BANK SUPERVISION DIVISION

BANKING SECTOR REPORT FOR THE HALF YEAR ENDED 30 JUNE 2022

1. EXECUTIVE SUMMARY

1.1. The banking sector has demonstrated resilience as reflected by satisfactory financial soundness indicators as at 30 June 2022. Government and the Bank have continued to roll out complementary fiscal and monetary policy interventions to ensure financial sector stability, which is critical in the recovery of the economy.

1.2. As at 30 June 2022, the banking sector was adequately capitalised with average tier 1 and capital adequacy ratios of 18.84% and 33.87%, which were above the regulatory minima of 8% and 12%, respectively.

1.3. The aggregate core capital increased by 106.02% from $138.21 billion as at 31 March 2022 to $284.74 billion as at 30 June 2022, primarily driven by the capitalisation of earnings.

1.4. Total banking sector assets increased from $969.24 billion as at 31 March 2022 to $1.94 trillion as at 30 June 2022. The assets largely comprised loans and advances which constituted 28.15% of total assets.

1.5. Total banking sector loans and advances continued an upward trajectory from $320.36 billion as at 31 March 2022 to $603.14 billion as at 30 June 2022. The increase was largely attributed to the translation of foreign currency denominated loans, which constituted 65.87% of total banking sector loans.

1.6. Asset quality remained strong as reflected by the average non-performing loans (NPLs) to total loans ratio of 1.50% for the banking sector and this compares favourably with the generally acceptable international threshold of 5%.

1.7. Aggregate banking sector net profit increased from $15.09 billion for the half year ended 30 June 2021 to $181.25 billion for the half year ended 30 June 2022, largely driven by non-interest income which constituted 79.03% of total income.

1.8. Total deposits increased from $582.26 billion as at 31 March 2022 to $1.12 trillion as at 30 June 2022, with foreign currency deposits constituting 60.68% of the deposit base.

1.9. The average prudential liquidity ratio for the banking sector of 62.16% as at 30 June 2022, was above the minimum regulatory requirement of 30%, reflecting high stock of liquid assets in the sector.

1.10. In line with efforts to promote adoption of sustainable banking practices in the banking sector, as at 30 June 2022, 10 (ten) banking institutions had already initiated the process of integrating sustainability principles into their corporate governance and risk management systems and practices. The Bank continues to encourage all banking institutions to embrace and adopt sustainable banking practices with a view to create strong and resilient institutions that contribute meaningfully to sustainable and inclusive economic development.

1.11. As part of measures to bolster the stability of the banking sector, the Bank is implementing a number of measures to enhance confidence in the economy, deal with market indiscipline, stabilise inflation and exchange rates and creating a conducive environment to support envisaged economic growth rate for 2022.

1.12. In addition, the Bank is implementing measures which include application of Basel III Liquidity Standards, enhancement and operationalization of the Contingency Planning and Systemic Crisis Management Framework, development of a Macro-Prudential Policy Framework, and recalibration of the early warning models.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. The composition of the banking sector as at 30 June 2022 is as shown in Table 1 below.

Table 1: Architecture of the Banking Sector

Type of Institution	Number
Commercial Banks	13
Building Societies	5
Savings Bank (POSB)	1
Total Banking Institutions	**19**
Other Operational Institutions Under the Supervision of Reserve Bank	
Credit-only-MFIs	**183**
Deposit-taking MFIs	8
Development Financial Institutions (SMEDCO, IDBZ, IDCZ and AFC Land & Development Bank)	4
Total Other Institutions	**195**
Total Number of Institutions	**214**

IDBZ – Infrastructure Development Bank of Zimbabwe, IDCZ – Industrial Development Corporation of Zimbabwe and SMEDCO - Small and Medium Enterprise Development Corporation.

3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1. During the quarter ended 30 June 2022, the sector's condition and performance was satisfactory as reflected by the financial soundness indicators in Table 2 below:

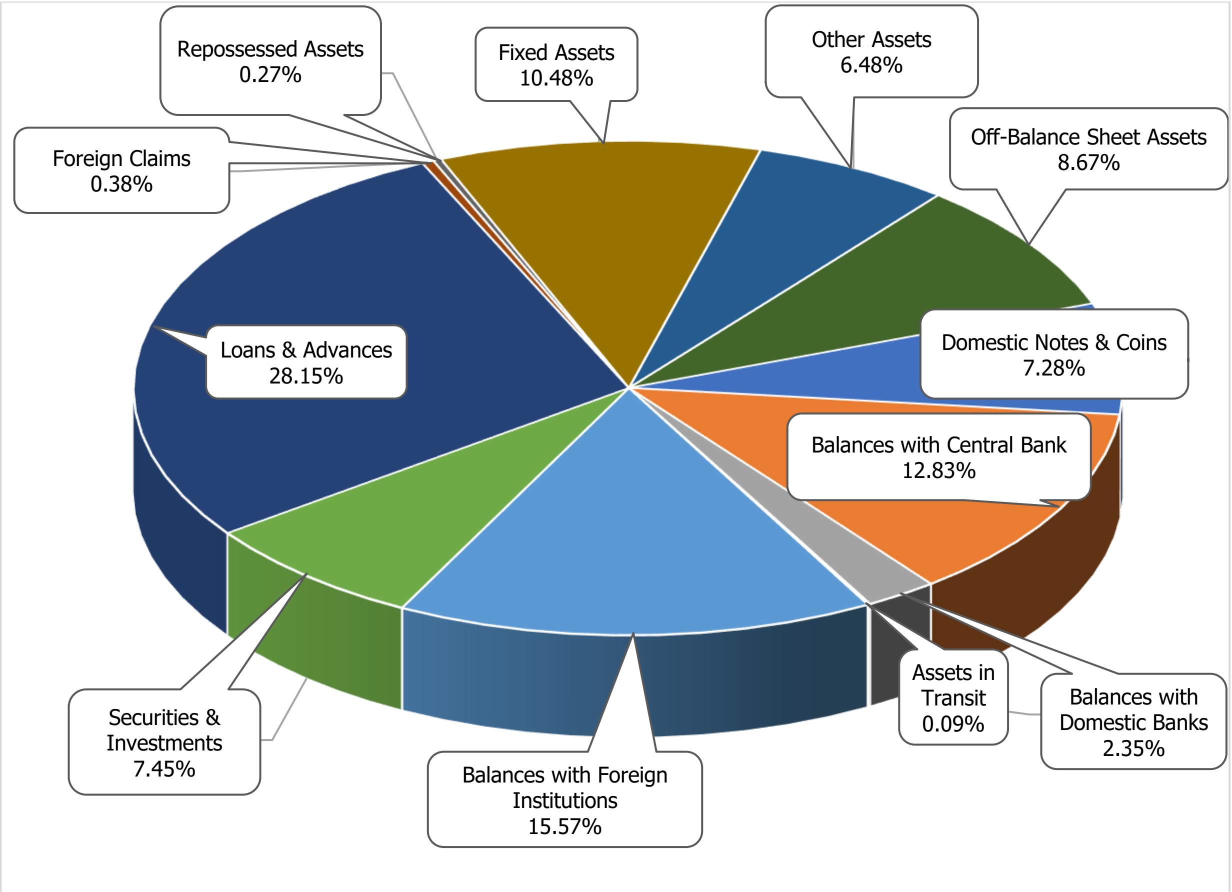
Table 2: Financial Soundness Indicators

Key Indicators	Benchmark	June - 21	Dec-21	Mar-22	June-22
Total Assets	-	$482.28bn	$762.96bn	$969.24bn	$1.94 tn
Total Loans & Advances	-	$142.79bn	$229.94bn	$320.36bn	$603.14bn
Net Capital Base	-	$72.90bn	$122.85bn	$170.00bn	$349.48bn
Core Capital	-	$57.54bn	$100.83bn	$138.21bn	$284.74bn
Total Deposits	-	$311.50bn	$476.35bn	$582.26bn	$1.12tn
Net Profit	-	$15.09bn	$59.29bn	$27.05bn	$181.25bn
Return on Assets	-	4.38%	12.04%	3.39%	8.67%
Return on Equity	-	18.71%	43.16%	12.43%	31.60%
Capital Adequacy Ratio	12%	35.32%	32.86%	35.16%	33.87%
Tier 1 Ratio	8%	25.05%	26.54%	26.97%	18.84%
Loans to Deposits Ratio	70%	56.72%	48.27%	55.02%	53.69%
NPLs Ratio	5%	0.55%	0.94%	1.57%	1.50%
Liquidity Ratio	30%	66.89%	64.37%	61.38%	60.78%

Composition of Banking Sector Assets

3.2. Total banking sector assets increased by 100.22% from $969.24 billion as at 31 March 2022 to $1.94 trillion as at 30 June 2022. The dominant assets on the bank balance sheets are loans & advances (28.15%), balances with foreign institutions (15.57%) and balances with central bank at (12.83%). as shown in Figure 1.

Figure 1: Asset Mix as at 30 June 2022

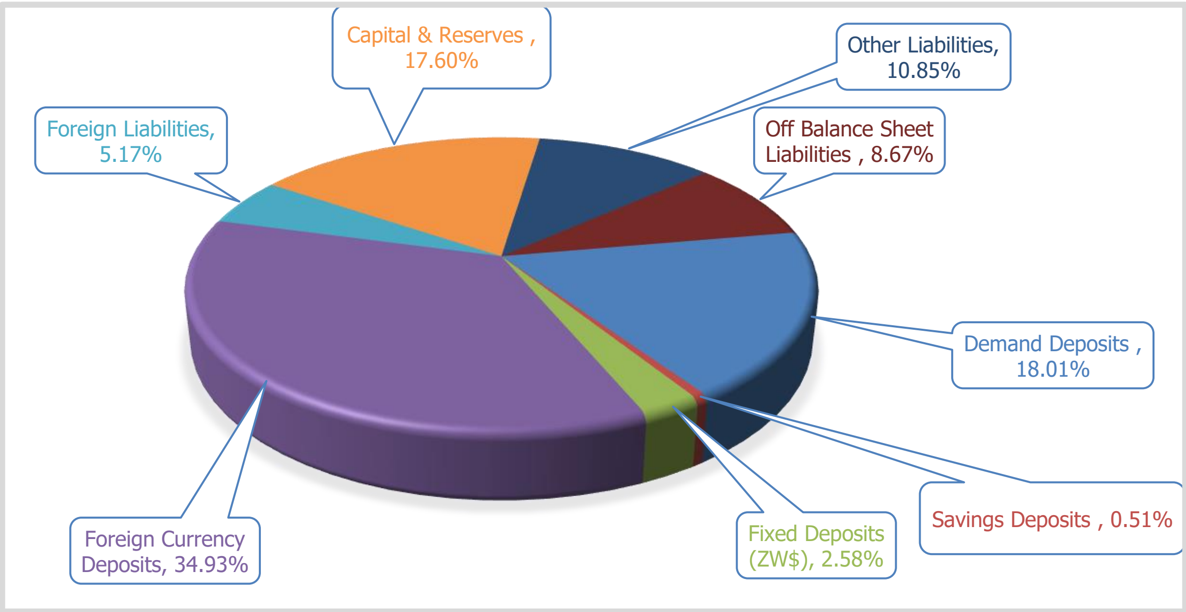


3.3. The larger proportion of loans and advances in the aggregate banking sector balance sheet is consistent with banking institutions' core business of lending.

Liabilities Structure

3.4. As at 30 June 2022, banking sector liabilities largely comprised foreign currency deposits (34.93%), demand deposits (18.01%), and capital and reserves (17.60%), as shown in Figure 2 below.

Figure 2: Decomposition of Liabilities as at 30 June 2022

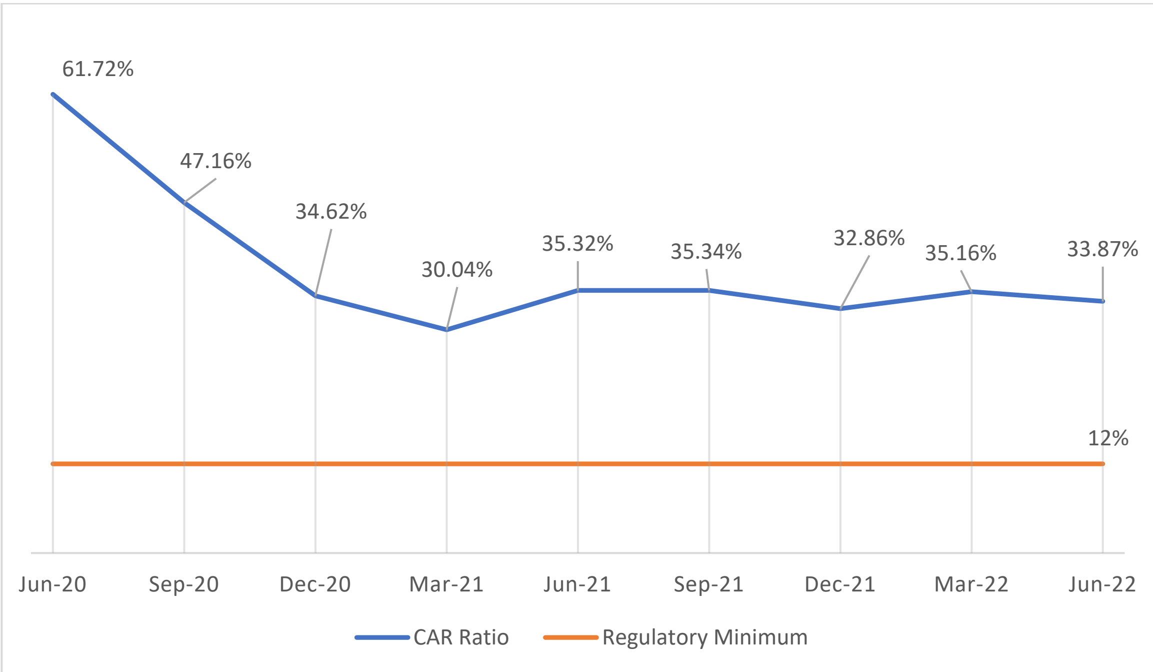


Capitalisation

3.5. The banking sector was adequately capitalised, with average tier 1 and capital adequacy ratios of 18.84% and 33.87%, respectively.

3.6. The average capital adequacy ratios have largely remained stable over the year as shown in figure 3.

Figure 3: Capital Adequacy Ratios Trend

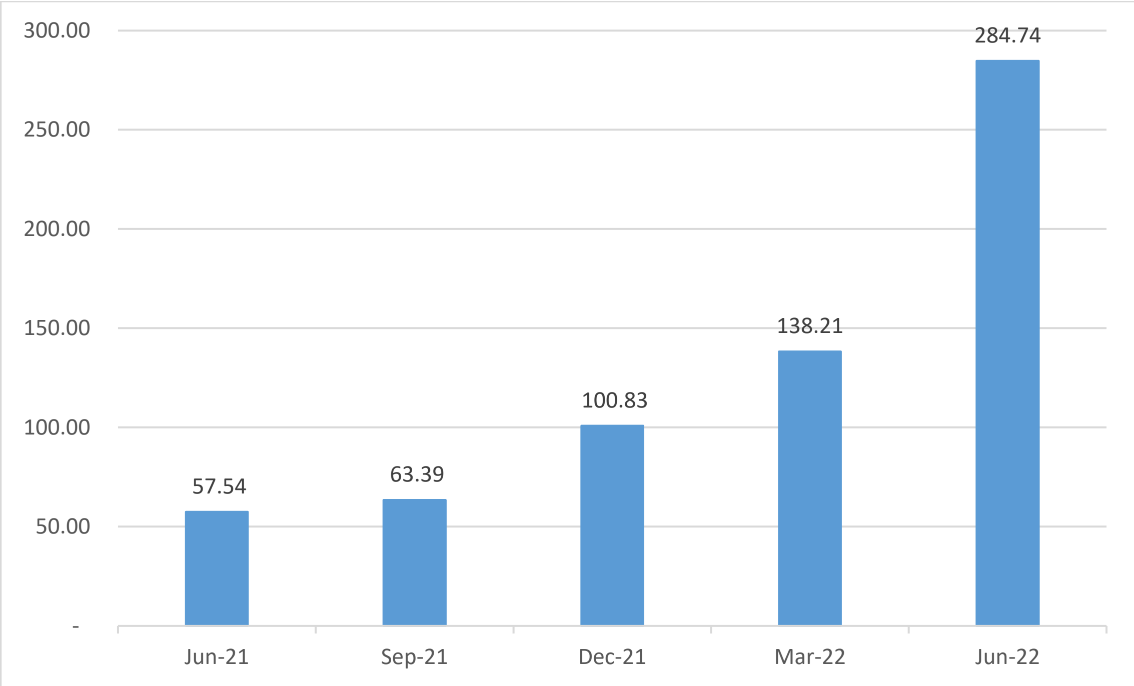


3.7. The significant decrease in the CAR ratio, from the June 2020 peak of 61.72% to 33.87% as at 30 June 2022, is attributable to the significant growth in asset bases, partly explained by revaluation and translation gains.

3.8. The aggregate core capital increased by 106.02% from $138.21 billion as at 31 March 2022 to $284.74 billion as at 30 June 2022, primarily driven by the capitalisation of earnings.

3.9. Figure 4 below shows a trend of core capital trends from June 2021 to June 2022.

Figure 4: Core Capital Trends ($ billion)



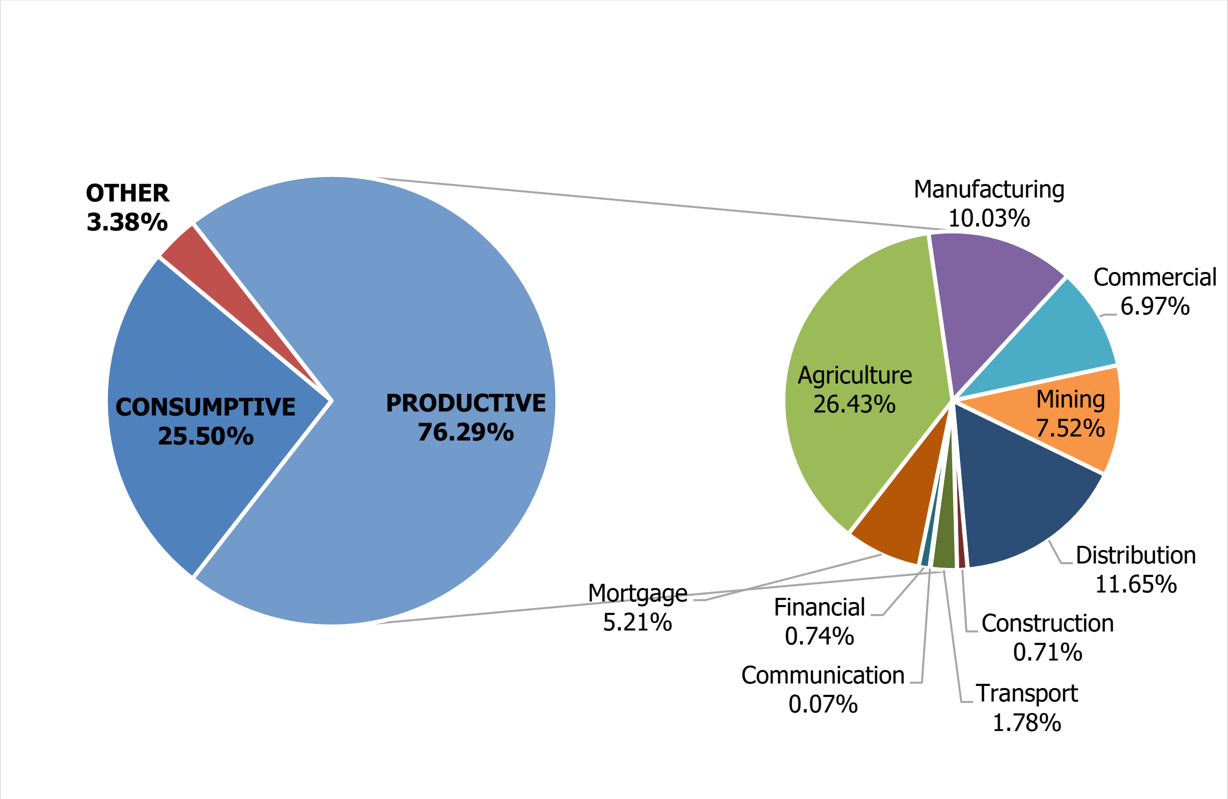
3.10. Stress tests conducted on the sector revealed varying levels of resilience with majority of banking institutions having sufficient capital buffers to absorb losses during stress periods.

Asset Quality

3.11. Total banking sector loans and advances increased significantly from $320.36 billion as at 31 March 2022 to $603.14 billion as at 30 June 2022, which translates to 88.27% growth. The significant growth in total loans and advances was largely attributed to translation of foreign currency denominated loans amounting to $397.29 billion, which constituted 65.87% of total banking sector loans.

3.12. The banking sector continued to support the productive sectors of the economy as evidenced by loans to the productive sectors constituting 76.29% of total loans as at 30 June 2022 as shown in Figure 5 below.

Figure 5: Sectoral Distribution of Loans as at 30 June 2022

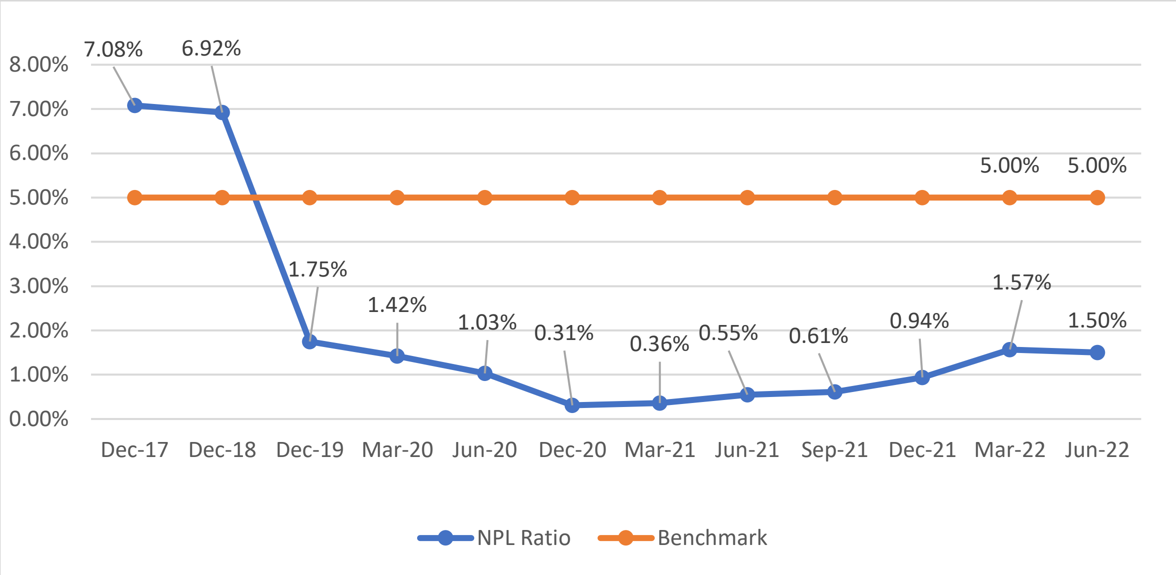


Loan Portfolio Quality

3.13. The portfolio quality of the sector remained strong as measured by the non-performing loans (NPLs) to total loans ratio of 1.50% as at 30 June 2022, against the international benchmark of 5%.

3.14. The trend in the level of non-performing loans to total loans ratio (NPL ratio) from December 2017 to June 2022 is shown in Figure 6 below.

Figure 6: Trend in Non- Performing Loans



3.15. The low NPL ratio is reflective of sound credit risk management systems and strong internal controls by banking institutions.

3.16. The Reserve Bank continues to closely monitor developments in the banking sector's credit risk exposures on an ongoing basis.

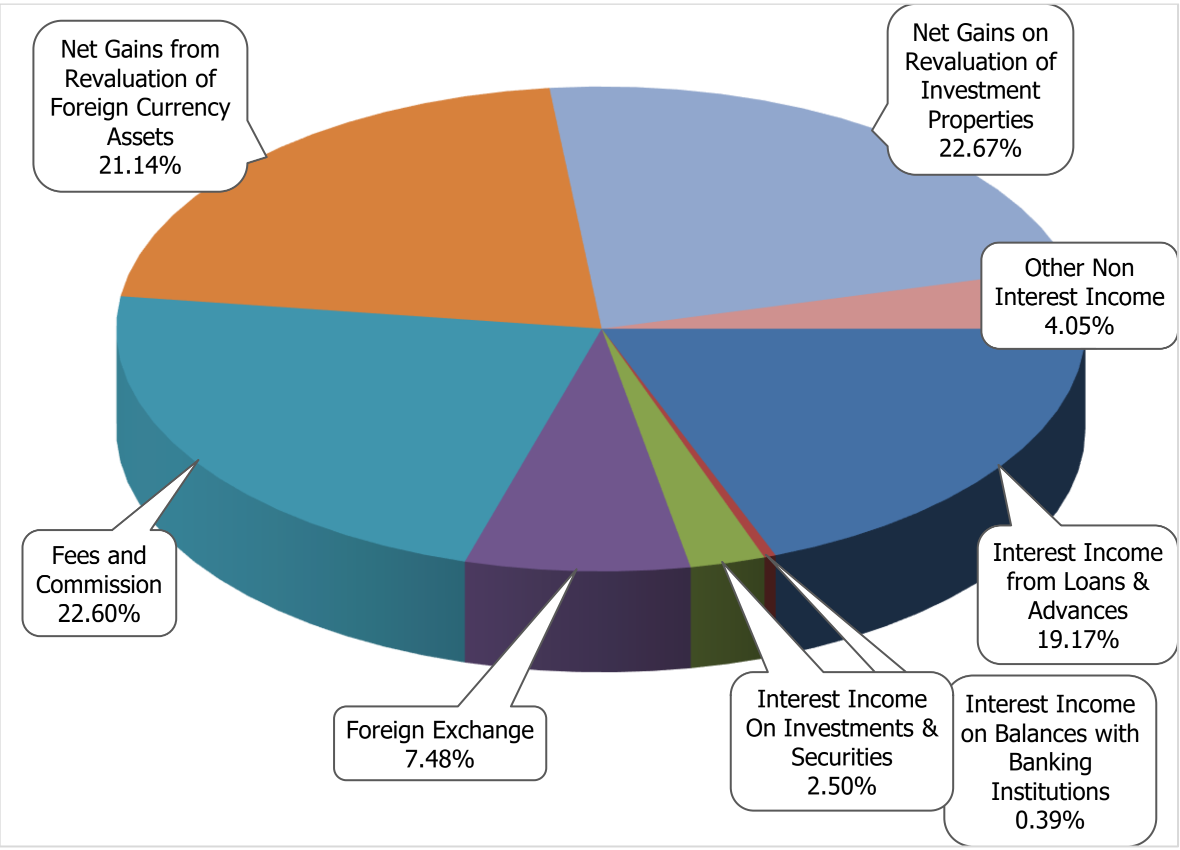
Earnings Performance

3.17. During the period under review, eighteen (18) out of 19 banking institutions reported profits, with aggregate profit of $181.25 billion for the half year ended 30 June 2022, a notable increase from $15.09 billion reported in the corresponding period in 2021.

3.18. Growth in banking sector income was largely spurred by non-interest income, which constituted 79.03% of total income [2021: 51.81%]. Non-interest income comprised mainly revaluation gains from investment properties (22.67%), fees and commissions (22.60%), as well as translation gains on foreign currency denominated assets (21.14%).

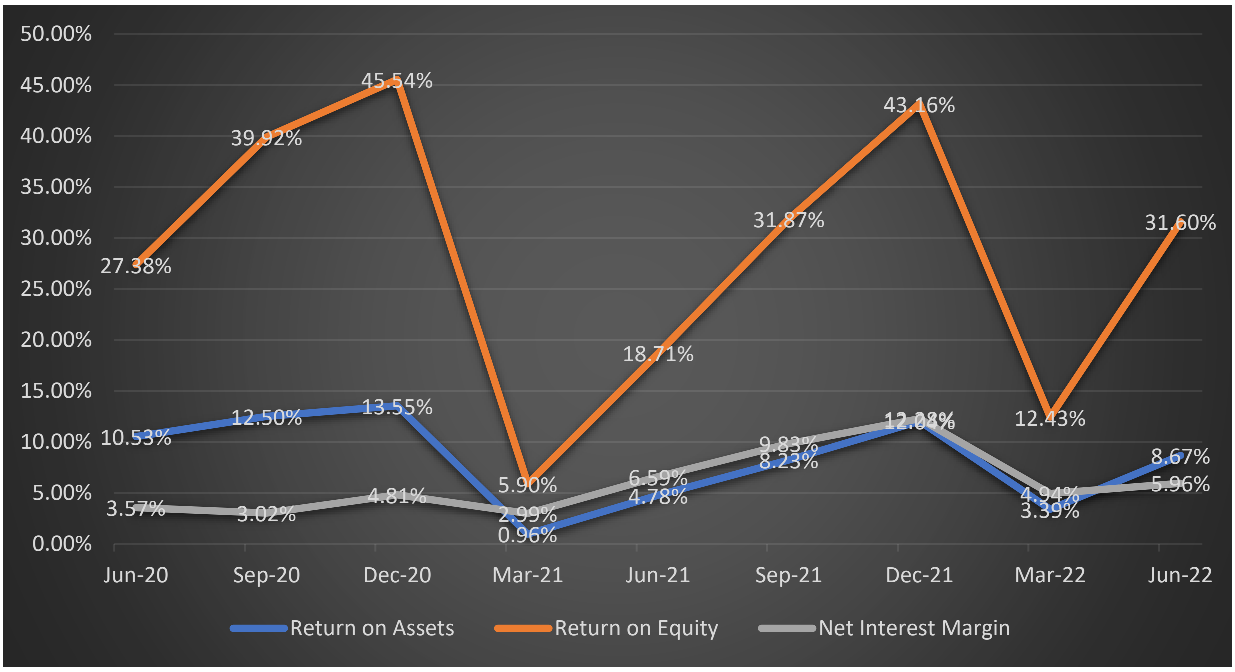
3.19. Figure 7 below shows the income mix as at 30 June 2022.

Figure 7: Banking Sector Income Mix as at 30 June 2022



3.20. The return on assets and return on equity ratios were 8.67% and 31.60% as at 30 June 2022, compared to 13.55% and 45.54% as at 30 June 2021, respectively.

3.21. The trend of banking sector performance over the period 30 June 2020 to 30 June 2022 is shown in the figure 8 below.



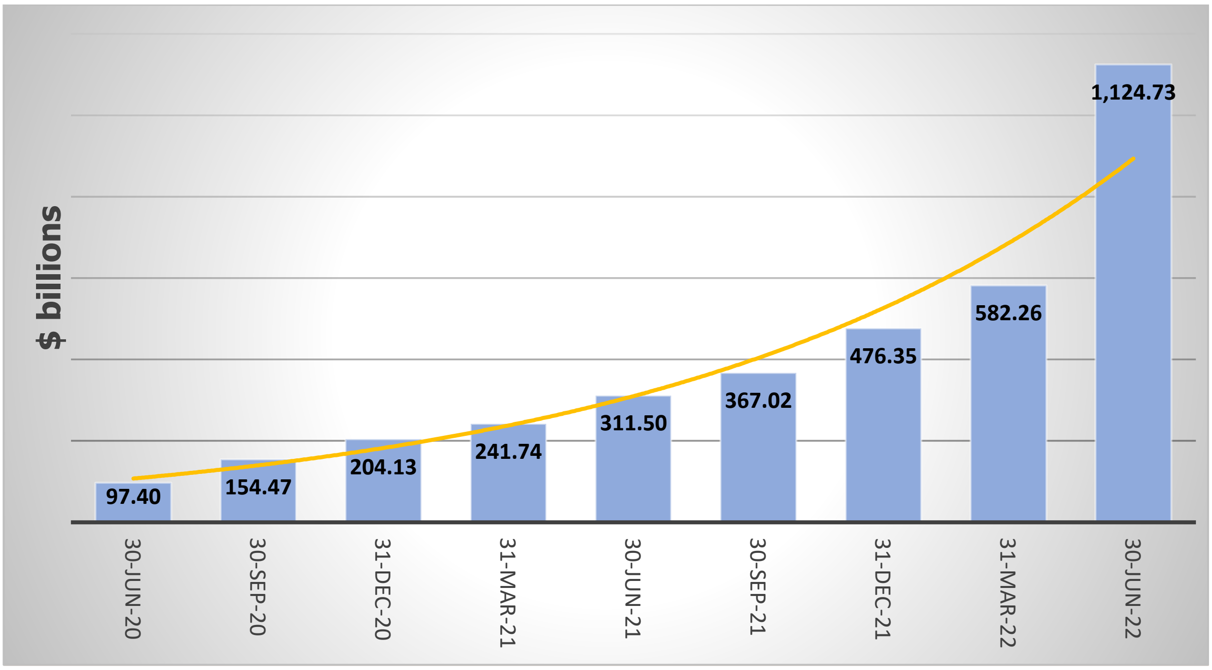
3.22. The cost to income ratio improved from 75.95% reported as at 30 June 2021 to 60.78% in the half year ended 30 June 2022.

3.23. Administration expenses and salaries & employee benefits were the major cost drivers constituting 45.07% and 41.68%, respectively of the total banking sector operating costs of $82.13 billion.

Liquidity and Funds Management

3.24. Total banking sector deposits significantly increased from $582.26 billion as at 31 March 2022, to $1.12 trillion as at 30 June 2022 representing a growth of 92.40%.

3.25. The trend of banking sector deposits over the period 30 June 2020 to 30 June 2022 is shown in the figure 9 below.

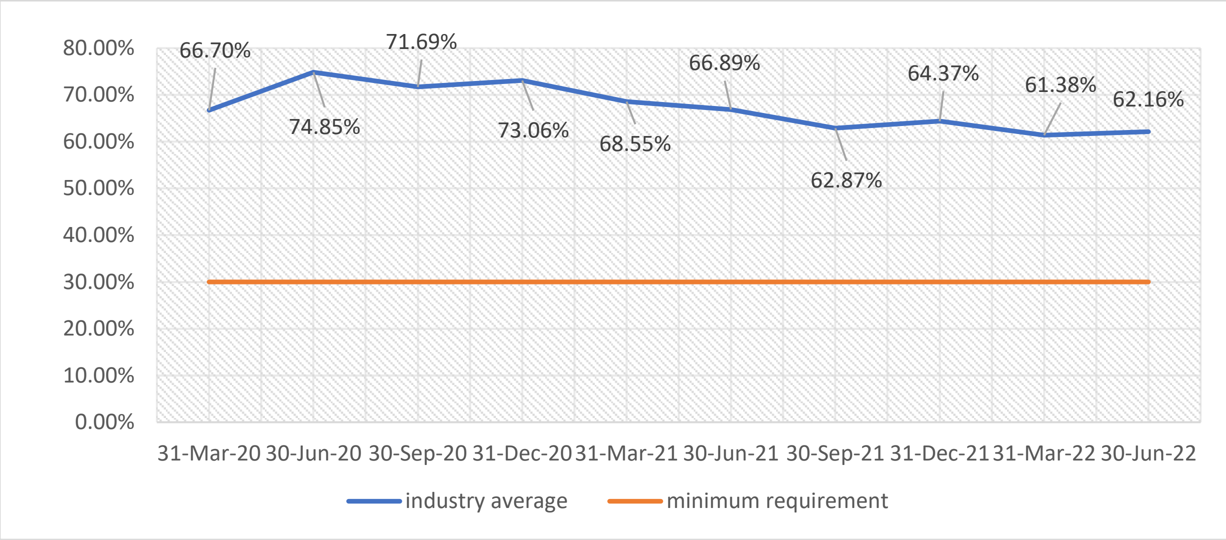


3.26. The average prudential liquidity ratio for the banking sector was 62.16% as at 30 June 2022.

3.27. Of the nineteen (19) operating banking institutions, seventeen (17) were compliant with the minimum prudential liquidity ratio of 30%. The two (2) institutions which were non-compliant with the minimum requirement are being closely monitored on an ongoing basis to ensure compliance.

3.28. The trend in the average prudential liquidity ratio from March 2020 to June 2022 is shown in figure 9 below.

Figure 9: Prudential Liquidity Ratio Trend (%)



3.29. The average liquidity ratio has remained high reflecting high stock of liquid assets in the sector. Albeit the ratio remaining high, it is noted that the ratio has been on a declining trend from a high of 74.85% in June 2020 as banking institutions are increasing their lending, as evidenced by the gradual increase in the loans to deposits ratio from 44.16% in March 2021 to 53.63% in June 2022.

Sensitivity to Market Risk

3.30. The banking sector had an overall liability sensitive book as at 30 June 2022, with negative cumulative re-pricing gaps in all time bands implying that a number of banks may lose if market interest rates remain on an upward trajectory.

Outlook

3.31. In the outlook, the safety and soundness of the banking sector is expected to be maintained on the backdrop of pragmatic monetary and fiscal policies being implemented by the Bank and the Government, which are putting the economy back on track to economic stability.

3.32. The Bank will continue to monitor the effectiveness of the risk management initiatives and measures being implemented by banking institutions in order to cope with the changing operating environment and ensure financial sector stability.