased substantially from ZWL 127.07bn in 2022 to ZWL 515.76bn in 2023, reflecting significant debt servicing, causing the cash reserves to be strained. Consequently, the net financing outflow increased drastically from ZWL 7.70bn in 2022 to ZWL 83.22bn in 2023, indicating heavy cash utilization for debt servicing and dividend payments.

The net increase in cash and cash equivalents fell sharply from ZWL 166bn in 2022 to ZWL 6.90bn in 2023. This suggests that the company was able to generate less cash in 2023, despite high borrowing and interest income. The effects of exchange rates and inflation adjustments significantly impacted cash balances, with exchange rate fluctuations adding ZWL 281.11bn in 2023, up from ZWL 48.56bn in 2022. Inflation adjustments reduced cash by ZWL 99.41bn in 2023, down from a reduction of ZWL 115.15 billion in 2022. The closing balance of ZWL 244.82bn in 2022 grew to ZWL 433.42bn in 2023, driven primarily by exchange rate gains and substantial offshore loans.

Overall, the cash flow statement for 2023 shows significant operational challenges, with decreased cash generation from core activities despite higher interest income. The bank relied primarily on offshore borrowing to maintain liquidity, but heavy debt repayments and leasing expenses put pressure on its cash reserves. Capital expenditure remained high, notably for property and equipment. The overall cash position improved as a result of exchange rate gains, but the bank's reliance on external funding, as well as the impact of inflation and interest rates, pose risks to its long-term financial stability.

The operating cash flow was positive in 2019 and 2021; however, the bank had negative cash flow from operations in 2020. This was most likely caused by a combination of significant operational cash withdrawals, increased interest and tax payments, and the inability of interest income to adequately offset these outflows. These factors suggest that the bank struggled to earn enough income from core operations to meet its financial obligations in 2020.

Statement of Cash Flow		
ZWL	**2022**	**2023**
Cash generated from operating activities	131,151,665,221	21,036,491,235
Interest received	116,168,977,845	211,196,646,354
Interest paid	(26,068,511,124)	(48,678,079,435)
Interest paid lease liability	(2,915,747,970)	(32,634,294,411)
Interest paid offshore borrowings	(2,054,106,121)	(13,152,710,380)
Income taxes paid	(12,235,435,405)	(12,629,763,239)
Dividends received	1,460,356,599	2,155,757,224
Net cash generated from operating activities	**205,507,199,045**	**127,294,047,348**
Investing Activities		
Proceeds on disposal of property and equipment	53,512,233	1,677,029,244
Proceeds on disposal of financial assets at amortised cost	-	1,025,966,387
Purchase of financial assets at fair value through profit or loss	-	(7,039,369,571)
Purchase of financial assets at amortised cost	(6,664,693,800)	-
Purchase of property and equipment	(20,374,660,003)	(31,451,484,285)
Purchase of intangible assets	(4,824,001,051)	(1,386,101,993)
Net Cash used in investing activities	**(31,809,842,621)**	**(37,173,960,218)**
Cash flow from financing activities		
Offshore loan received	132,890,846,018	446,130,408,146
Lease liability payments	(8,195,553,070)	(2,214,277,861)
Dividend paid	(5,324,611,197)	(11,378,505,357)
Offshore capital repayments	(127,067,308,240)	(515,762,476,170)
Net cash used in financing activities	**(7,696,626,489)**	**(83,224,851,242)**
Net increase in cash and cash equivalents	166,000,729,935	6,895,235,888
Cash and cash equivalents at the beginning of the year	145,414,858,029	244,824,870,638
Effect of exchange rate fluctuations on cash and cash equivalents held	48,563,266,765	281,109,840,347
Effect of inflation adjustments	(115,153,984,091)	(99,410,012,608)
Cash and cash equivalents at the end of the year	**244,824,870,638**	**433,419,934,265**
Cash on hand	92,197,930,092	206,986,298,657
Local bank accounts	81,408,060,388	185,923,538,119
Foreign bank accounts	71,218,880,158	40,510,097,489
	244,824,870,638	**433,419,934,265**

Table 23

Statement of Cash Flow			
ZWL	**2019**	**2020**	**2021**
Cash (used in) generated from operating activities	281,680,701	(961,861,791)	(3,050,017,152)
Interest received	779,971,027	1,263,975,280	12,430,516,490
Interest paid	(183,645,000)	(236,164,301)	(2,070,405,079)
Interest paid lease liability	(179,073,363)	(111,917,879)	(248,214,046)
Interest paid offshore borrowings	-	(37,295,677)	(110,357,750)
Income taxes paid	-	(69,602,074)	(2,333,693,501)
Net cash generated from operating activities	**698,933,365**	**(152,866,442)**	**4,617,828,962**
Investing Activities			
Dividends received	33,477,222	74,768,682	**830,226,079**
Proceeds on disposal of financial assets at FVTPL	142,419	-	1,371,695,661
Proceeds on disposal of property and equipment	(120,204,297)	417,629	15,775,050
Purchase of financial assets at fair value through profit or loss	(65,652,043)	-	(92,438,432)
Purchase of financial assets at amortised cost	-	-	(1,655,589,567)
Purchase of property and equipment	-	(388,254,148)	(494,119,084)
Purchase of intangible assets	-	(22,448,562)	(24,500,811)
Net Cash used in investing activities	**(152,236,699)**	**(335,516,399)**	**(48,951,104)**
Cash flow from financing activities			
Offshore loan received	-	-	1,706,226,861
Lease liability payments	(38,806,434)	(139,297,940)	(627,214,612)
Dividend paid	(185,347,041)	(97,627,202)	(2,356,326,207)
Offshore capital repayments	(111,873,134)	(211,416,721)	(683,326,124)
Net cash used in financing activities	**(336,026,609)**	**(448,341,863)**	**(1,960,640,082)**
Net increase in cash and cash equivalents	210,670,057	(936,725,704)	2,608,237,776
Cash and cash equivalents at the beginning of the year	3,521,164,398	6,700,828,625	25,554,622,528
Effect of exchange rate fluctuations on cash and cash equivalents held	436,976,110	1,669,755,486	2,098,013,634
Cash and cash equivalents at the end of the year	**4,168,810,565**	**7,433,858,407**	**30,260,873,938**
Cash on hand	709,706,346	4,010,086,389	14,705,556,306
Local bank accounts	2,586,554,893	2,250,041,881	10,828,986,434
Foreign bank accounts	**872,549,326**	1,173,730,137	4,726,331,198
	4,168,810,565	**7,433,858,407**	**30,260,873,938**

Table 24

LOAN PORTFOLIO ANALYSIS

PORTFOLIO COMPOSITION

PORTFOLIO COMPOSITION – CURRENCY SPREAD			
Currency	**Count of Loans**	**% of Total Portfolio**	**Loan Balance**
USD	11,250	58%	123,731,924
ZWG	8,152	42%	131,898,847
ZWL	1	0	12,348
Total	**19,403**	**100%**	**-**

Table 25

ABC Bank's loan portfolio is primarily composed of USD loans, with ZWG (Zimbabwe Gold) currency holding the second-largest share, while there is only one loan account in ZWL (Zimbabwean Dollar). The dominance of USD loans provides a more stable revenue stream, mitigating the risk associated with local currency volatility. ZWG loans offer portfolio diversification, though their market dynamics differ from USD-based loans. The minimal exposure to ZWL indicates a cautious approach to local currency lending due to concerns over hyperinflation and exchange rate volatility. This strategic allocation helps the bank manage currency risk effectively and manage its portfolio with minimum risk.

PORTFOLIO COMPOSITION - LOAN TYPES				
	Number of Loans			
Type of Loans	**USD**	**ZWG**	**ZWL**	**Grand Total**
Asset Finance - Lease Hire	1	92	-	93
ASSET FINANCE - LEASE HIRE IRREGULAR	-	2	-	2
Asset Finance - Lease Hire USD	99	-	-	99
Asset Finance Loan USD	116	-	-	116
Business Loan USD	283	-	-	283
Consumer loans	-	8006	1	8007
Consumer USD Civil Servants Loan	246	-	-	246
Consumer USD Loan	10141	-	-	10141
Corporate Loan	-	7	-	7
Corporate Loan-Separate Int & Principal	-	2	-	2
Corporate USD Loan	114	-	-	114
Diaspora Mortgage Loan USD	123	-	-	123
Mortgage Loan	-	42	-	42
OFFSHORE LOAN	1	-	-	1
SME's Loan Constant Repayment	-	1	-	1
SMEs USD Loan	86	-	-	86
Vehicle Loan Scheme USD	40	-	-	40
Grand Total	**11,250**	**8,152**	**1**	**19,403**

Table 26

In terms of loan types, the largest contributor to the loan portfolio is the consumer USD loan category, which accounts for 10,141 loans. This suggests a significant demand for consumer lending in USD, possibly due to the perceived stability of the currency. Consumer loans in ZWG follow closely, with 8,006 loans, highlighting a strong presence of ZWG currency lending in this segment. There is only a single consumer loan in ZWL currency lending.

Corporate loans remain a smaller part of the portfolio, with only 7 ZWG corporate loans and 114 corporate USD loans, reflecting more cautious lending in this sector. Diaspora mortgage loans in USD, with 123 loans, demonstrate a focus on the Zimbabwean diaspora, potentially indicating efforts to attract foreign investment or remittances.

In summary, ABC Bank's loan portfolio shows a strong preference for USD-based lending, particularly in consumer loans, which constitute a substantial portion of the total. ZWG loans are also prevalent, specifically in the consumer segment, while ZWL loans are negligible. The portfolio reflects a focus on consumer and diaspora lending, with less emphasis on corporate loans and SMEs.

PORTFOLIO SPREAD IN SECTORS

PORTFOLIO SPREAD IN SECTORS				
	Count of Loans			
Sectors	USD	ZWG	ZWL	Total
Agriculture	91	1		92
Communication	2			2
Construction	12			12
Distribution	35	1		36
Financial & Investments	14			14
Financial Organizations	17			17
Individual	10,554	8140	1	18,695
Manufacturing	18			18
Mining	26			26
Services	426	10		436
Transport	50			50
Others	5			5
Grand Total	**11,250**	**8,152**	**1**	**19,403**

Table 27

The bank's loan portfolio, totalling 19,403 loans, is heavily skewed towards USD loans, which dominate across most sectors, while ZWG (Zimbabwean Gold) loans hold the second-largest share with 8,152 loans. Only one loan is recorded in ZWL (Zimbabwean Dollar), indicating the bank's minimal exposure to the local currency.

The individual sector is by far the largest, consisting of 18,695 loans, of which 10,554 are in USD, 8,140 in ZWG, and just one in ZWL. This shows a high concentration of individual loans, with a significant portion in ZWG, suggesting its relevance for personal lending. Agriculture also stands out with 92 loans, mostly in USD, reflecting its importance in the local economy and the preference for stable currency lending in this sector.

Other notable sectors include services with 436 loans (426 in USD, 10 in ZWG), agriculture with 92 loans, and distribution accounts for 36 loans. Mining, manufacturing, and transport each have a notable count of loans exclusively in USD, reflecting their reliance on foreign currency due to the capital-intensive nature of these sectors.

Sectors like communication, construction, financial organizations, and financial & investments are smaller but remain entirely USD-dominated. The overall preference for USD loans highlights the bank's strategy to limit exposure to local currency risks while diversifying with ZWG, particularly in the individual and agriculture sectors.

PORTFOLIO QUALITY

PORTFOLIO QUALITY					
Client Quality	**USD**	**ZWG**	**ZWL**	**Grand Total**	**% of Total Portfolio**
A, Good	416	228	-	644	3.32%
A-, Good	294	192	-	486	2.50%
A+, Good	1,594	1,084	-	2,678	13.80%
AA, Strong	1,474	1,426	-	2,900	14.95%
AA-, Strong	915	976	-	1,891	9.75%
AA+, Strong	4,134	3,339	1	7,474	38.52%
AAA, Prime Grade	1,654	645	-	2,299	11.85%
B, Sub-Standard	13	2	-	15	0.08%
B-, Sub-Standard	17	6	-	23	0.12%
B+, Sub-Standard	29	23	-	52	0.27%
BB, Marginal	11	8	-	19	0.10%
BB-, Marginal	43	13	-	56	0.29%
BB+, Marginal	61	34	-	95	0.49%
BBB, Acceptable	129	32	-	161	0.83%
BBB-, Acceptable	14	6	-	20	0.10%
BBB+, Acceptable	67	45	-	112	0.58%
C, Doubtful	20	5	-	25	0.13%
CC, Sub-Standard	222	30	-	252	1.30%
CCC, Sub-Standard	2	3	-	5	0.03%
CCC-, Sub-Standard	9	6	-	15	0.08%
CCC+, Sub-Standard	15	2	-	17	0.09%
D, Loss	107	41	-	148	0.76%
-	10	6	-	16	0.08%
Grand Total	**11,250**	**8,152**	**1**	**19,403**	100%

Table 28

The bank's loan portfolio, based on client quality, is primarily composed of higher-quality loans, with the majority rated in the "good" and "strong" categories, consisting of 19.63% and 63.21%, respectively, of the total portfolio. The largest portion of the portfolio falls under the 'AA+ Strong' category, constituting 38.52% with 7,474 loans, which includes 4,134 in USD, 3,339 in ZWG, and the single ZWL loan, indicating the bank's strong focus on high-quality, low-risk loans.

In the 'AAA Prime Grade' category, 2,299 loans are included, which forms 11.85% of the total portfolio, further showcasing the bank's emphasis on maintaining a quality loan book. USD accounts for 1,654 of these loans, while 645 are in ZWG. The substantial presence of strong-quality loans points to a well-managed credit portfolio.

Loans rated as C sub-standard or lower, including doubtful and loss categories, represent a smaller portion of the portfolio. These categories collectively form 2.46% of the total loan portfolio. The 'C, Doubtful' category includes 25 loans, with USD loans representing 20 of them. Additionally, 252 loans fall under the 'CC Sub-Standard' category, of which 222 are in USD and 30 in ZWG. The 'D, Loss' category contains 148 loans, mostly in USD (107), reflecting some risk areas that the bank needs to address.

Overall, the bank's portfolio is concentrated in the low-risk category, both in USD and ZWG currencies. However, the bank must manage potential risks in the lower-rated segments to maintain overall portfolio health.

PORTFOLIO SPREAD OF USD-DENOMINATED CURRENCY

USD PORTFOLIO SPREAD		
Sectors	**Loan Balance (USD)**	**Number of Customers**
Agriculture	12,414,804.61	91
Communication	187,644.91	2
Construction	2,152,930.07	12
Distribution	6,935,140.51	35
Financial & Investments	4,360,336.04	14
Financial Organizations	2,548,329.14	17
Individual	31,533,124.53	10,554
Manufacturing	2,905,950.54	18
Mining	19,466,023.86	26
Services	36,835,984.84	426
Transport	4,384,070.46	50
Other	7,584.60	5
Grand Total	**123,731,924.11**	**11,250**

Table 29

ABC Bank's USD-denominated loan portfolio amounts to a total of USD 123.7 million, spread across 11,250 customers in various sectors. The largest contributors to the loan portfolio are the individuals, services, mining, and agriculture sectors, with significant loan balances concentrated in these areas.

Average loan size = 123,731,924 / 11,250 = **USD 10,998**

The services sector holds the largest share, accounting for USD 36.8 million across 426 customers. This represents a significant concentration risk, as nearly 30% of the total USD portfolio is allocated to this sector with only 426 clients. Any downturn in the services industry could pose substantial risks to the bank's overall credit portfolio. The concentration highlights the need for active risk monitoring and potential diversification efforts to mitigate this exposure.

Services sector loan concentration ratio = (36,835,984 / 123,731,924) *100 = **30%**

The services sector consists of sub-categories of private label companies, schools, pre-schools, churches, etc. Schools hold the largest portion of the service sector portfolio, represented by 321 clients with a USD 17.18 million loan portfolio. This translates into 47% of the total services sector's portfolio.

The individual sector is the second largest, with a loan balance of USD 31.5 million spread across 10,554 customers, making it the largest in terms of customer count. Although the balance is high, the widespread distribution across many customers reduces the risk of exposure to any one individual, mitigating the impact of defaults.

Individual sector loan concentration ratio = (31,533,124/ 123,731,924) *100 = **25.48%**

The mining sector also holds a significant portion of the portfolio, with USD 19.5 million allocated across 26 customers. This sector, although capital-intensive, presents some concentration risk due to the relatively low number of borrowers.

Overall, while the bank's USD loan portfolio is diversified across multiple sectors, however, the heavy concentration in the services sector presents a notable risk that the bank should closely monitor the performance of this sector.

PORTFOLIO QUALITY OF THE 'SERVICES' SECTOR

PORTFOLIO QUALITY OF THE 'SERVICES' SECTOR		
Client Quality	**Loan Balance (USD)**	**Number of Clients**
A, Good	489,914.92	12
A-, Good	513,539.54	13
A+, Good	2,368,358.64	44
AA, Strong	3,571,354.56	74
AA-, Strong	2,531,431.02	55
AA+, Strong	9,620,453.61	151
AAA, Prime Grade	4,403,558.71	55
B, Sub-Standard	610,374.88	4
B+, Sub-Standard	2,599.72	1
BB-, Marginal	619,850.89	2
BBB, Acceptable	228,859.63	4
BBB+, Acceptable	11,074,829.17	3
C, Doubtful	166,988.16	2
CC, Sub-Standard	73,327.47	1
D, Loss	408,543.92	4
Other	152,000.00	1
Total	**36,835,984.84**	**426**

Table 30

The portfolio quality of the services sector loan book, amounting to USD 36.8 million, is spread across 426 clients and displays a healthy risk profile with significant exposure falling under strong and 'prime grade' rating categories.

The majority of the portfolio is concentrated in clients with 'AA+ Strong' and 'AAA, Prime Grade' internal risk ratings, which together account for a substantial USD 14 million, or nearly 38% of the total services sector loan portfolio. In terms of the number of clients, 151 clients are rated AA+ (strong), holding loans of approximately USD 9.6 million, while 55 clients are rated AAA, Prime Grade, with loan balances of USD 4.4 million. This concentration in highly rated borrowers demonstrates the bank's focus on creditworthy clients, suggesting lower default risk for a large portion of this sector.

At the lower end of the credit spectrum, there are sub-standard to doubtful ratings, but they form a small percentage of the portfolio. Sub-standard borrowers rated B and B+ account for USD 612,974 across five clients, while C (doubtful) borrowers hold just USD 166,988 in loans. Moreover, D (loss) category clients account for USD 408,544 spread across 4 clients, which is relatively contained given the overall portfolio size.

In conclusion, while the services sector portfolio exhibits a well-distributed risk profile, the concentration of loan balances in a few high-risk rating categories (BBB+ and D) requires close monitoring to maintain the overall stability and health of this segment.

TOP 5 LARGEST USD EXPOSURES

Top 5 Largest USD Exposures						
Sr. No.	**Client Name**	**Loan Balance (USD)**	**% of Total USD Portfolio**	**Loan Type**	**Client Quality**	**Sector**
1	Client A	12,657,813	10.23%	Corporate USD loan	CC, Sub-Standard	Mining
2	Client B	11,051,195	8.93%	Offshore loan	BBB+, Acceptable	Services
3	Client C	4,477,254	3.62%	Corporate USD loan	A, Good	Distribution
4	Client D	4,161,097	3.36%	Business loan and Corporate USD loan	CC, Sub-Standard	Mining
5	Client E	2,424,662	1.96%	Corporate USD loan	AA+, Strong	Financial & Investments
Total		**34,772,020**	**28.10%**	-	-	-

**Due to the confidentiality, we have not mentioned the real names of the clients.*

Table 31

The top 5 largest USD exposures at ABC Bank are spread across multiple sectors, with the mining sector holding significant representation. These five customers constitute 28.10% of the total USD loan portfolio. The largest exposure is to client A with a loan balance of USD 12.66 million under a corporate USD loan. The risk classification of this client is categorized as ‘CC, Sub-Standard’, indicating higher credit risk and potential repayment issues. The concentration in this loan poses a notable risk for the bank, especially given the sub-standard credit quality.

As clarified by the ABC Bank team, this account is under the bank’s watch list and is being managed by the lending unit and the ABC Special Assets Management-Recoveries department. The loan is secured against the collateral in the form of TB USD 6.5m which is maturing in June 2025, and USD 14.4m maturing in September 2025. These TBs can be discounted by the bank before maturity. However, the loan has been restructured to mature in December 2024. The client is expected to pay monthly installments of USD 2.6m; however, they are in default for August and September. The downgrading of the account to ‘CC’ has negatively impacted the bank’s NPL ratio.

The second largest exposure is to client B, with a loan balance of USD 11.05 million. This is an offshore loan, and the client quality is rated ‘BBB+ Acceptable’, suggesting a more moderate level of credit risk.

Client B operates in the services sector, and the loan appears to be less risky compared to client A but still represents a substantial exposure for the bank.

While the bank has significant exposure to the mining sector, the sub-standard credit quality of two of the top five clients raises potential concerns. This poses potential risks, especially if the mining industry faces downturns due to economic, environmental, or regulatory factors. However, the other clients, particularly clients B, C, and E, offer a more balanced risk profile with acceptable or strong risk ratings, mitigating the overall risk in the portfolio. Nonetheless, the concentration of large exposures in a few clients, especially those with sub-standard ratings, underscores the need for careful risk management and monitoring.

PORTFOLIO SPREAD OF ZWG-DENOMINATED CURRENCY

ZWG PORTFOLIO SPREAD		
Sectors	**Loan Balance (ZWG)**	**Number of Customers**
Agriculture	6,158.22	1
Distribution	534.61	1
Individual	131,857,189.30	8,140
Services	34,965.11	10
Grand Total	**131,898,847.24**	**8,152**

Table 32

The loan portfolio by sector in ZWG currency at ABC Bank is highly concentrated in the individual sector, which accounts for an overwhelming majority of both the loan balance and the number of customers. Out of the total loan balance of ZWG 131.90 million, the individual sector alone represents ZWG 131.86 million, which is nearly the entire portfolio. This segment also accounts for the majority of the customers, with 8,140 out of 8,152 borrowers, indicating that the bank's lending strategy in local currency is predominantly focused on consumer lending.

Average loan size = 131,898,847 / 8,152 = **ZWG 16,180**

The services sector reflects low participation, with only 10 customers and a total loan balance of ZWG 34,965.11. This highlights that the bank has not aggressively pursued lending in this sector either, or that there may be limited demand for ZWG loans in this sector.

Overall, the bank's ZWG currency lending is overwhelmingly concentrated in the individual sector, with minimal exposure to agriculture, distribution, and services. This heavy reliance on individual borrowers could pose a concentration risk, especially if economic conditions worsen for this segment. Diversification into other sectors could help mitigate such risks and balance the loan portfolio.

Individual sector loan concentration ratio = (131,857,189 / 131,898,847) *100 = **99.97%**

TOP 5 LARGEST ZWG EXPOSURES

Top 5 Largest ZWG Exposures						
Sr. No.	Client Name	Loan Balance (ZWG)	% of Total ZWG Portfolio	Loan Type	Client Quality	Sector
1	Client A	1,204,843	0.91%	Mortgage Loan	AA+, Strong	Individual
2	Client B	961,992	0.73%	Mortgage Loan	AA+, Strong	Individual
3	Client C	637,028	0.48%	Consumer loans	A+, Good	Individual
4	Client D	592,015	0.45%	Mortgage Loan	AA+, Strong	Individual
5	Client E	379,505	0.29%	Consumer loans	AA+, Strong	Individual
Total		**3,775,383**	**2.86%**	-	-	-

Table 33

The above data presents the top 5 largest ZWG exposures in the loan portfolio, with a total loan balance of ZWG 3,775,383, which represents 2.86% of the overall ZWG portfolio. These exposures are spread across a combination of mortgage and consumer loans, all attributed to individual clients, which implies a concentrated portfolio in the individual sector.

The largest individual exposure is held by clients A and B, with two significant mortgage loans, contributing a combined balance of ZWG 1,204,843 (0.91%) and ZWG 961,992 (0.73%) of the total ZWG portfolio. Together, these two loans account for ZWG 2,166,835, or approximately 1.64% of the ZWG portfolio. His loan facility is rated 'AA+ Strong', underscoring his creditworthiness and a favorable risk profile.

Another significant client C holds a consumer loan valued at ZWG 637,028, making up 0.48% of the total ZWG portfolio. His client quality is rated as A+, which is considered good, suggesting a moderate credit risk profile.

The top 5 largest ZWG exposures exhibit a portfolio that is highly concentrated in a few strong borrowers, with a focus on mortgage loans, which would be secured against collateral. However, this concentration could expose the bank to risks if any of these borrowers face financial difficulties. Nonetheless, the strong credit quality of these clients, as reflected in their ratings, helps offset some of this risk, positioning the ZWG loan portfolio as relatively secure in terms of credit exposure.

NON-PERFORMING LOANS (NPL) TREND (JANUARY 2024 TO SEPTEMBER 2024)

The NPL ratio for ABC Bank has been comparatively steady throughout the first half of 2024, ranging from 1.38% to 2.64%. However, the ratio skyrocketed to 14.36% in July 2024 after two major loan accounts were downgraded. These two significant loan accounts are also among the top 10 exposures of the bank. In July 2024, the mining industry's non-performing loan ratio was reported to be 84.25%, primarily due to significant operational difficulties and volatility in the commodity market. In August and September, the NPL ratio was 12.8% and 11.52%, respectively, indicating some improvement. The ratios were still very high, though, suggesting that there are still risks, particularly in the mining industry and individual loans.

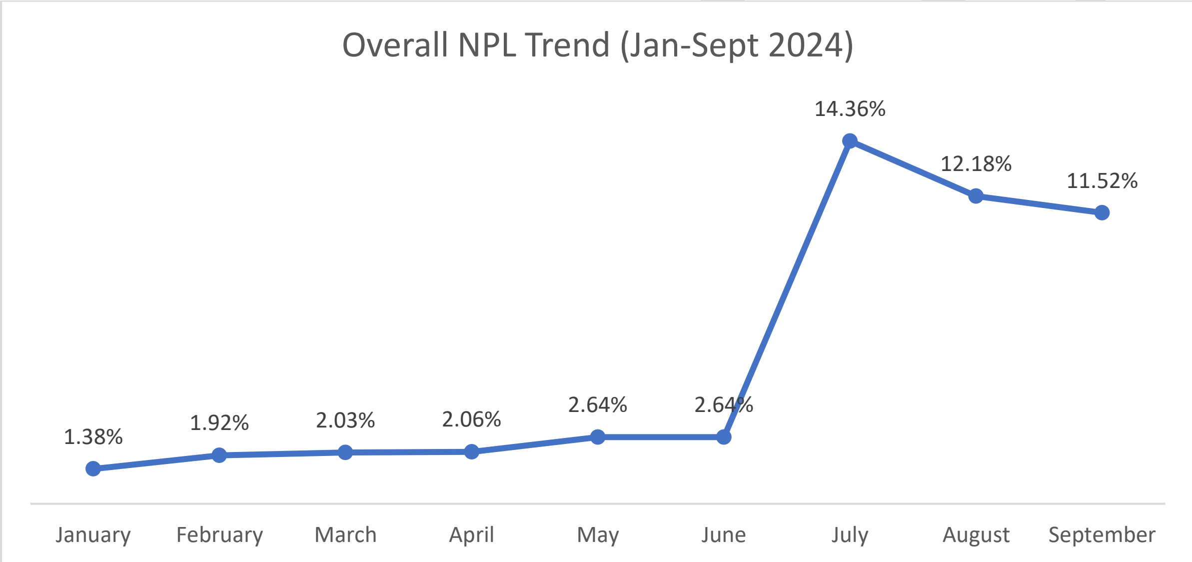


Figure 1

Individual Loans

The bank's individual segment NPL ratio stood at 23.07% as of January 2024 and improved to 8.49% as of September 30, 2024, suggesting an improvement in the performance of the sector. However, it is projected that the deteriorating economic environment and adjustment of the minimum lending rate may result in a sharp decline in the ratio by year-end.

Agriculture Sector

Throughout the reviewed period, this sector has maintained a comparatively low NPL ratio, averaging 1.55%. The sector offers a chance to balance out the bank's mining-focused portfolio.

Mining Sector

This sector has been an area of concern for the bank, with the NPL ratio soaring to 84.25% as of 30 July 2024. The sector was adversely affected by the low global commodity prices. Furthermore, the financial strains on businesses were made worse by the irregular electrical supply to mining houses.

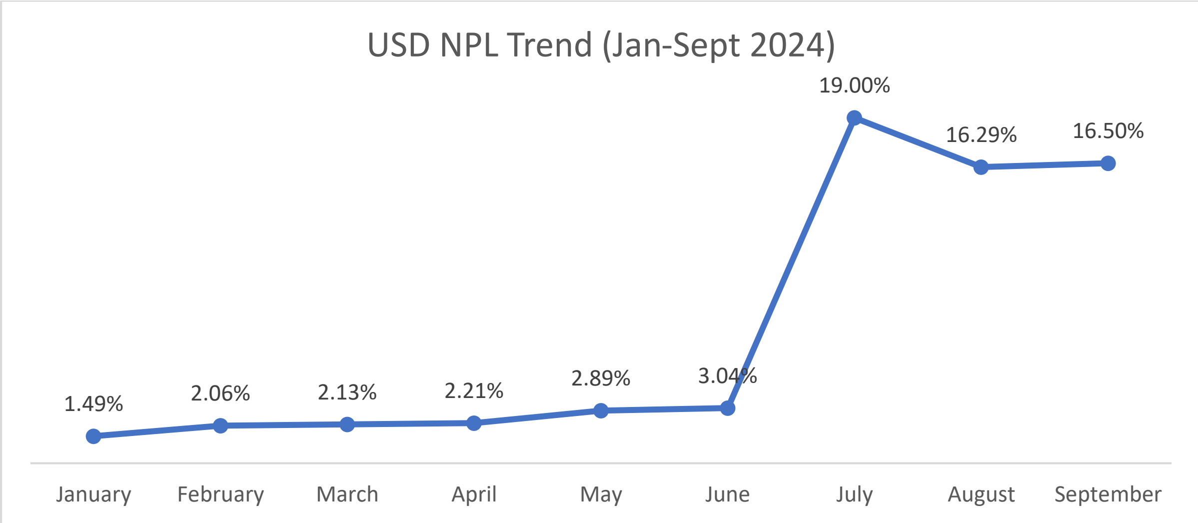
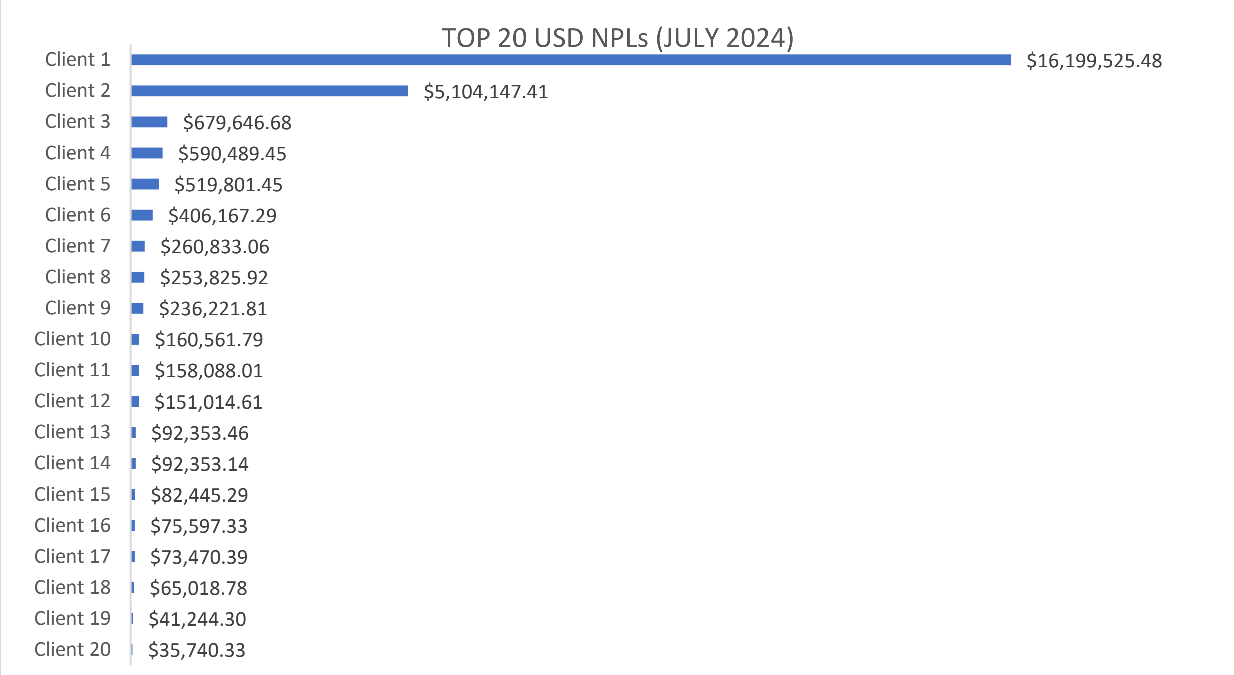


Figure 2

During the first half of 2024, the USD NPL ranges from 1.49% in January 2024 to 3.04% in June 2024. However, in July 2024, the USD NPL experienced a drastic surge to 19%. The downgrade of the bank's two largest exposures was the driving factor for the significant jump in the NPL ratio.



**Due to confidentiality, we have not mentioned the real client names.*

Figure 3

As of July 2024, clients 1 and 2 were the largest contributors to the top 20 NPL exposures, which totaled USD 25,278,545.98. The concentration of NPLs in the mining sectors remains a concern due to the volatility of the commodity market. The bank's corporate banking segment recorded a significant NPL amount of USD 2,303,672.89, indicating a higher credit risk. This substantial amount warrants a review of the bank's credit policies and enhanced due diligence.

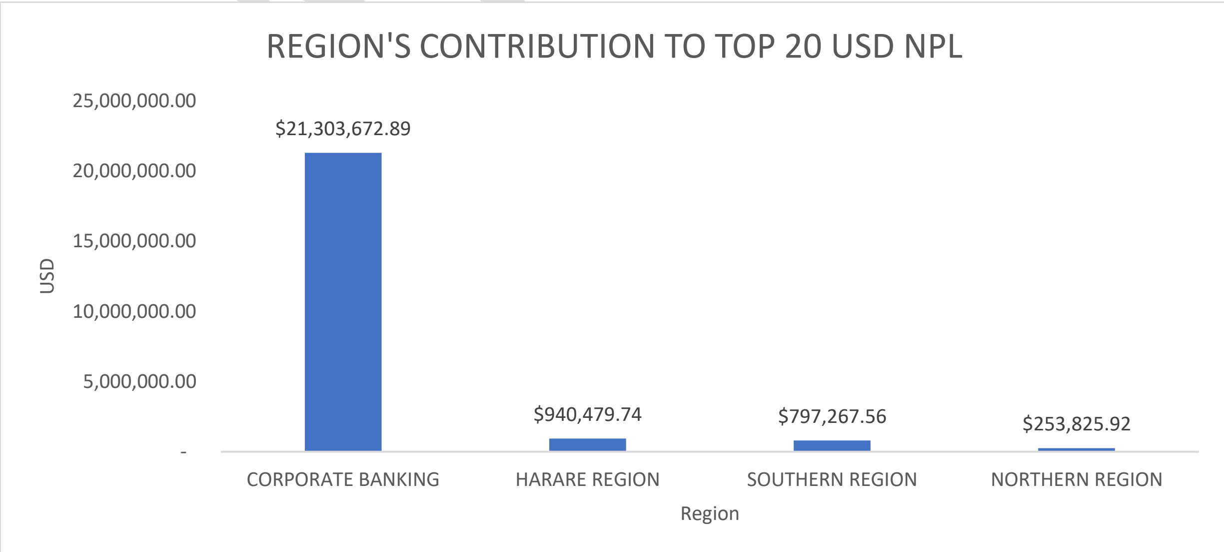


Figure 4

The mining sector has contributed significantly to the bank's NPLs, suggesting the need for a detailed reassessment of the creditworthiness and risk profiles of borrowers in this sector. The bank should consider tightening credit appraisal criteria for new and existing clients in the mining sector. Conduct a comprehensive sector analysis to understand the underlying risks, such as commodity price volatility, regulatory challenges, and operational inefficiencies, that might be affecting these loans.

The bank should enhance its loan monitoring systems to identify early signs of distress among borrowers. Implementing robust early warning mechanisms, such as regular financial health checks, liquidity stress tests, and sector-specific monitoring for high-risk industries, will enable the bank to intervene earlier.

TOP DEPOSITORS TREND ANALYSIS – JUNE 2024

Top Depositor to Total Deposits June-2024		
Funding Concentration	**Amount (ZWG)**	**Concentration Ratio**
Depositor 1	13,887,911.13	30.44%
Depositor 2	10,000,000.00	21.92%
Depositor 3	4,800,000.00	10.52%
Depositor 4	4,630,000.00	10.15%
Depositor 5	3,510,768.38	7.69%
Other Deposits	8,801,613.26	19.29%
Total Deposits (Excluding related entities)	**45,630,292.77**	**100.00%**

Table 34

ABC Bank's top five depositors consist of the institutions in Zimbabwe. The bank's deposit structure, characterized by its top depositor holding 30.44% and a collective concentration of 80.72% in the top five accounts, signals a significant depositor concentration risk and is above the acceptable range. This high level of dependency not only increases liquidity risks but also could affect the bank's operational flexibility and funding stability if any of these large depositors decide to withdraw funds.

The bank's top four depositors breached the concentration limit of 10%. The top two depositors account for a combined 52.36% of total deposits. This high level of dependence on a few depositors exposes the bank to considerable liquidity risk should any of these depositors withdraw funds unexpectedly.

To mitigate the depositor concentration risk, the bank should prioritize diversifying its deposit base, particularly by focusing on attracting retail deposits. Retail deposits, typically smaller and more numerous, provide a stable and reliable source of funding that is less susceptible to sudden withdrawals compared to large institutional deposits. This diversification strategy could enhance the bank's liquidity profile and reduce the risks associated with high dependency on a few large depositors.

FINANCIAL PROJECTIONS

Financial Projections							
USD	Full Year Forecast 2024	Full Year Projections 2025	Full Year Projections 2026	Full Year Projections 2027	Full Year Projections 2028	Full Year Projections 2029	Full Year Projections 2030
Net interest income	**29,027,540**	**36,284,425**	**45,355,531**	**54,426,638**	**65,311,965**	**78,374,358**	**94,049,230**
y/y growth		*25%*	*25%*	*20%*	*20%*	*20%*	*20%*
Total Income	**106,988,115**	**133,735,144**	**167,168,930**	**200,602,716**	**240,723,259**	**288,867,911**	**346,641,493**
y/y growth		*25%*	*25%*	*20%*	*20%*	*20%*	*20%*
Profit after tax	**30,097,613**	**37,622,016**	**47,027,520**	**56,433,024**	**67,719,629**	**81,263,555**	**97,516,266**
y/y growth		*25%*	*25%*	*20%*	*20%*	*20%*	*20%*
Total Assets	**436,236,585**	**493,743,852**	**586,041,326**	**671,477,462**	**784,009,509**	**924,533,081**	**1,129,734,604**
y/y growth		*13%*	*19%*	*15%*	*17%*	*18%*	*22%*
Equity	**136,596,660**	**174,218,676**	**221,246,197**	**277,679,221**	**345,398,850**	**426,662,405**	**524,178,671**
y/y growth		*28%*	*27%*	*26%*	*24%*	*24%*	*23%*
Loan Portfolio	**180,600,858**	**193,262,769**	**212,589,046**	**238,099,731**	**271,433,694**	**312,148,748**	**374,578,497**
y/y growth		*7%*	*10%*	*12%*	*14%*	*15%*	*20%*

Table 35

The financial projections presented for the bank indicate a consistent growth trajectory across key financial metrics from 2024 to 2030.

Net interest income is projected to grow steadily, starting at USD 29m in 2024 and reaching USD 94m by 2030. The projected annual growth rate declines slightly from 25% in the earlier years (2025 and 2026) to 20% toward the latter years (2027–2030). This trend reflects the bank's ability to manage its interest-bearing assets and liabilities effectively, likely driven by an expanding loan book and strategic interest rate management.

Total projected income follows a similar pattern, increasing from USD 106.9m in 2024 to a significant USD 346.6m by 2030. The expected year-over-year growth starts at 25% from 2024 to 2026, tapering to 20% in the later years, indicating a robust performance not only from net interest income but also from non-interest income streams, which likely include fees, commissions, and other service-related income.

Profit after tax is expected to increase from USD 30m in 2024 to nearly USD 97.5m in 2030. The growth trajectory mirrors that of total income, with a 25% year-over-year increase in the earlier years and 20% in the latter years. This consistent growth in profitability highlights that the bank is expecting optimal operational efficiency and efficient cost management. Despite rising operational expenses, the strong anticipated profit growth suggests that the bank will be effectively balancing revenue expansion with expense control, positioning it well for long-term sustainability.

Total assets are projected to grow from USD 436.2m in 2024 to over USD 1.1bn by 2030. The growth rate accelerates from 13% in 2024 to 17% in 2028, peaking at 22% in 2030. This robust growth reflects the bank's ability to attract deposits, expand its loan portfolio, and invest in other income-generating assets. The projected increase in total assets underscores the bank's growth strategy, likely driven by a combination of increased customer deposits, loan disbursements, and investments in marketable securities or other asset classes.

The bank is projecting its loan portfolio growth from USD 180.6m in 2024 to USD 374.6m by 2030. The growth rate of the loan book will increase gradually from 7% in 2025 to 20% by 2030, indicating a focus on scaling lending operations and expanding credit offerings, likely in high-demand sectors. The anticipated expansion in the loan portfolio will also contribute significantly to the rising interest income, further enhancing profitability.

The given financial projections appear ambitious, particularly regarding the consistent 25% and 20% growth in net interest income and total income over the next five years. While such aggressive growth may be feasible in the short term if the bank experiences significant market expansion or favourable economic conditions, maintaining these rates over the long term seems challenging given potential market saturation, economic cycles, competition, and a challenging economic environment. The substantial growth in profit after tax, assets, and equity also assumes effective cost management, strong loan demand, and minimal credit risk. While the projected loan portfolio expansion is somewhat realistic at an average annual growth rate of 12%, the assumptions behind achieving over 150% asset growth and sustaining high profitability suggest optimistic expectations that may not fully account for potential macroeconomic headwinds or operational complexities.

RATIO ANALYSIS

CAPITAL ADEQUACY RATIOS

Capital Adequacy Ratios					
	2019	**2020**	**2021**	**2022**	**2023**
Tier 1 Capital Ratio	22.50%	20.16%	12.64%	11.80%	15.19%
Total Capital Ratio	27.96%	26.15%	24.49%	19.52%	20.47%

Table 36

The capital adequacy ratios reflect the financial strength and stability of a bank, ensuring it has sufficient capital to cover its risk-weighted assets. The Reserve Bank of Zimbabwe has set a benchmark of 12% for the capital adequacy ratio and 8% for Tier 1 capital ratio for banks in Zimbabwe. Effective 31 December 2023, a new regulatory requirement has come into effect, which mandates a minimum of USD 30 million regulatory capital for a commercial bank in Zimbabwe. ABC Bank is in full compliance with minimum capital adequacy ratios and regulated capital levels.

Tier 1 Capital Ratio

In 2022, the Tier 1 capital ratio was computed at 11.80%, well above the regulatory requirement. However, in 2023, the ratio improved to 15.19%, regaining strength and surpassing the regulatory scale. Although the bank's risk-weighted assets also doubled in 2023, the additional capital injection managed to enhance the capital adequacy ratios. The bank took measures to bolster its core capital through a significant increase in reserves.

Total Capital Ratio

The total capital ratio, which includes Tier 1 capital plus additional forms of capital like Tier 2, also followed an upward trend from 19.52% in 2022 to 20.47% in 2023, significantly above the regulatory requirement. This suggests a stabilization of the bank's capital position, with a likely focus on strengthening both Tier 1 and supplementary capital. From 2019 to 2021, the capital adequacy ratios have been well above the required regulatory scales.

The bank's concerted efforts to improve its capital position are highlighted by the positive and simultaneous improvement in both capital ratios. This indicates that the bank is capable of absorbing any potential losses and strengthening its overall financial resilience, which bodes well for the bank's financial well-being.

EARNINGS RATIOS

Earnings Ratios					
	2019	**2020**	**2021**	**2022**	**2023**
Return on Equity	27%	16%	16%	28%	63%
Return on Assets	8%	5%	5%	8%	17%
Net Interest Margin	33%	21%	26%	31%	13%
Cost to Income Ratio	54%	78%	74%	73%	71%

Table 37

Return on Equity (ROE)

The return on equity (ROE) for the years 2022 and 2023 shows a significant improvement, nearly doubling from 28% in 2022 to an impressive increase of 63% in 2023. This surge indicates that the bank has been able to generate substantially higher profits from its equity base in 2023 compared to the previous year. A remarkable improvement in profitability in 2023 has played a significant role in the growth of ROE. The sharp rise in ROE reflects the bank's ability to maximize shareholder value during 2023, showcasing strong operational performance and effective financial management. The bank's ROE of 63% is quite comparable to Zimbabwe's banking industry's ROE of 68.99%.

Return on Assets (ROA)

The return on assets (ROA) also experienced a significant increase, rising from 8% in 2022 to 17% in 2023. This improvement suggests that the bank was able to generate more income per unit of assets employed, indicating better asset utilization and resulting in higher profitability. The nearly 9 ppts increase in ROA highlights the bank's efficiency in converting its assets into net income, which can be attributed to factors such as enhanced revenue streams, improved cost management, and successful investments. However, compared to the industry average ROA of 23.97%, the bank's ROA is below this level, indicating potential for improved asset utilization.

Net Interest Margin (NIM)

Contrary to the trends observed in ROE and ROA, the net interest margin (NIM) significantly declined from 31% in 2022 to 13% in 2023. This decline indicates that the bank's profitability from its core lending operations has diminished. The interest paid by the bank nearly increased fourfold from ZWL 26.07bn in 2022 to ZWL 94.47bn in 2023. The interest expense increased by approximately 262% in 2023 compared to 2022, indicating that the cost of funds rose substantially which would compress the margin between the interest earned and the interest paid. Although the interest received increased significantly (+82%), the substantial growth in the loan book (+220%) from ZWL 291bn in 2022 to ZWL 932.52bn in 2023 suggests that the yield on these loans has decreased. The reason could be attributed to a combination of competitive interest rates and a shift in the loan portfolio to lower-yielding but less risky assets. The increase in deposits to over ZWL 1tn in 2023 may have necessitated offering higher interest rates to attract and retain customers, further squeezing NIM.

Cost to Income Ratio

There has been a marginal improvement in the cost-to-income ratio from 73% in 2022 to 71% in 2023. This ratio shows how well the bank manages its operating costs in relation to its revenue. The minor decline shows that the bank has generated more revenue and improved cost control, which has resulted in a more competitive cost structure. However, despite this improvement, the ratio still indicates that a significant portion of income is exhausted by operating costs, suggesting that there may still be room for further efficiency gains.

In conclusion, the bank's financial performance in 2023 highlights both strengths and challenges. The substantial gains in ROE and ROA, along with marginal improvements in the cost-to-income ratio, demonstrate a robust ability to generate returns, but the decline in NIM suggests potential vulnerabilities in the bank's core lending operations. ICRA suggests a continued focus on cost management and income diversification, which will be crucial for sustaining the positive trends observed in overall profitability.

ASSET QUALITY RATIOS

Asset Quality Ratios					
	2019	**2020**	**2021**	**2022**	**2023**
Gross NPL Ratio	0.65%	0.15%	4%	0.33%	2%
Net NPL Ratio	0.11%	0.11%	4%	0.24%	1%
Provision for loan losses ratio	11%	8%	5%	6%	5%

Table 38

Gross NPL Ratio

The bank's gross non-performing loans (NPL) ratio exhibited a deteriorating trend, climbing from 0.33% in FY22 to 2% in FY23. This trend can be attributed to a notable increase in the gross non-performing loans, which jumped by 1336% in 2023.

Net NPL Ratio

The net NPL ratio, which incorporates provisions for bad debts, also demonstrated a marginal upward trend in FY23 and was computed at 1%. Even though the bank's net loan portfolio increased by 220% in 2023, the increase in the pace of net NPL was much higher (+1576%) than that of the net loans, causing an uptick in the net NPL ratio. The slower increase in the net NPL ratio versus the gross NPL ratio suggests that the bank has been making efforts to account for bad debts through higher provisioning, though this was not enough to offset the rise in non-performing loans.

The provision for loan losses ratio declined from 6% in 2022 to 5% in 2023, despite the rise in both gross and net NPL ratios. This decrease suggests that the bank may have reduced its allocation toward loan loss provisions, which could be risky considering the increasing non-performing loans.

Provision for Loan Losses Ratio

As of 31 December 2023, ABC Bank's gross NPL ratio of 2% is in line with the Zimbabwean banking sector's average NPL ratio of 2.09%. This indicates that ABC Bank's loan portfolio quality is compatible with the overall industry standards in Zimbabwe. Furthermore, the bank's NPL ratio is well below the internationally acceptable tolerance level of 5%, which is often used as a benchmark to assess the health of a bank's loan portfolio. Staying below this threshold suggests that the bank is effectively managing its credit risk despite the challenges in the broader economic environment. This performance reflects prudent lending practices and effective credit risk management, although the rising trend from 0.33% in 2022 to 2% in 2023 requires close monitoring to prevent further deterioration.

LIQUIDITY RATIOS

Liquidity Ratios					
	2019	2020	2021	2022	2023
Liquidity Ratio	87%	74%	58%	63%	51%
Loan to Deposit Ratio	30%	43%	59%	56%	82%
Loan to Asset Ratio	18%	24%	31%	32%	43%

Table 39

Liquidity Ratio

The liquidity ratio measures the bank's ability to meet its short-term obligations by comparing highly liquid assets to short-term liabilities. The bank's liquidity ratio declined from 63% in 2022 to 51% in 2023, indicating a weakening liquidity position of the bank. While a liquidity ratio of 51% remains above regulatory requirements of 30% and the internal benchmark of 35%, however, it remains below the Zimbabwean banking sector's average prudential liquidity ratio of 60.33%. The bank's deposit base has seen a sharp rise (119%) in 2023, whereas its liquid assets did not keep pace with deposit growth, causing the dip in liquidity ratio. The downward trend suggests that the bank has reduced its liquidity buffer, potentially increasing its vulnerability to liquidity shocks or unexpected withdrawal demands.

Loan to Deposit Ratio

The loan-to-deposit ratio surged from 56% in 2022 to 82% in 2023, showing a significant increase in the proportion of deposits that the bank has lent out. A higher LDR indicates that the bank is using a larger share of its deposits for lending, which can improve profitability but reduce its liquidity buffer. A loan-to-deposit ratio of 82% is still within acceptable industry standards, though closer to the upper limit, which is typically around 80%-90%. The sharp rise in the ratio suggests the bank pursued a more aggressive lending strategy to boost its loan portfolio.

Loan to Asset Ratio

The loan-to-asset ratio increased from 32% in 2022 to 43% in 2023, indicating that a higher proportion of the bank's total assets are now tied up in loans. This suggests a shift in the bank's asset mix, with a greater focus on income-generating assets relative to other assets such as cash, investments, or fixed assets. While the ratio is still within a healthy range, the rising trend points to an increased concentration of the bank's assets in loans, which may enhance profitability but could reduce flexibility in managing liquidity.

From 2022 to 2023, ABC Bank's liquidity position weakened, as evidenced by the drop in the liquidity ratio and the rise in both the loan to deposit ratio and loan to asset ratio. While these ratios remain within acceptable limits, the bank is focusing on increasing its loan portfolio and becoming less liquid overall. This strategy may enhance profitability but could heighten liquidity risks, especially if deposit growth slows or economic conditions worsen.

RATIO FORMULAS

Cost-to-income ratio	:	*Total Operating expenses/Total Operating income*
Gross NPL Ratio	:	*Gross NPL/Gross Advances*
Loan-to-deposit ratio	:	*(Total Loans/Total Deposits) *100*
Loan to Asset Ratio	:	*(Total Loans/Total Assets) *100*
Net interest margin	:	*(Interest income - Interest expense)/Total loans*
Net NPL Ratio	:	*Net NPL/Net Advances*
Return on Assets	:	*Net Income/Total Assets*
Return on Equity	:	*Net Income/Shareholders' Equity*
Tier 1 CAR	:	*Tier 1 Capital /Risk Weighted Assets*
Total CAR	:	*(Tier 1 Capital + Tier 2 Capital)/Risk Weighted Assets*

Table 40

GLOSSARY

&	:	*And*
AML	:	*Anti Money Laundering*
ATM	:	*Automated Teller Machine*
RBZ	:	*Reserve Bank of Zimbabwe*
OPEX	:	*Operating Expenses*
CAGR	:	*Compound Annual Growth Rate*
CAPEX	:	*Capital Expenditure*
CAR	:	*Capital Adequacy Ratio*
CEO	:	*Chief Executive Officer*
cf.	:	*Compared to*
CFO	:	*Chief Financial Officer*
CSR	:	*Corporate Social Responsibilities*
D&A	:	*Depreciation and Amortization*
etc.	:	*Et cetera*
FI	:	*Financial Institutions*
FYxx	:	*Financial Year ending xx*
GDP	:	*Gross Domestic Product*
bn	:	*Billion*
m	:	*Million*
k	:	*Thousands*
KYC	:	*Know Your Customers*
na	:	*Not Applicable*
NPL	:	*Non-Performing Loans*
PPE	:	*Property, Plant and Equipment*
ppts	:	*Percentages points*
RWA	:	*Risk-Weighted Assets*
SME	:	*Small and Medium-sized Enterprises*
USD	:	*United States Dollar*
x	:	*times*
y/y	:	*Year over Year*
ZiG	:	*Zimbabwe Gold*
ZWL	:	*Zimbabwean Dollar*
FATF	:	*Financial Action Task Force*

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