BANK SUPERVISION DIVISION

BANKING SECTOR REPORT

FOR THE

QUARTER ENDED 31 DECEMBER 2020

1. EXECUTIVE SUMMARY

1.1. Notwithstanding the varied impact of COVID-19 on the different sectors of the economy, the banking sector continues to demonstrate resilience to various shocks, as reflected by the satisfactory performance during the quarter ended 31 December 2020.

1.2. During the review quarter, there was no notable disruptions in the provision of banking products and services, as banking institutions continue to deliver services remotely, with skeletal staff manning critical services in the offices.

1.1. The banking sector average capital adequacy and tier 1 ratios of 34.62% and 22.65% as at 31 December 2020, were above the regulatory minima of 12% and 8%, respectively. All banking institutions were compliant with the minimum capital adequacy requirements.

1.2. As at 31 December 2020, total banking sector core capital of $40.75 billion, reflected an increase of 36.52%, from $29.85 billion as at 30 September 2020. The growth was mainly attributed to growth in retained earnings, bolstered by revaluation gains from foreign exchange denominated assets and investment properties.

1.3. As at 31 December 2020, banking sector total assets amounted to $349.59 billion and largely comprised loans & advances, balances with the central bank and balances with foreign institutions, which constituted 20.40%, 16.92% and 14.41%, respectively.

1.4. Total banking sector loans and advances increased by 45.19% from $56.76 billion as at 30 September 2020 to $82.41 billion as at 31 December 2020, largely attributed to the translation of foreign currency denominated loans.

1.5. Banking sector loan portfolio quality continued to improve, as reflected by a decline in the non-performing loans (NPLs) to total loans ratio from 0.41% as at 30 September 2020 to 0.31% as at 31 December 2020.

1.6. Total banking sector deposits increased by 35.23%, from $154.47 billion reported as at 30 September 2020, to $208.90 billion as at 31 December 2020. The increase was mainly attributable to revaluation of foreign currency denominated deposits.

1.3. The average prudential liquidity ratio of 73.06% as at 31 December 2020 against the minimum regulatory requirement of 30%.

1.4. During the year ended 31 December 2020 all banking institutions were profitable, with aggregate banking sector profits for the period of $34.24 billion, an increase from $6.41 billion reported for the corresponding period in 2019.

1.5. The growth in income was largely attributable to non-interest income which constituted 79.49% of total income. Non-interest income mainly comprised translation gains on foreign currency denominated assets, revaluation gains from investment properties, as well as fees and commissions.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. As at 31 December 2020, there were 19 banking institutions and 216 other institutions under the supervision of the Bank as shown in the table below:

Table 1: Architecture of the Banking Sector

Type of Institution	Number
Commercial Banks	13
Building Societies	5
Savings Bank	1
Total Banking Institutions	**19**
Other Institutions Under the Supervision of Reserve Bank	
Credit-only-MFIs	209
Deposit-taking MFIs*	5

Development Financial Institutions	2
Total	**216**

**Two licenced deposit-taking microfinance institutions, Ndoro Microfinance and CashBox Financial Services are yet to commence operations as they are putting in place the necessary infrastructure for commencement of business*

3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1. The banking sector performance was satisfactory during the quarter ended 31 December 2020 as reflected by the financial soundness indicators provided in the table below:

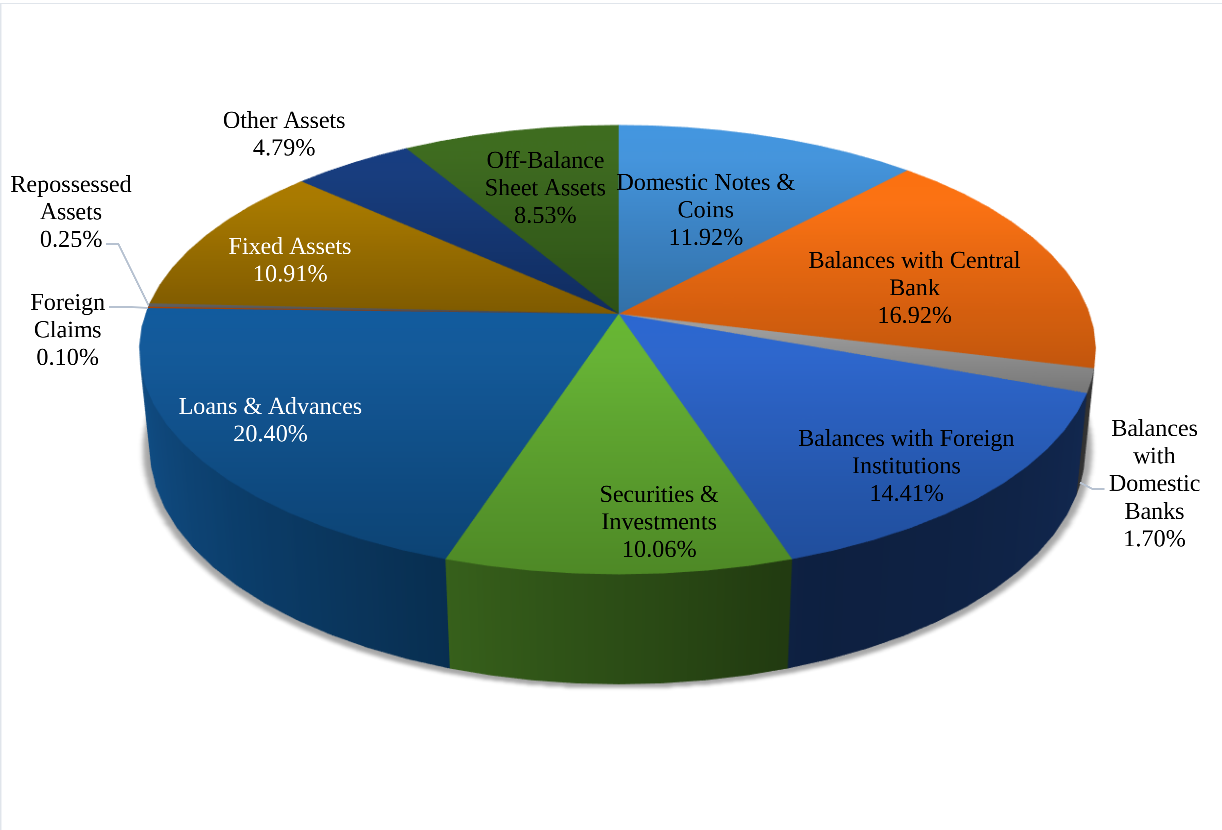
Table 2: Financial Soundness Indicators

Key Indicators	Benchmark	Dec-19	June-20	Sept -20	Dec-20
Total Assets	-	$60.64bn	$193.56bn	$284.37bn	$349.59bn
Total Loans & Advances	-	$12.63bn	$37.77bn	$56.76bn	$82.41bn
Net Capital Base	-	$9.75bn	$29.47bn	$42.06bn	$53.18bn
Total Deposits	-	$34.50bn	$97.40bn	$154.47bn	$208.90bn
Net Profit	-	$6.41bn	$13.46bn	$23.37bn	$34.24bn
Return on Assets	-	8.99%	10.53%	12.50%	13.55%
Return on Equity	-	33.02%	27.38%	39.92%	45.54%
Capital Adequacy Ratio	12%	39.56%	61.72%	47.16%	34.62%
Tier 1 Ratio	8%	27.87%	34.35%	27.61%	22.65%
Loans to Deposits	70%	36.60%	37.71%	36.75%	39.45%
Non-Performing Loans Ratio	5%	1.75%	1.03%	0.41%	0.31%
Liquidity Ratio	30%	72.42%	74.85%	71.69%	73.06%

Composition of Banking Sector Assets…

3.2. As at 31 December 2020, banking sector total assets amounted to $349.59 billion and largely comprised loans & advances, balances with the central bank and balances with foreign institutions, which constituted 20.40%, 16.92% and 14.41%, respectively.

Figure 1: Asset Mix as at 31 December 2020



Capitalisation…

3.3. As at 31 December 2020, total banking sector core capital of $40.75 billion, reflected an increase of 36.52%, from $29.85 billion as at 30 September 2020. The growth was mainly attributed to growth in retained earnings, bolstered by revaluation gains from foreign exchange denominated assets and investment properties.

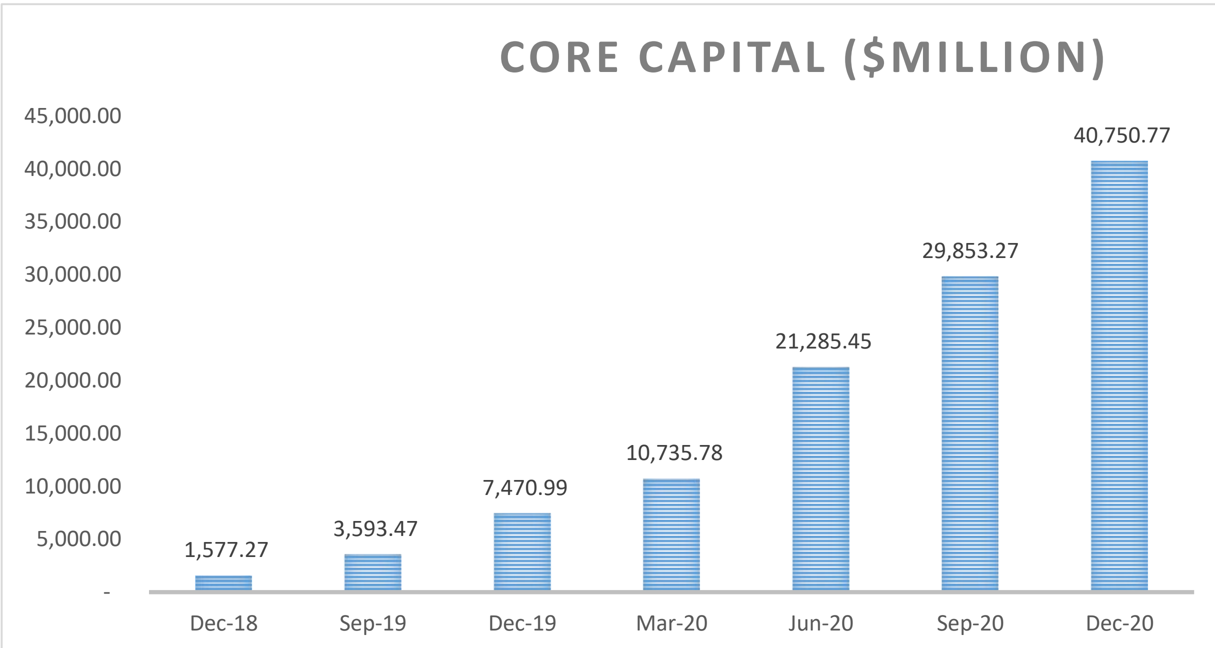
3.4. The banking sector average capital adequacy and tier 1 ratios of 34.62% and

22.65% as at 31 December 2020, were above the regulatory minima of 12% and 8%, respectively.

3.5. All banking institutions complied with the minimum regulatory capital adequacy and tier 1 ratios of 12% and 8%, respectively.

3.6. Figure 2 shows core capital trends from December 2018.

Figure 2: Core Capital Trends December 2018 to December 2020 ($million)

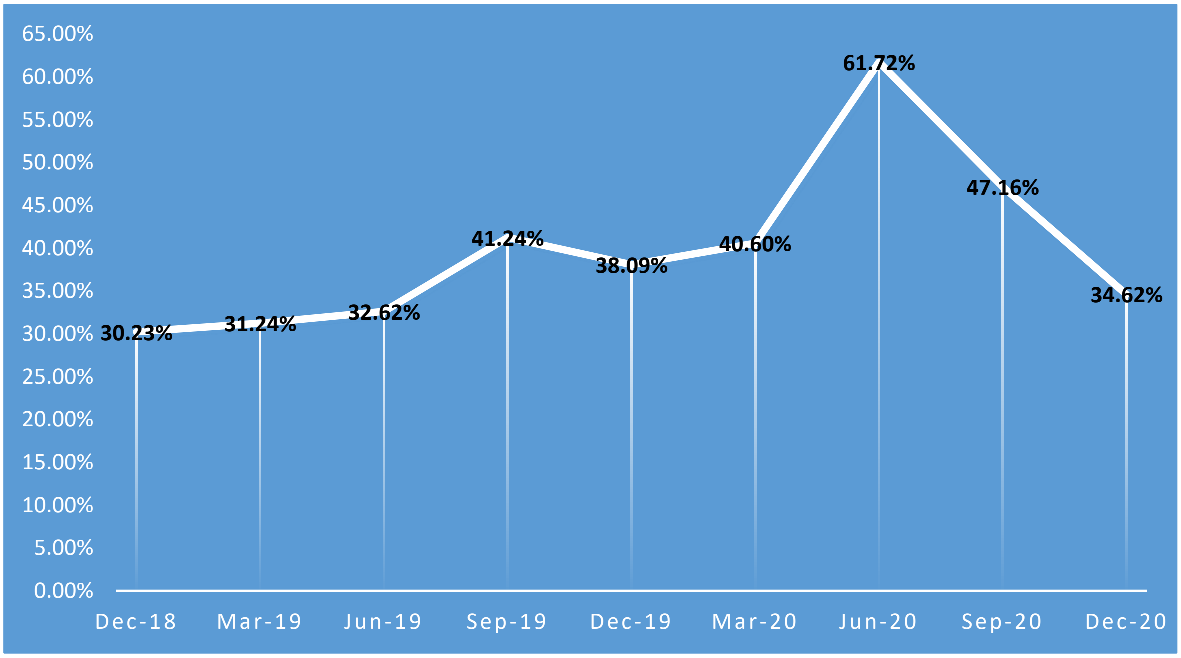


3.7. Following extension of the deadline for banking institutions to comply with the new minimum capital levels effective 31 December 2021, all banking institutions submitted updates of their capitalisation plans as at 31 December 2020.

3.8. Banking institutions are registering progress towards meeting the new capital requirements and are expected to submit updated capital plans as at 30 June 2021.

3.9. The banking industry's average capital adequacy ratios from December 2018 to December 2020 are shown in the figure below:

Figure 3: Capital Adequacy Ratios Trend



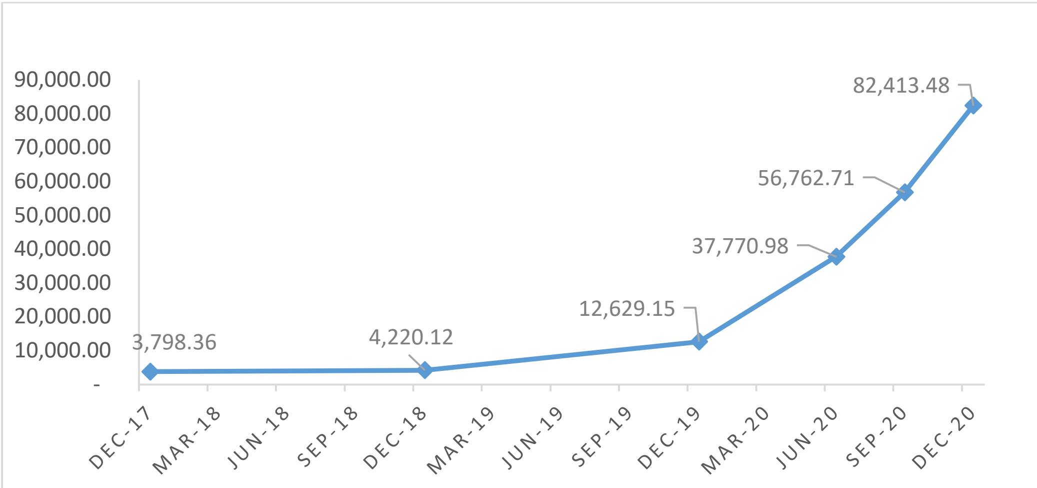
Asset Quality...

3.10. Total banking sector loans and advances increased from $56.76 billion as at 30 September 2020 to $82.41 billion as at 31 December 2020, largely attributed to the translation of foreign currency denominated loans.

3.11. The bank's aggregated loans and advances remained restrained, given a loans to deposits ratio of 39.45%, largely as a result of cautious lending approach by some banking institutions.

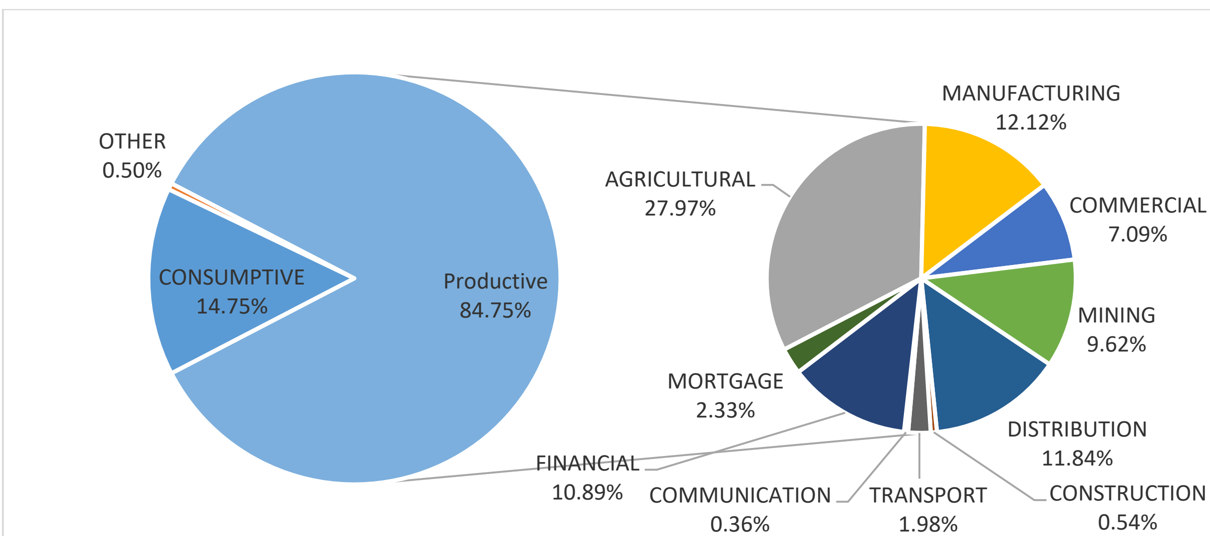
3.12. Figure 5 below shows the trend in the total banking sector loans and advances from December 2015 to December 2020.

Figure 5: Trend in Banking Sector Loans & Advances



3.13. Banking sector lending continued to be predominantly composed of loans to productive sectors of the economy constituting 84.75% of total banking sector loans as at 31 December 2020, as shown in the figure below.

Figure 6: Sectoral Distribution of Loans



Loan Portfolio Quality

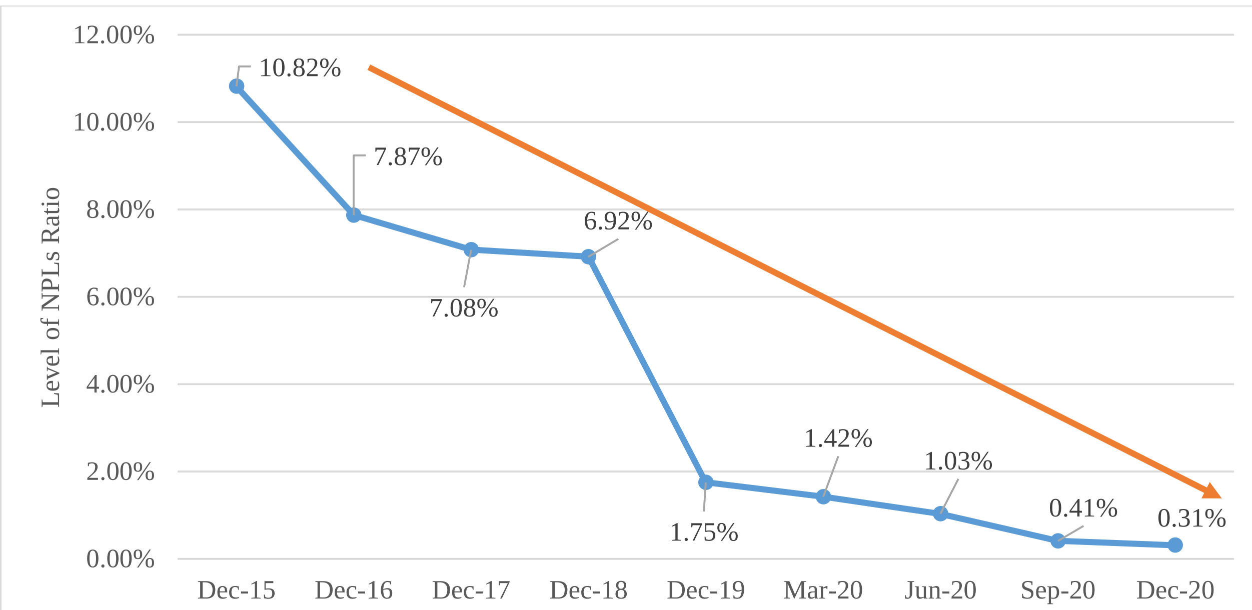
3.14. Banking sector loan portfolio quality continued to improve, as reflected by a decline in the non-performing loans (NPLs) to total loans ratio from 0.41% as at 30 September 2020 to 0.31% as at 31 December 2020.

3.15. The improvement in the NPLs ratio was mainly due to an increase in total banking sector loans and advances during the period under review, from $56.76 billion to $82.41 billion.

3.16. In addition to the above, the improvement in the NPLs ratio, was also attributed to some banking institutions enhancing their credit risk management practices through their loan grading methodologies, recoveries and write-offs.

3.17. Figure 7 below shows the trend in the level of non-performing loans to total loans ratio (NPLs ratio) from December 2015 to December 2020.

Figure 7: Trend in NPL Ratio



3.18. At the onset of the pandemic, heightened credit risk was envisaged emanating from anticipated disruptions in production and economic activity and the resultant impact on the cash-flows and income of some consumers and businesses. However, the covid-19 disruptive effects were not as severe as initially anticipated and this, coupled with strengthened credit risk management practices by banks, mitigated potential delinquencies.

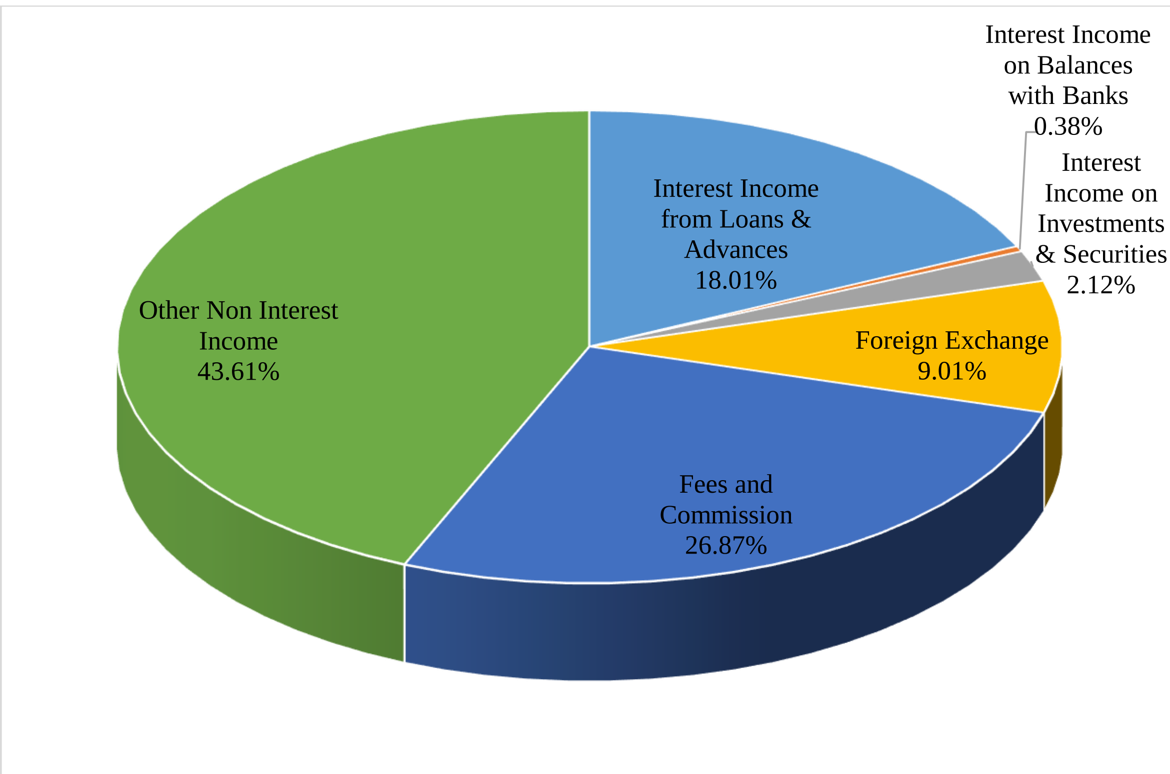
3.19. The Reserve Bank is utilizing its early warning system framework to closely monitor developments in the banking sector's credit risk exposures.

Earnings Performance...

3.20. During the year ended 31 December 2020 all banking institutions were profitable, with aggregate banking sector profits for the period of $34.24 billion, an increase from $6.41 billion reported for the corresponding period in 2019.

3.21. The growth in income is largely attributable to non-interest income which constituted 79.49% of total income. Non-interest income mainly comprised translation gains on foreign currency denominated assets, revaluation gains from investment properties, as well as fees and commissions, as shown in the figure below.

Figure 8: Income Mix - 31 December 2020



3.22. Banking sector profitability as measured by the return on assets and return on equity ratios improved from 8.99% and 33.02% as at 31 December 2019, to 13.55%

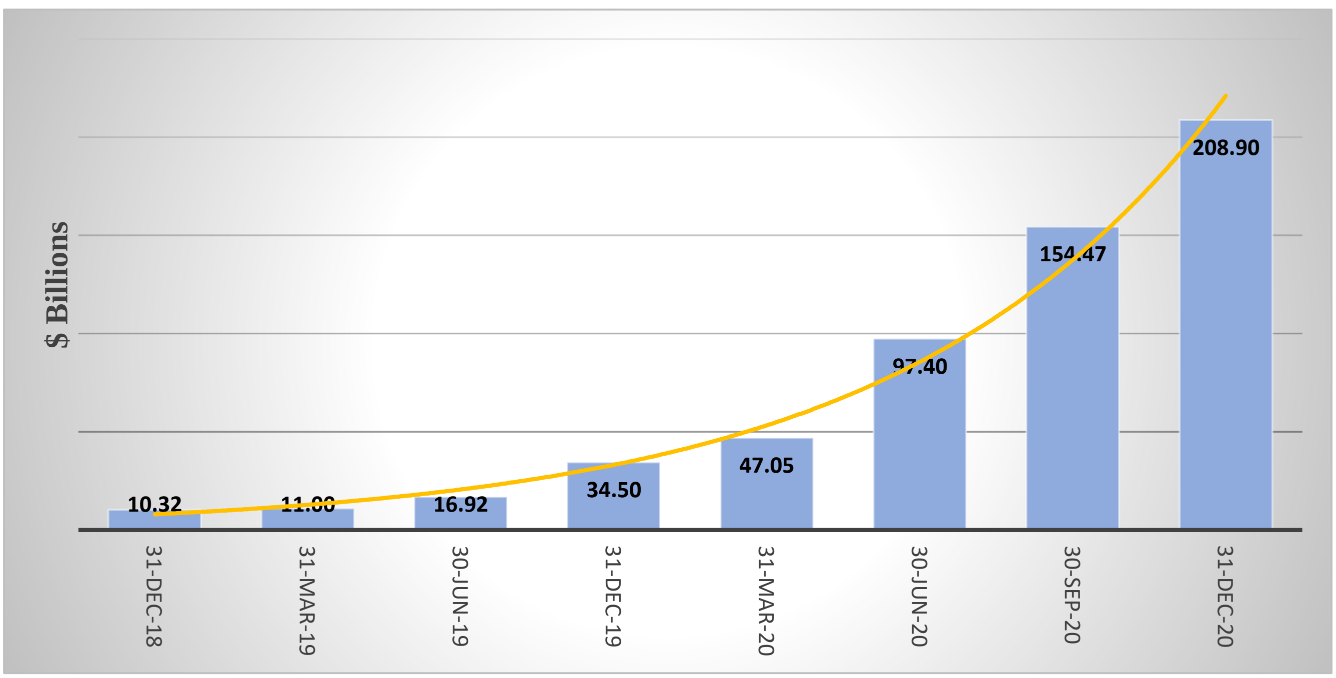
and 45.54% as at 31 December 2020, respectively.

Liquidity and Funds Management...

3.23. Total banking sector deposits increased by 35.23%, from $154.47 billion reported as at 30 September 2020, to $208.90 billion as at 31 December 2020. The deposits were made up of ZW$125.3 billion (60%) in foreign currency and ZW$83.5 billion (40%) in local currency. The increase was mainly attributable to revaluation of foreign currency denominated deposits following the introduction of a floating exchange rate as announced in the Monetary Policy of 22 February 2019.

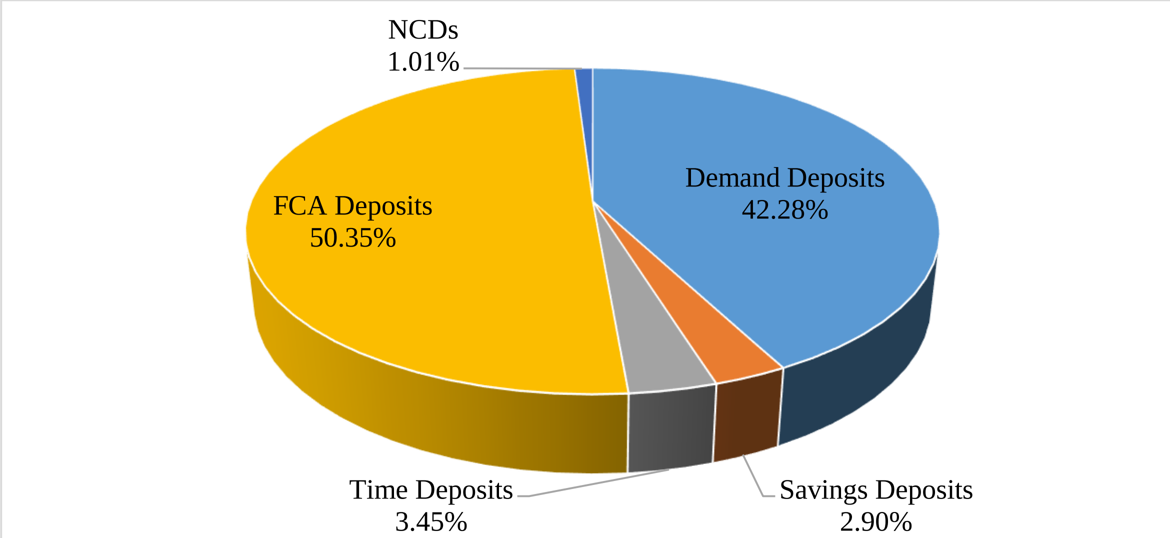
3.24. The trend of banking sector deposits over the period 31 December 2018 to 31 December 2020 is shown in the figure below.

Figure 9: Trend of Banking Sector Deposits ($ billions)



3.25. As at 31 December 2020, the banking sector deposit base was dominated by FCA and demand deposits, which accounted for 50.35% and 42.28% of total non-bank deposits, respectively, as shown in the figure below.

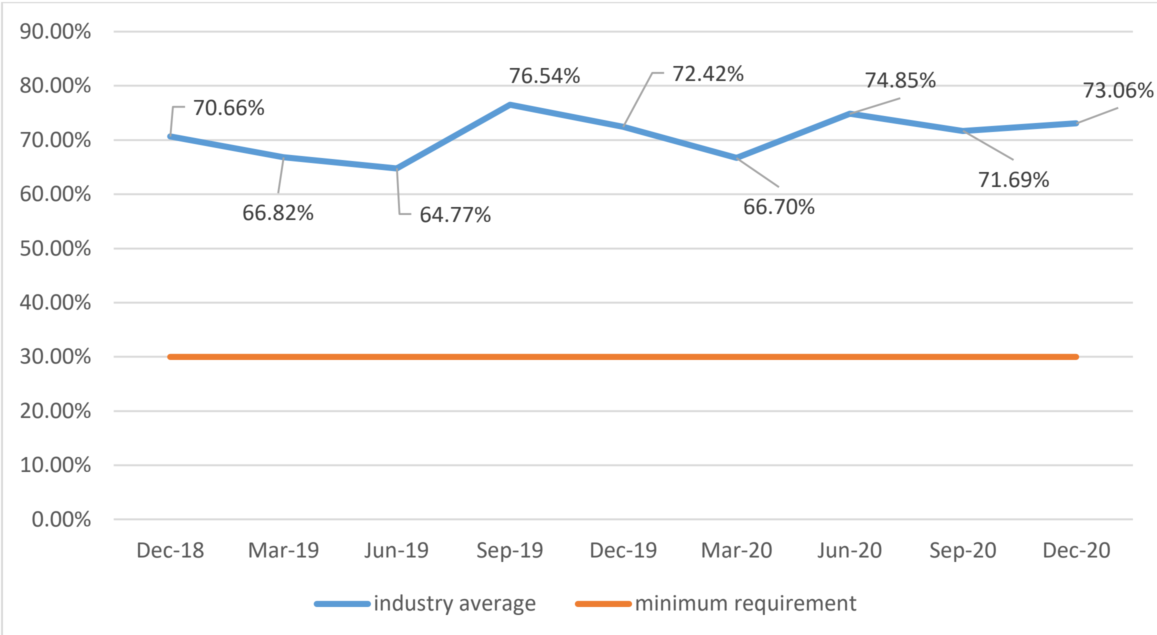
Figure 10: Composition of Deposits as at 31 December 2020



3.26. The commercial banking sub-sector deposits amounted to $185.80 billion, which accounted for 91.02% of the total banking sector deposits as at 31 December 2020.

3.27. The average prudential liquidity ratio of 73.06% as at 31 December 2020 was above the minimum regulatory requirement of 30% as shown in figure 10 below.

Figure 10: Prudential Liquidity Ratio Trend (%)



3.28. The high prudential liquidity ratio for the banking sector was partly a reflection of the cautious lending approach being adopted by banking institutions in light of macroeconomic vulnerabilities.

Sensitivity to Market Risk…

3.29. The banking sector had an overall asset sensitive book as at 31 December 2020, with positive cumulative re-pricing gaps in all time bands implying that most banks will gain if market interest rates remain on an upward trajectory.

3.30. Banking institutions were resilient to a major shock of 45-percentage points increase in interest rates, as their capital adequacy ratios remained above the prescribed minimum of 12%.

Outlook…

3.31. In the outlook period, the banking sector is expected to maintain its resilience on the back of continued fiscal consolidation in the context of the National Development Strategy, monetary stabilisation and financial stability enhancement measures.

3.32. The progress in recapitalisation by most banks in line with new minimum requirements, coupled with enhanced bank strategic alignments will promote the safety and soundness of the banking sector,

3.33. The favourable projected economic recovery in 2021 is also expected to improve the operating environment for the financial sector as a whole.

3.34. The Reserve Bank will continue to monitor developments in the banking sector with a view to put in place proactive policies that will maintain overall banking sector soundness

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