BANK SUPERVISION DIVISION

BANKING SECTOR REPORT

FOR

QUARTER ENDED 30 JUNE 2020

1. EXECUTIVE SUMMARY

1.1. During the first half of 2020, the banking sector demonstrated resilience and performed satisfactorily despite the COVID-19 induced challenges. The banks continued to play an important role in supporting the funding needs of the economy.

1.2. As at 30 June 2020, the banking sector was adequately capitalised with average capital adequacy and tier 1 ratios of 61.72% and 34.35%, which were above the regulatory minima of 12% and 8%, respectively. All banking institutions were compliant with the minimum capital adequacy requirements.

1.3. The aggregate banking sector core capital was $20.99 billion as at 30 June 2020, a 95.44% increase from $10.74 billion reported during the previous quarter. The growth in core capital was mainly attributed to capitalisation of retained earnings from foreign currency translation gains and revaluation gains from investment properties.

1.4. Total banking sector assets increased by 95.93%, from $98.79 billion to $193.56 billion, while total banking sector loans and advances increased by 94.49%, from $19.42 billion to $37.77 billion, during the quarter under review. The growth was mainly attributable to translation gains on foreign currency denominated loans.

1.5. The quality of the banking sector loan portfolio continued to improve as evidenced by a decrease in the non-performing loans (NPLs) to total loans ratio from 1.42% to 1.03%, during the period under review.

1.6. All banking institutions were profitable during the period under review, with aggregate banking sector profits for the half-year ended 30 June 2020 of $13.46 billion, up from $938.89 million reported for the corresponding period in 2019. The growth in net income was largely driven by translation gains from foreign currency denominated assets, as well as revaluation gains from investment properties.

1.7. Total banking sector deposits amounted to $97.40 billion as at 30 June 2020, representing an increase of 107.01%, from $47.05 billion reported as at 31 March 2020, mainly due to translation of foreign currency denominated deposits. During the period under review the loans to deposits ratio was 37.71% reflecting scope for the banking sector to scale up financial intermediation.

1.8. The prudential liquidity ratio for the banking sector was 74.85%, against minimum requirement of 30%.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. As at 30 June 2020, there were 19 banking institutions and 222 other institutions under the supervision of the Reserve 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	212
Deposit-taking MFIs	8
Development Financial Institutions	2
Total	**222**

2.2. As at 30 June 2020, two (2) deposit-taking microfinance institutions which were licensed in September 2019 and February 2020, respectively, were still to commence operations, as they were putting in place the necessary infrastructure for commencement of business, while one (1) deposit taking microfinance institution was under curatorship.

3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1. The banking sector demonstrated resilience, and performance was considered satisfactory during the quarter ended 30 June 2020, as evidenced by the financial soundness indicators provided in the Table below.

Table 2: Financial Soundness Indicators

Key Indicators	Benchmark	June-19	Dec-19	Mar-20	June -20
Total Assets	-	$23.54bn	$60.64bn	$98.79bn	$193.56bn
Total Loans & Advances	-	$6.17bn	$12.63bn	$19.42bn	$37.77bn
Net Capital Base	-	$3.31bn	$9.75bn	$14.25bn	$29.47bn
Total Deposits	-	$16.92bn	$34.50bn	$47.05bn	$97.40bn
Net Profit	-	$938.89m	$6.41bn	$1.99bn	$13.46bn
Return on Assets	-	5.11%	8.99%	2.44%	10.53%
Return on Equity	-	20.95%	33.02%	8.67%	27.38%
Capital Adequacy Ratio	12%	32.64%	39.56%	41.83%	61.72%
Tier 1 Ratio	8%	27.24%	27.87%	27.87%	34.35%
Loans to Deposits	70%	36.49%	36.60%	41.28%	37.71%
Non-Performing Loans Ratio	5%	3.95%	1.75%	1.42%	1.03%
Liquidity Ratio	30%	64.77%	72.42%	66.71%	74.85%

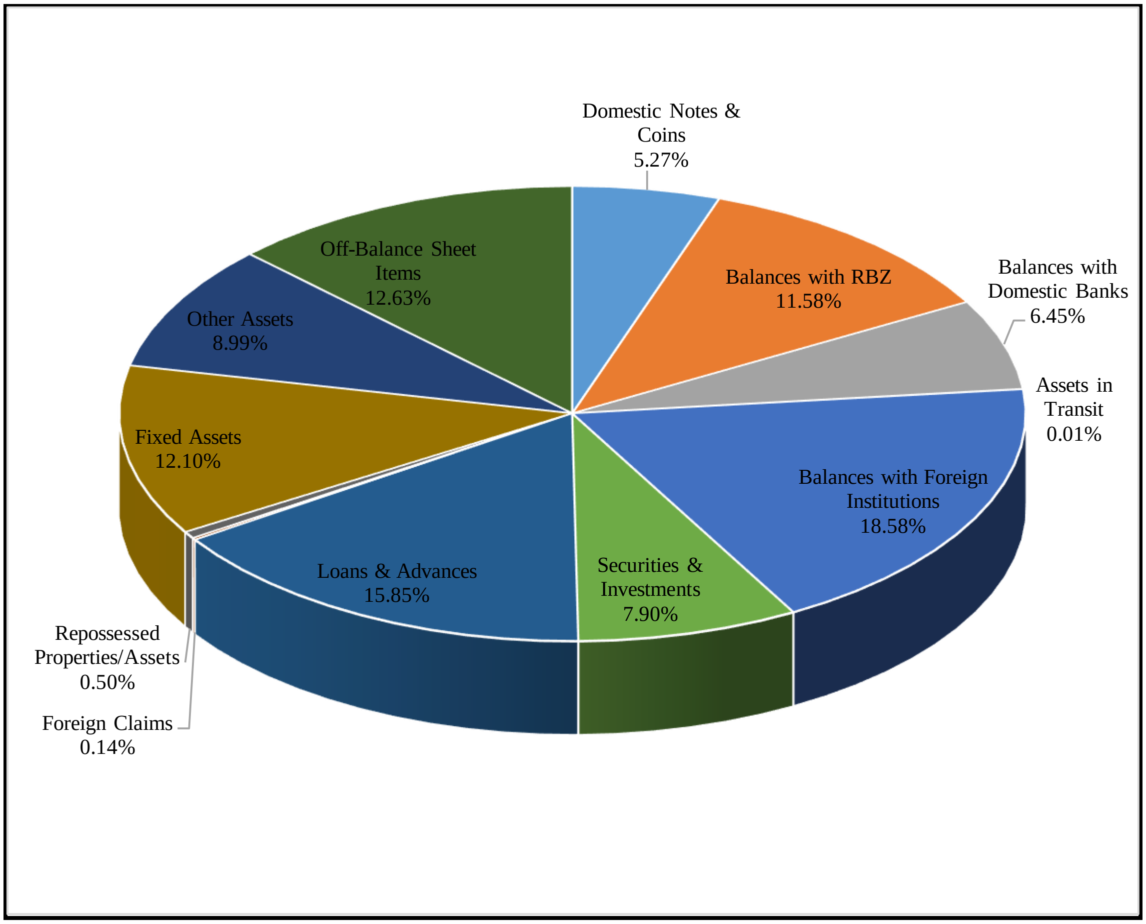
Composition of Banking Sector Assets…

3.2. Total banking sector assets amounted to $193.56 billion as at 30 June 2020, up from $98.79 billion as at 31 March 2020, representing a 95.93% increase. The growth in banking sector assets was mainly attributable to translation of foreign currency denominated loans, as well as, balances with foreign institutions.

3.3. As at 30 June 2020, banking sector total assets largely comprised of balances with foreign institutions, loans & advances and off balance sheet items, which constituted 18.58%, 15.85% and 12.63%, respectively.

3.4. The banking sector asset mix is shown in the figure below:

Figure 1: Asset Mix as at 30 June 2020



Capitalisation…

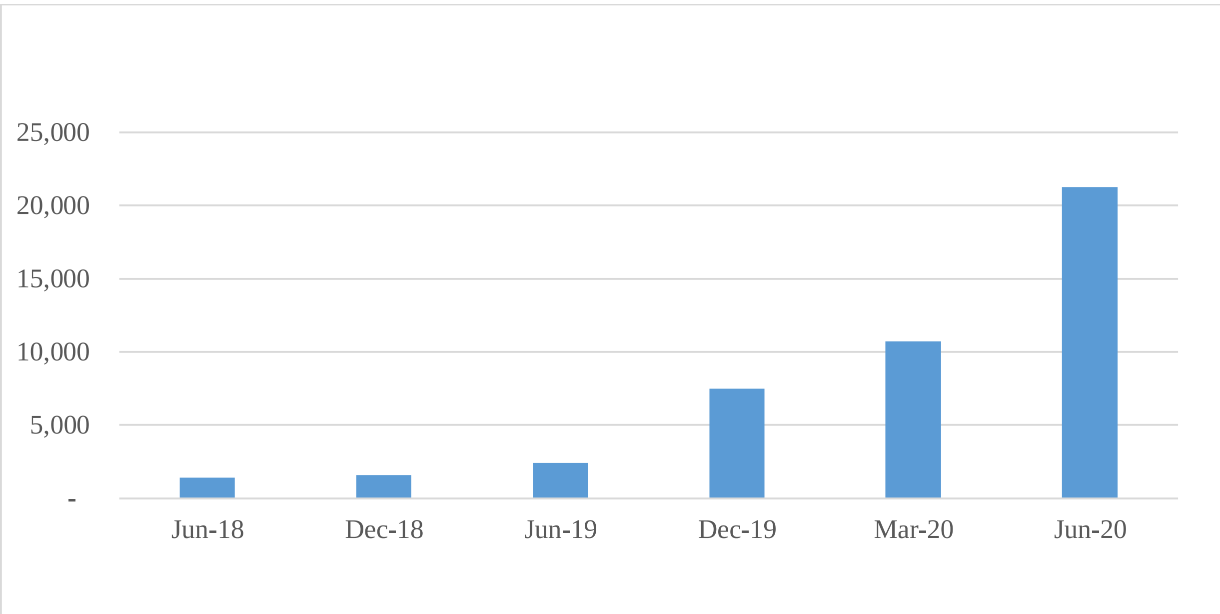
3.5. As at 30 June 2020, the reported aggregate banking sector core capital was $20.99

billion, representing a 90.16% increase, from $10.74 billion as at 31 March 2020.

3.6. The growth in core capital was mainly attributed to translation gains arising from foreign currency denominated assets, as well as revaluation gains on investment properties, following depreciation of the Zimbabwean Dollar from USD1/ZW$25 in March 2020 to USD1:ZW$63.7442 as at 30 June 2020.

3.7. Figure 2 shows core capital trends from June 2018.

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



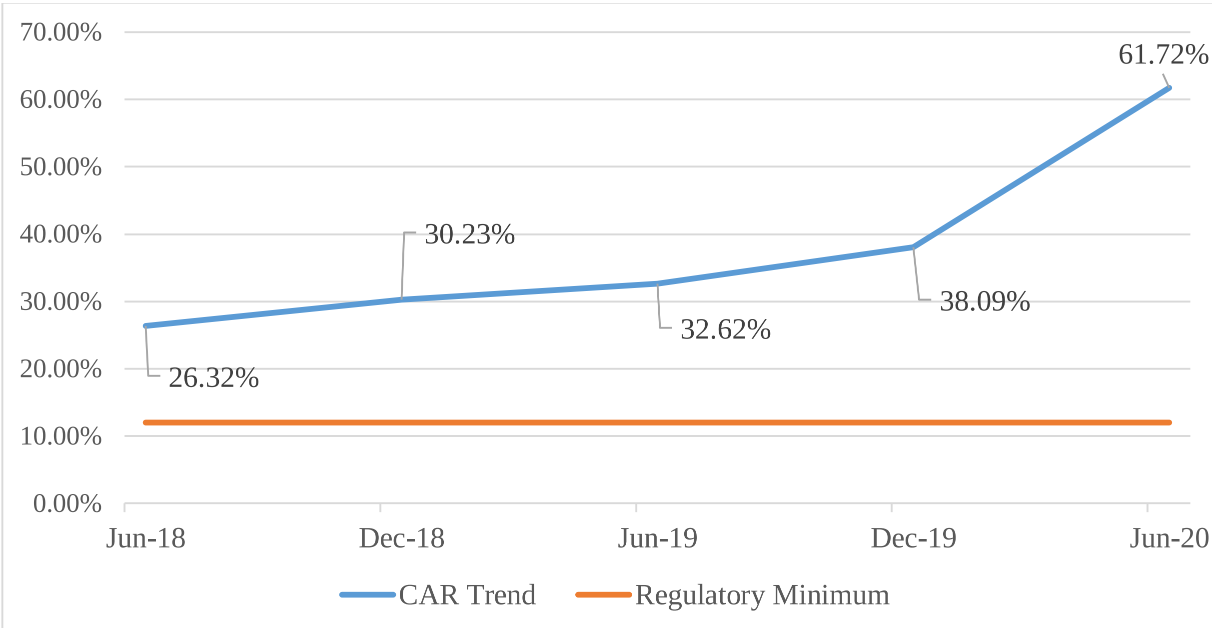
3.8. Consistent with the International Accounting Standard (IAS 40), banking institutions recognised the revaluation gains arising from a change in the fair value of investment properties and translation gains from monetary assets, through the profit and loss account, forming part of retained earnings.

3.9. Banking institutions submitted capital plans to the Bank by 30 June 2020, indicating their preferred strategic group, as well as, proposed strategies for compliance with the set capital thresholds effective 31 December 2021.

3.10. All banking institutions were compliant with the minimum regulatory capital adequacy and tier 1 ratios.

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

Figure 3: Capital Adequacy Ratios Trend



Asset Quality...

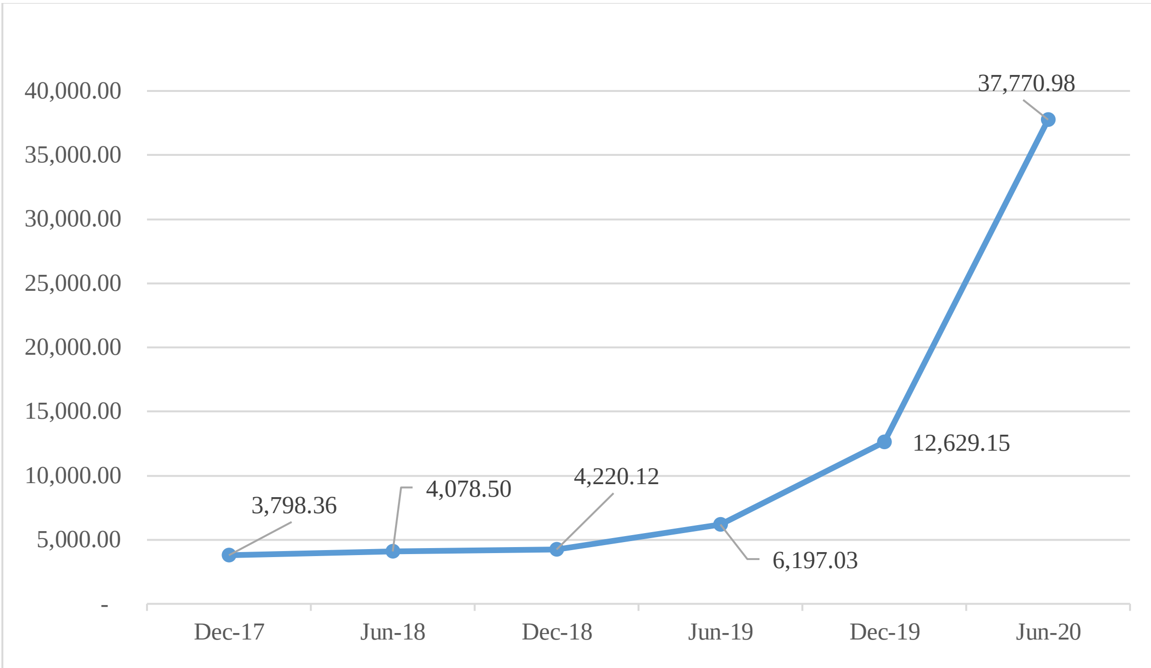
3.12. Total banking sector loans and advances increased by 94.49%, from $19.42 billion as at 31 March 2020, to $37.77 billion as at 30 June 2020. The growth in total banking sector loans and advances was largely attributed to the translation of foreign currency denominated loans.

3.13. During the period under review, banking sector financial intermediation remained subdued, as reflected by the loans to deposits ratio of 37.71%, largely as a result of cautious lending approach adopted by some banking institutions.

3.14. The trend of banking sector loans and advances from 31 December 2017 to 30 June

2020 is shown in the figure below:

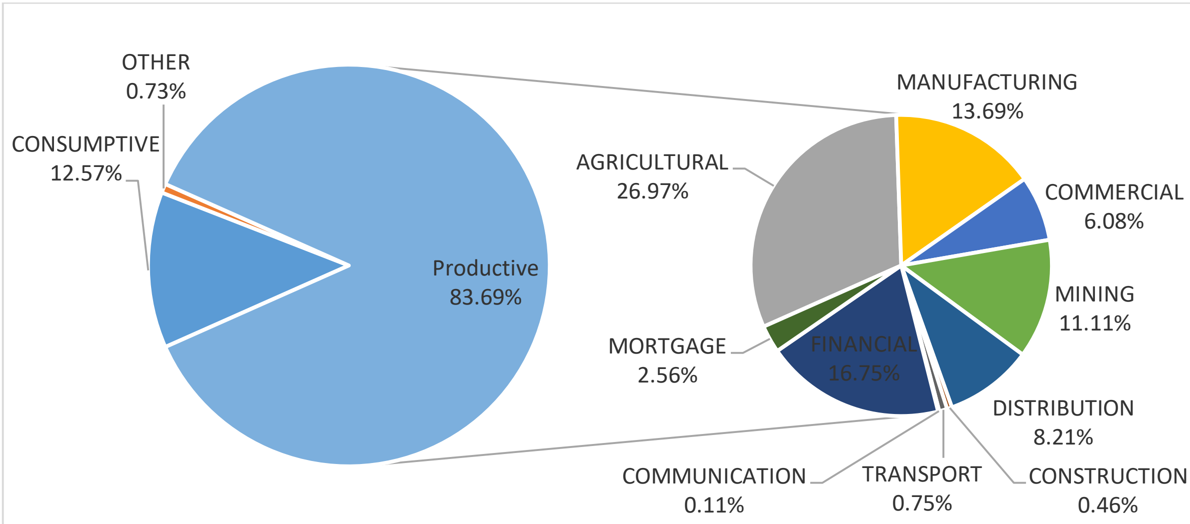
Figure 4: Banking Sector Loans & Advances ($ millions)



Distribution of Loans and Advances…

3.15. Loans to productive sectors of the economy constituted 83.69% of total banking sector loans as at 30 June 2020, as shown in the figure below.

Figure 5: Sectoral Distribution of Loans as at 30 June 2020



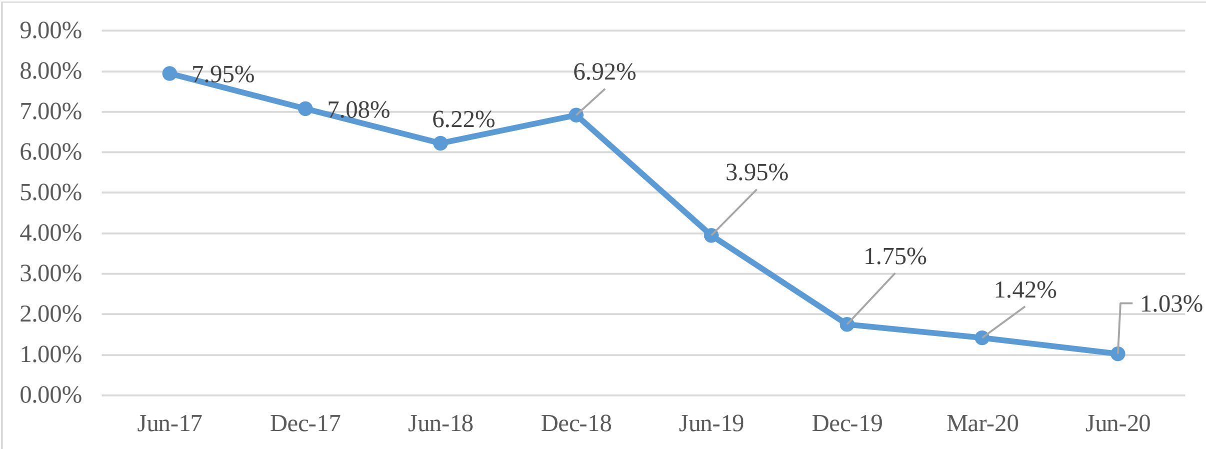
Non-Performing Loans

3.16. The quality of the banking sector loan portfolio continued to improve, as reflected by an improvement in the non-performing loans (NPLs) to total loans ratio, from 1.42% as at 31 March 2020, to 1.03% as at 30 June 2020.

3.17. The improvement in the NPLs ratio was mainly driven by an increase in total banking sector loans and advances during the period under review, from $19.42 billion in March 2020, to $37.77 billion vis-a-vis the increase in the stock of non-performing loans from $275.59 million to $390.87 million. The growth in non-performing loans was mainly driven by exchange rate movements on a few non-performing loans denominated in foreign currency at some banking institutions.

3.18. Figure 6 below shows the trend in the level of non-performing loans to total loans ratio (NPLs ratio) from December 2015 to June 2020.

Figure 6: Trend in NPL Ratio



3.19. The financial distress on some firms and households from the disruptive effects of the Covid-19 pandemic could impact on the quality of some banks' loan portfolio.

Earnings Performance...

3.20. All banking institutions were profitable during the period under review. Aggregate banking sector profits for the half-year ended 30 June 2020 amounted to $13.46 billion from $938.89 million reported for the corresponding period in 2019.

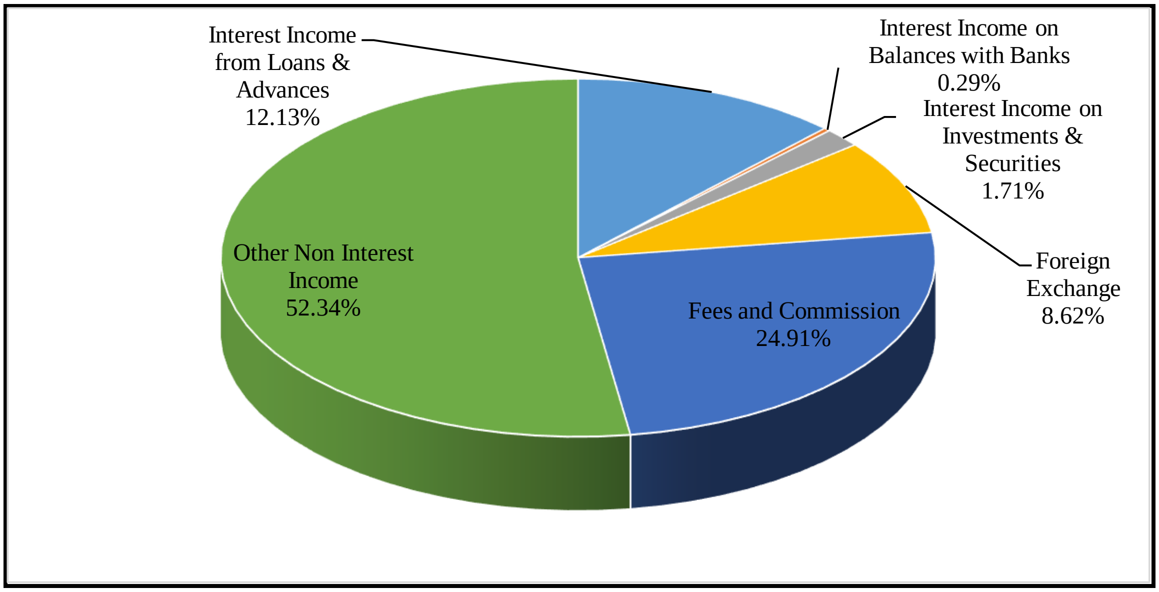
3.21. The growth in net income was largely driven by revaluation gains on foreign currency denominated assets and investment properties.

3.22. Revaluation gains from investment properties and translation gains on foreign currency contributed 18% and 23%, respectively, of the banking sector total income ($22.59 billion) as at 30 June 2020.

3.23. During the period under review, other non-interest income, mainly from revaluation gains on foreign currency assets, was the key revenue driver in the sector, followed by fees and commissions.

3.24. The figure below shows the income mix as at 30 June 2020.

Figure 7: Banking Sector Income Mix as at 30 June 2020



3.25. The income mix in the banking sector continued to be skewed towards non-funded income during the period ended 30 June 2020. Non-interest income increased from 21.92% as at 30 June 2019 to 52.34% of the total banking sector income as at 30 June 2020, whilst income from foreign exchange trading constituted 8.62% of total banking sector income.

3.26. Banking sector earnings performance improved as reflected by the increase in the return on assets and return on equity ratios from 5.03% and 20.28% as at 30 June 2019, to 10.53% and 27.38% as at 30 June 2020, respectively.

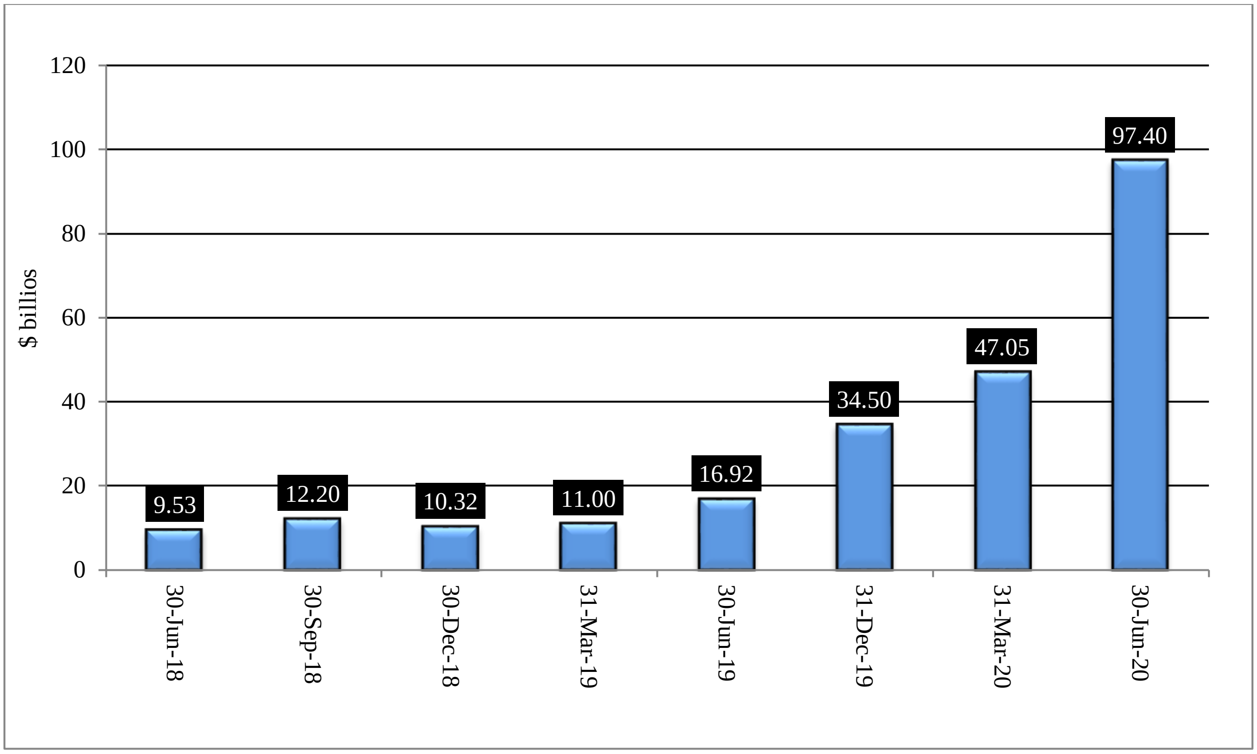
Liquidity and Funds Management...

3.27. Total banking sector deposits amounted to $97.40 billion as at 30 June 2020, representing an increase of 107.01%, from $47.05 billion reported as at 31 March 2020.

3.28. The increase in the deposit base was mainly attributable to revaluation of foreign currency denominated deposits.

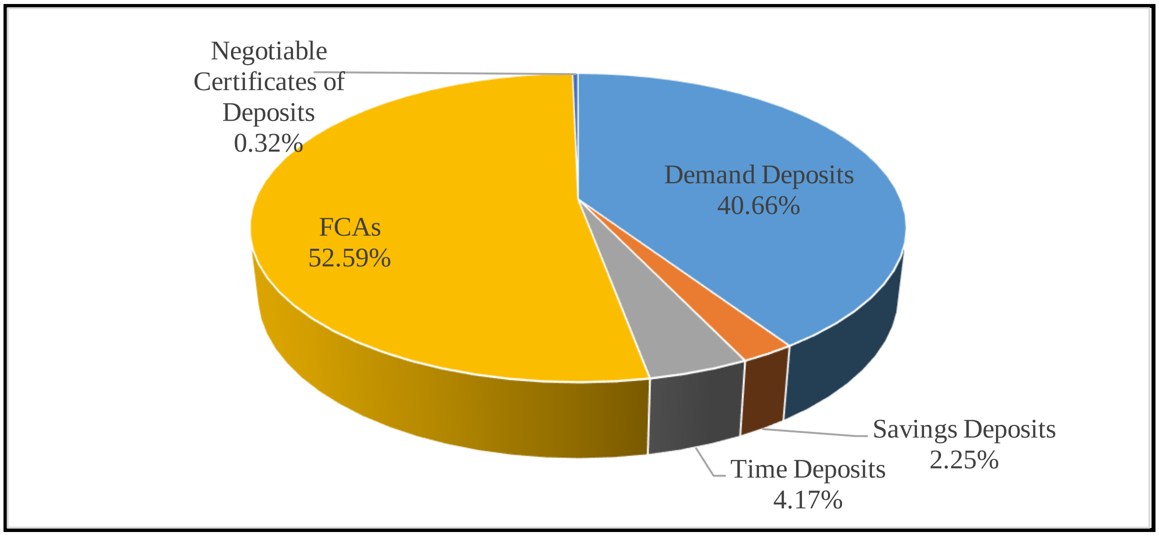
3.29. The trend of banking sector deposits over the period 31 December 2017 to 30 June 2020 is shown in Figure 8 below.

Figure 8: Trend of Banking Sector Deposits ($ billions)



3.30. The deposit base for the banking sector is dominated by FCA deposits and demand deposits, which accounted for 52.59% and 40.66% of the total non-bank deposits, respectively, as shown in the figure below.

Figure 9: Composition of Deposits as at 30 June 2020

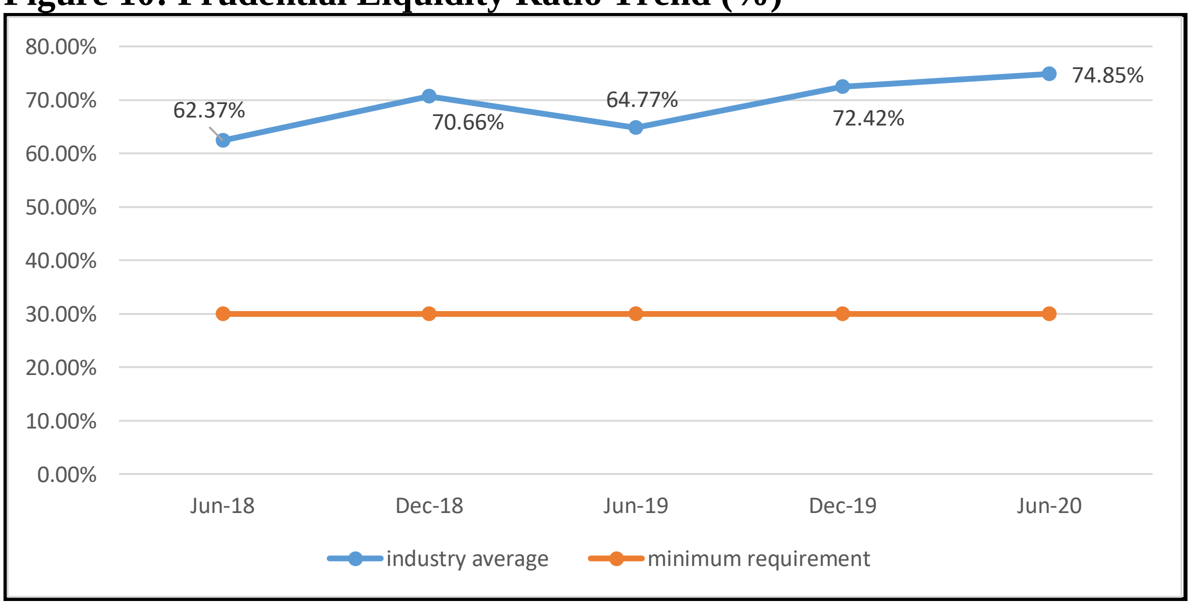


3.31. The prudential liquidity ratio for the banking sector of 74.85% as at 30 June 2020, was above the minimum regulatory requirement of 30%.

3.32. Seventeen (17) out of nineteen (19) banking institutions were compliant with the minimum prudential liquidity ratio of 30%. The two (2) non-compliant institutions are implementing measures to ensure compliance.

3.33. The trend in the average prudential liquidity ratio since June 2018 is shown in the figure 10 below.

Figure 10: Prudential Liquidity Ratio Trend (%)



3.34. The high prudential liquidity ratio for the banking sector was partly a reflection of the cautious lending approach being adopted by banking institutions.

Sensitivity to Market Risk…

3.35. The banking sector had an overall asset sensitive book as at 30 June 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.

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

Outlook…

3.37. Globally, the impact of the COVID-19 pandemic has been greater than previously estimated. This has led to global economic output for 2020 being revised downwards from -3% to -4.9% (IMF, June 2020).

3.38. The support measures, as well as, the regulatory and supervisory interventions instituted by the Bank since March 2020, are expected to stabilize markets, bolster the flow of credit and strengthen the recovery during and post Covid-19.

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