BANK SUPERVISION DIVISION

BANKING SECTOR REPORT

FOR THE

YEAR ENDED 31 DECEMBER 2021

1. EXECUTIVE SUMMARY

1.1. The banking sector remained safe and sound and continues to support the recovery and growth of the economy, as reflected by key financial soundness indicators.

1.2. As at 31 December 2022, the banking sector was adequately capitalized as reflected by the average capital adequacy and tier 1 ratios of 32.86% and 26.54% against regulatory minima of 12% and 8%, respectively.

1.3. Aggregate core capital increased by 59.06% from $63.39 billion as at 30 September 2021 to $100.83 billion as at 31 December 2021, mainly as a result of capitalisation of retained earnings.

1.4. Most banking institutions (13) complied with the new minimum capital requirements, effective 31 December 2021. The non-compliant institutions are expected to comply with the minimum capital requirements by 31 December 2022, following dispensations granted by Reserve Bank to the respective institutions to allow them to finalise their capital raising initiatives.

1.5. The net aggregate banking sector profit increased from $34.24 billion for the period ended 31 December 2021 to $59.29 billion for the year ended 31 December 2021. The growth in banking sector profits was mainly driven by interest income from loans and advances and fees and commission, which constituted 34.99% and 31.80% of total income, respectively.

1.6. Total deposits were comprised of local (51.41%) and foreign deposits (48.59%). The deposits amounted to $476.35 billion as at 31 December 2021, which represented a 29.79% increase from $367.02 billion reported as at 30 September 2021.

1.7. The average prudential liquidity ratio was 64.37% as at 31 December 2021, against the minimum regulatory requirement of 30%, largely reflecting high stock of liquid assets in the sector.

1.8. Total banking sector loans and advances increased by 30.94% from ZW$175.60 billion as at 30 September 2021 to ZW$229.94 billion as at 31 December 2021, largely attributed to the translation of foreign currency denominated loans.

1.9. Credit risk remained low as reflected the average banking sector non-performing loan ratio of 0.94%, against the generally acceptable international threshold of 5%.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. As at 31 December 2021, there were 198 operating institutions in the banking sector comprising 13 commercial banks, five (5) building societies, and one (1) savings bank. In addition, there were 168 credit-only microfinance institutions, eight (8) licensed deposit-taking microfinance institutions and three (3) development financial institutions under the purview of the Bank.

2.2. The composition of the banking sector 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	168
Deposit-taking MFIs	8
Development Financial Institutions (SMEDCO, IDBZ, & AFC Land & Development Bank)	3
Total Other Institutions	**179**
Total Number of Institutions	**198**

3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1. The condition and performance of the banking sector was satisfactory, as depicted by the key financial soundness indicators shown in Table 2 below.

Table 2: Financial Soundness Indicators

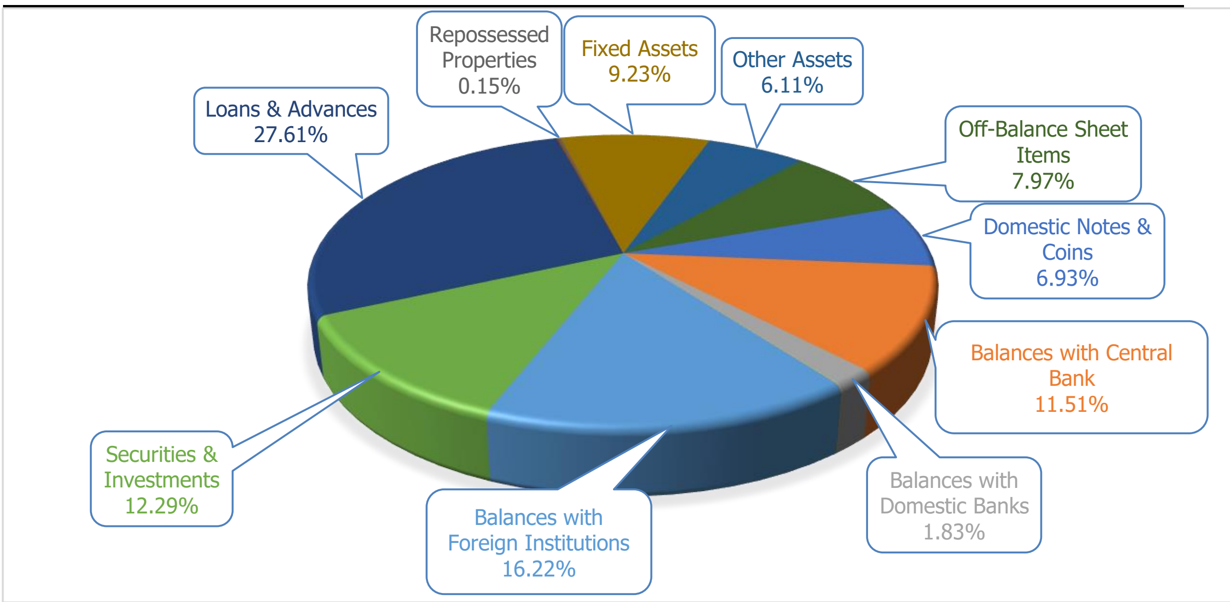
Key Indicators	Benchmark	Dec - 20	Jun - 21	Sep -21	Dec – 21
Total Assets	-	\$349.59bn	\$486.45bn	\$569.99bn	\$762.96bn
Total Loans & Advances	-	\$82.41bn	\$142.79bn	\$175.60bn	\$229.94bn
Net Capital Base	-	\$53.18bn	\$72.90bn	\$84.58bn	\$122.85bn
Core Capital		\$40.75bn	\$53.66bn	\$63.39bn	\$100.83bn

Key Indicators	Benchmark	Dec - 20	Jun - 21	Sep -21	Dec – 21
Total Deposits	-	$204.13bn	$304.95bn	$367.02bn	$476.35bn
Net Profit	-	$34.24bn	$15.09bn	$25.39bn	$59.29bn
Return on Assets	-	13.55%	4.78%	8.23%	12.04%
Return on Equity	-	45.54%	18.71%	31.87%	43.16%
Capital Adequacy Ratio	12%	34.62%	35.32%	35.34%	32.86%
Tier 1 Ratio	8%	22.65%	25.05%	26.78%	26.54%
Loans to Deposits Ratio	70%	39.45%	45.84%	46.87%	48.27%
NPLs Ratio	5%	0.31%	0.55%	0.61%	0.94%
Liquidity Ratio	30%	73.06%	66.89%	62.87%	64.37%

Composition of Banking Sector Assets

3.2. Total banking sector assets increased by 33.85% from $569.99 billion as at 30 September 2021 to $762.96 billion as at 31 December 2021. The assets were largely comprised of loans and advances (27.61%), balances with foreign institutions (16.22%) and securities and investments (12.29%) as shown in figure 1.

Figure 1: Asset Mix as at 31 December 2021



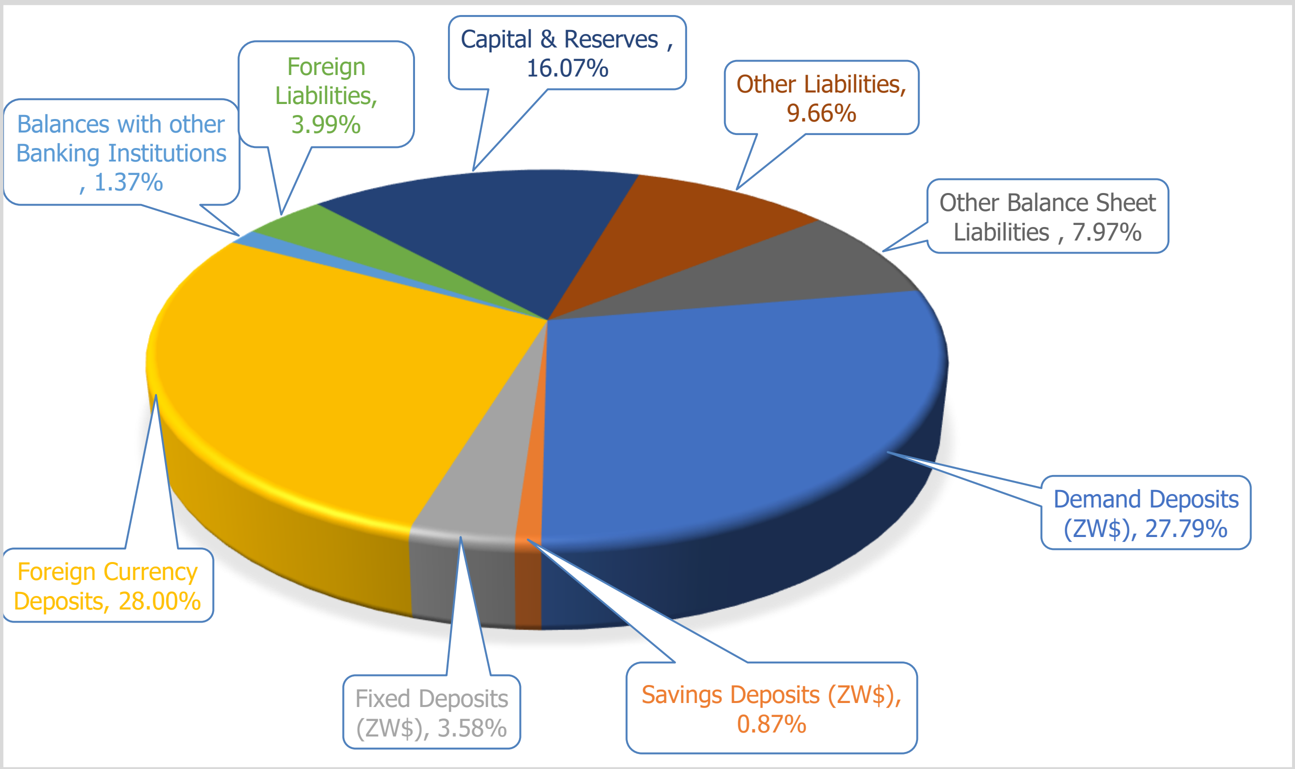
Liabilities Structure

3.3. Banking sector liabilities were largely comprised of foreign currency deposits

(28.00%), demand deposits (27.79%), and capital and reserves (16.07%).

3.4. Figure 2 shows the composition of banking sector liabilities as at 31 December 2021.

Figure 2: Decomposition of Liabilities as at 31 December 2021



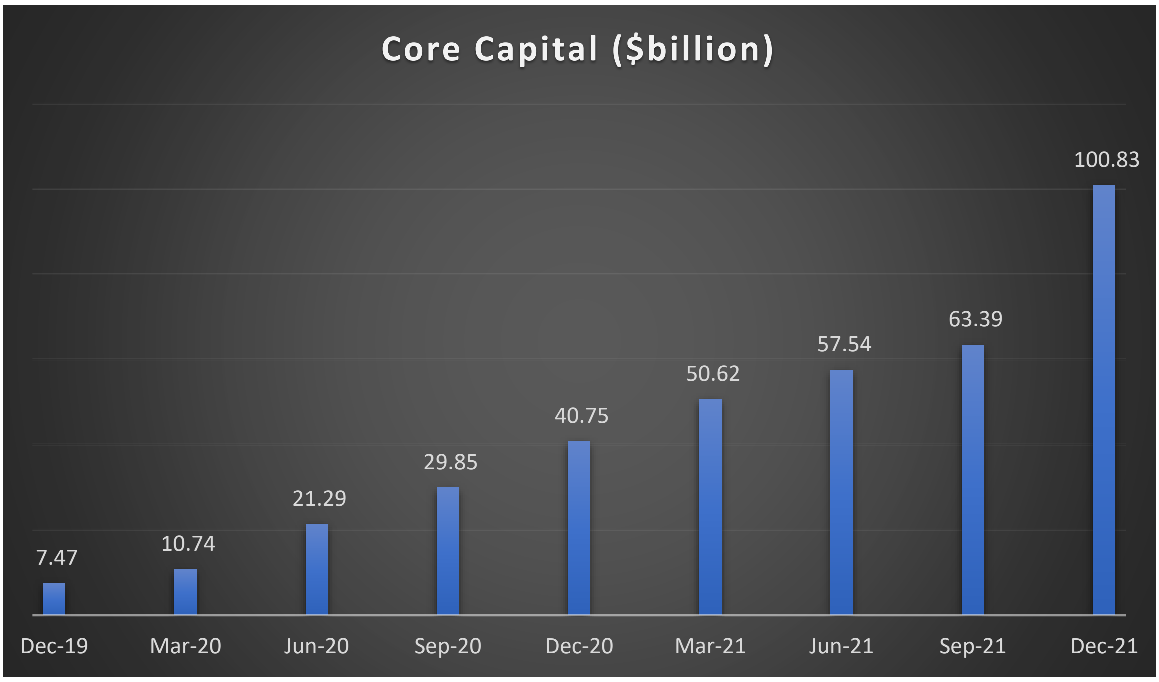
Capitalisation

3.5. The banking sector remained adequately capitalized, with tier 1 and capital adequacy ratios of 26.54% and 32.86% as at 31 December 2021, against regulatory minima of 8% and 12%, respectively.

3.6. The aggregate core capital increased by 59.06% from $63.39 billion as at 30 September 2021 to $100.83 billion as at 31 December 2021, on the back of capitalisation of retained earnings and capital injection by shareholders.

3.7. Figure 3 below shows a trend of core capital trends from December 2019 to December 2021.

Figure 3: Core Capital Trends

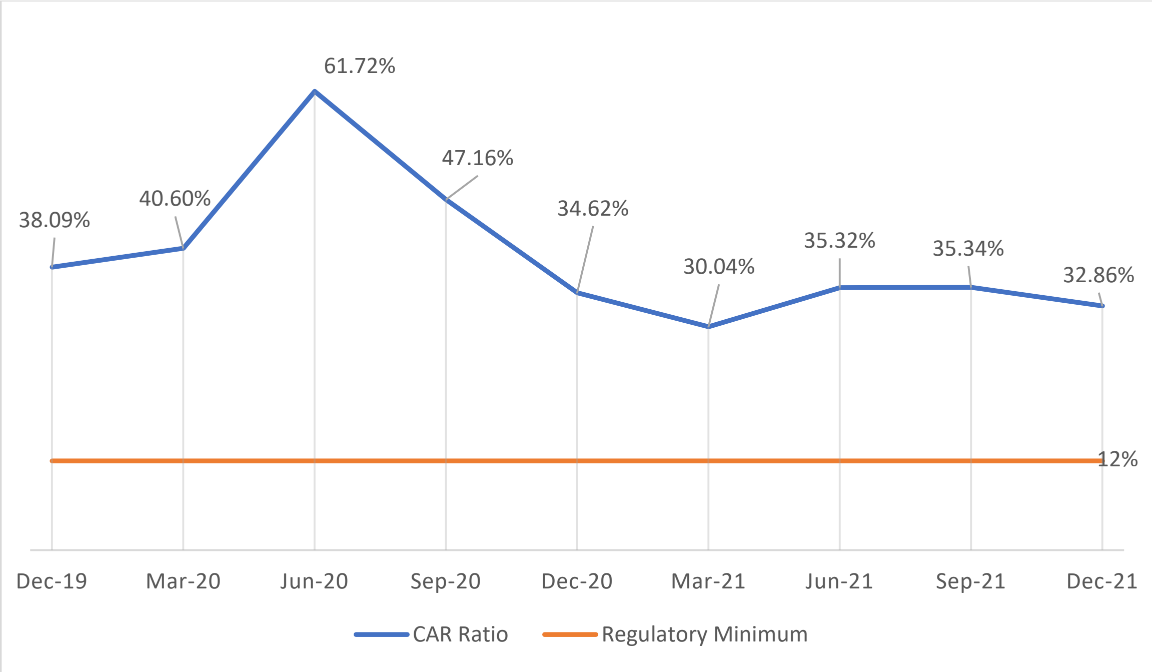


3.8. The Reserve Bank set minimum capital requirements for the various classes of banking institutions as part of measures to promote the resilience of the financial sector. Banking Institutions were required to comply with the minimum capital requirements by 31 December 2021.

3.9. Thirteen (13) out of eighteen (18) operating banking institutions (excluding POSB with no statutory minimum capital requirement) complied with the new minimum capital requirements effective 31 December 2021. The undercapitalised banking institutions were given dispensations to comply with the capital requirements by 31 December 2022 to allow for finalisation of their respective raising initiatives. These institutions are making progress in implementing their capital raising plans.

3.10. The banking industry's average capital adequacy ratios from December 2019 to December 2021 are shown in figure 4 below:

Figure 4: Capital Adequacy Ratios Trend

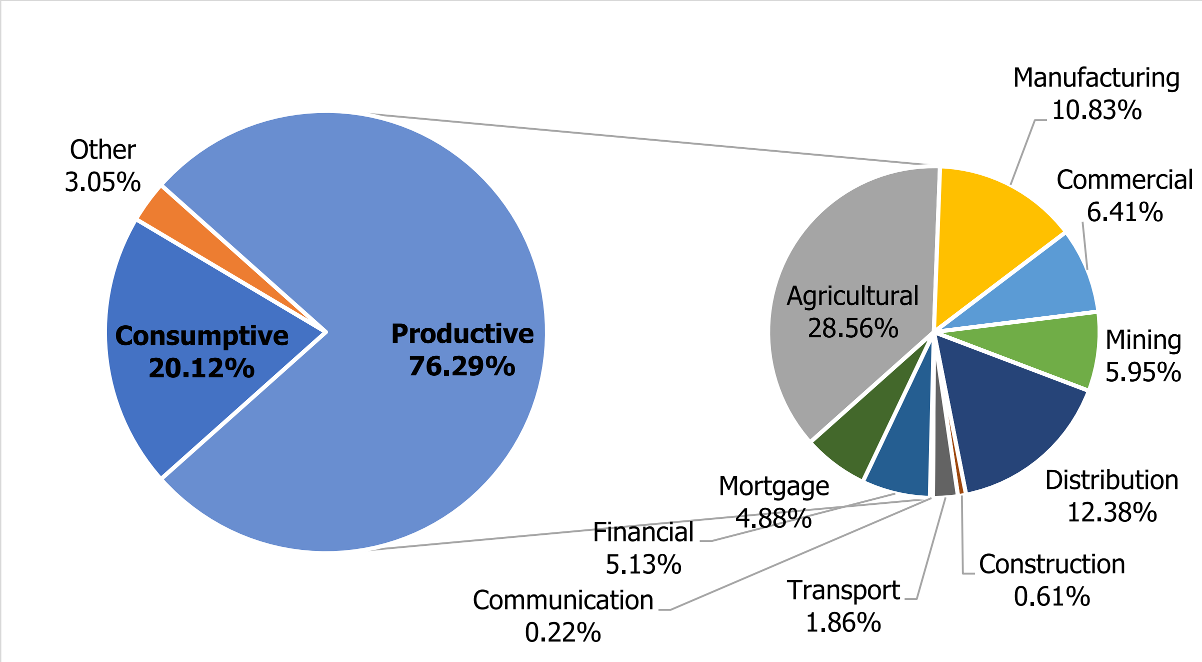


Asset Quality

3.11. Total banking sector loans and advances which amounted to $229.94 billion as at 31 December 2021 were largely comprised of local currency denominated loans, which foreign currency denominated loans constituting 36.87% of total banking sector loans. The proportion of foreign currency loans to total loans has been increasing over time.

3.12. Sectoral distribution of loans & advances was skewed towards the productive sector as shown in Figure 5 below.

Figure 5: Sectoral Distribution of Loans as at 31 December 2021



3.13. The demand for loans is expected to continue improving in line with the incremental recovery of economic activity from the covid-19 pandemic.

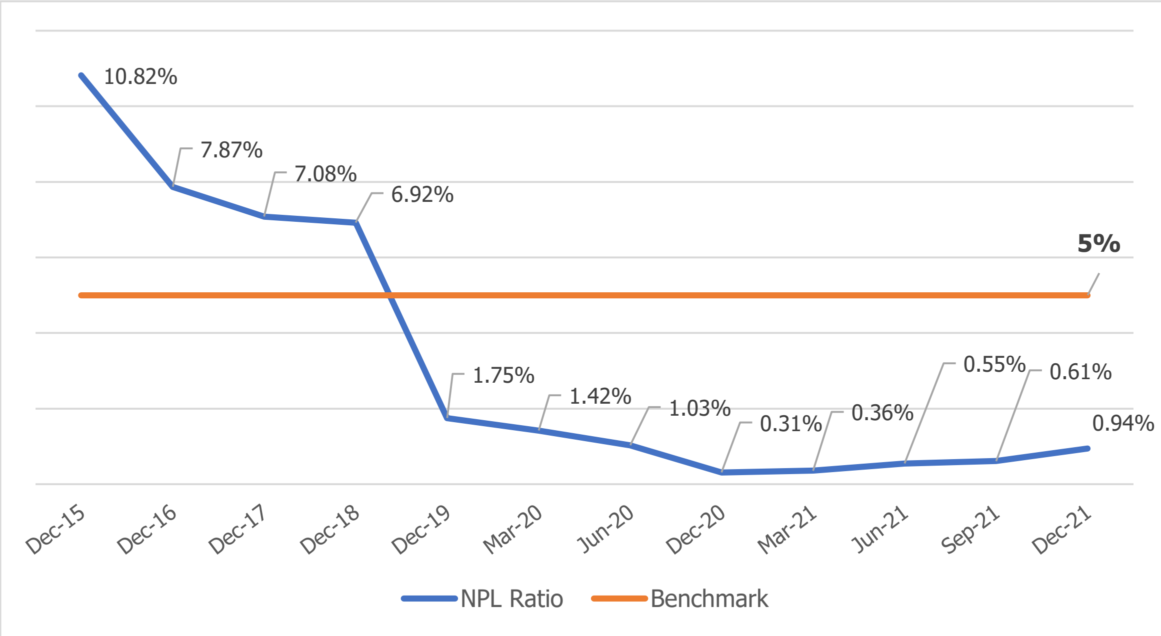
Loan Portfolio Quality

3.14. The banking sector recorded an average non-performing loans (NPLs) to total loans ratio of 0.94% as at 31 December 2021, against the acceptable international threshold of 5%.

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

3.16. The trend in the level of non-performing loans to total loans ratio (NPLs ratio) from December 2015 to December 2021 is shown in Figure 6 below.

Figure 6: Trend in Non- Performing Loans



3.17. The Reserve Bank continues monitor banking sector's asset quality on an on-going basis to ensure effective credit risk management.

Earnings Performance

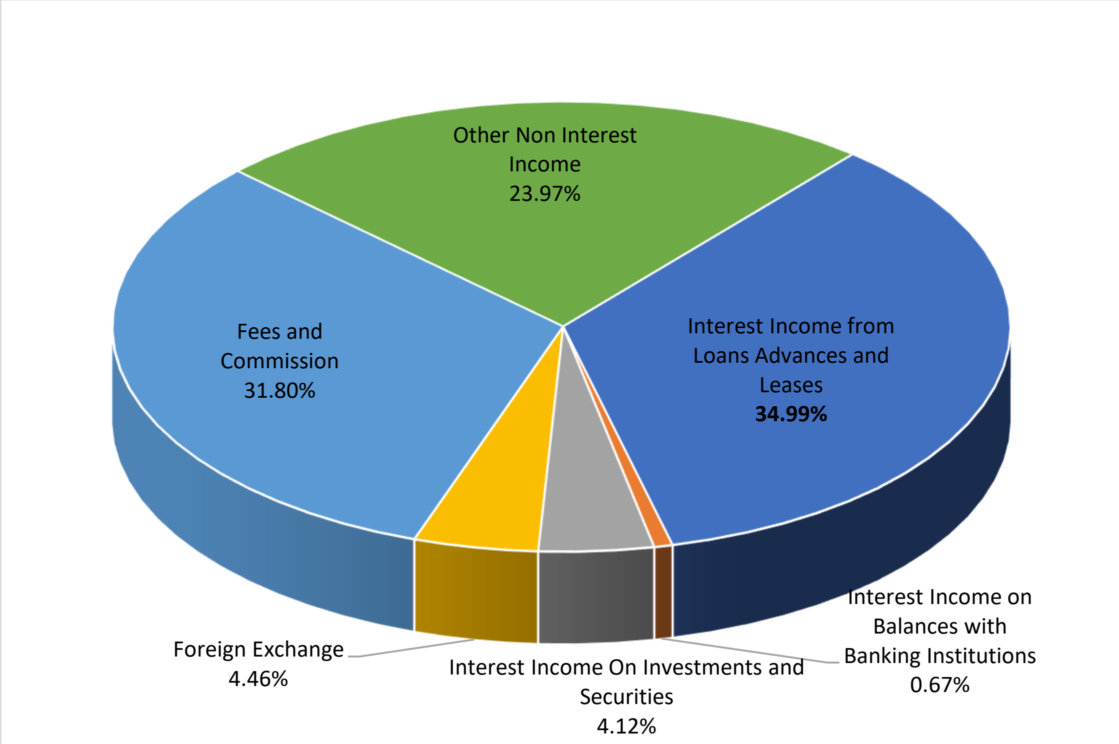
3.18. The net aggregate banking sector profit increased from $34.24 billion for the year ended 31 December 2020 to $59.29 billion for the year ended 31 December 2021.

3.19. The banking sector United States Dollars denominated earnings increased by 27.74% from USD419.06 million for the year ended 31 December 2020, to USD535.30 million during the corresponding period in 2021.

3.20. The growth in earnings was largely attributable to interest income from loans and advances and fees and commission, which constituted 34.99% and 31.80% of total income, respectively.

3.21. Figure 7 shows banking sector income mix for the year ended 31 December 2021.

Figure 7: Banking Sector Income Mix for the year ended 31 December 2021



3.22. The increase in the proportion of interest income from loans and advances from 17.82% of total income in 2020, to 34.99% as at 31 December 2021 indicates a shift by the sector towards the traditional banking sources of revenue which is considered more stable.

3.23. Non-interest income was driven by fees and commissions due to increased transactional volumes on digital platforms in the wake of Covid-19, as well as initiatives by banking institutions to promote the use of plastic money.

3.24. Translation gains on foreign currency denominated assets, as well as, revaluation gains from investment properties also contributed to the growth in non-interest income.

3.25. The table below shows a comparison of profitability indicators in 2020 and 2021.

Profitability Indicator	December 2020	December 2021
Net Income	$34.24 billion	$59.29 billion
Return on Assets (ROA)	13.55%	12.04%
Return on Equity (ROE)	45.54%	43.16%
Net Interest Margin	4.81%	12.12%

Profitability Indicator	December 2020	December 2021
Cost to Income Ratio	71.97%	71.66%

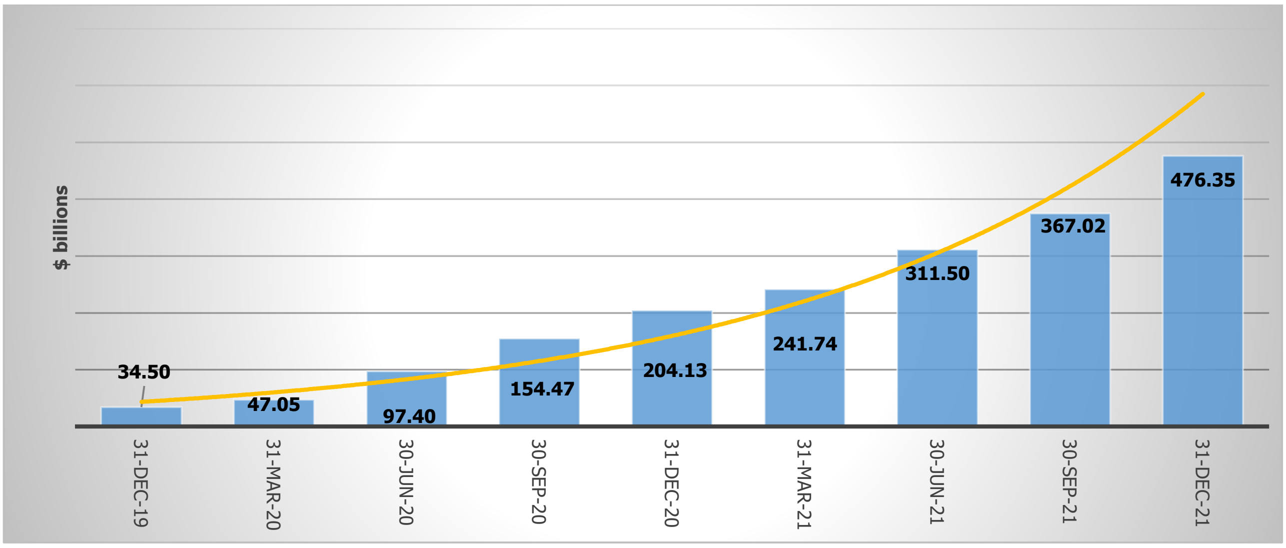
Liquidity and Funds Management

3.26. The banking sector deposits increased from $367.02 billion as at 30 September 2021 to $476.35 billion as at 31 December 2021, representing a 29.79% increase. Commercial banking sub-sector deposits dominated the deposits and constituted 90.55% of total banking sector deposits.

3.27. The deposits were fairly balanced between local currency denominated deposits (51.41%) and foreign currency deposits (48.59%).

3.28. The figure below shows deposit trends from 31 December 2019 to 31 December 2021.

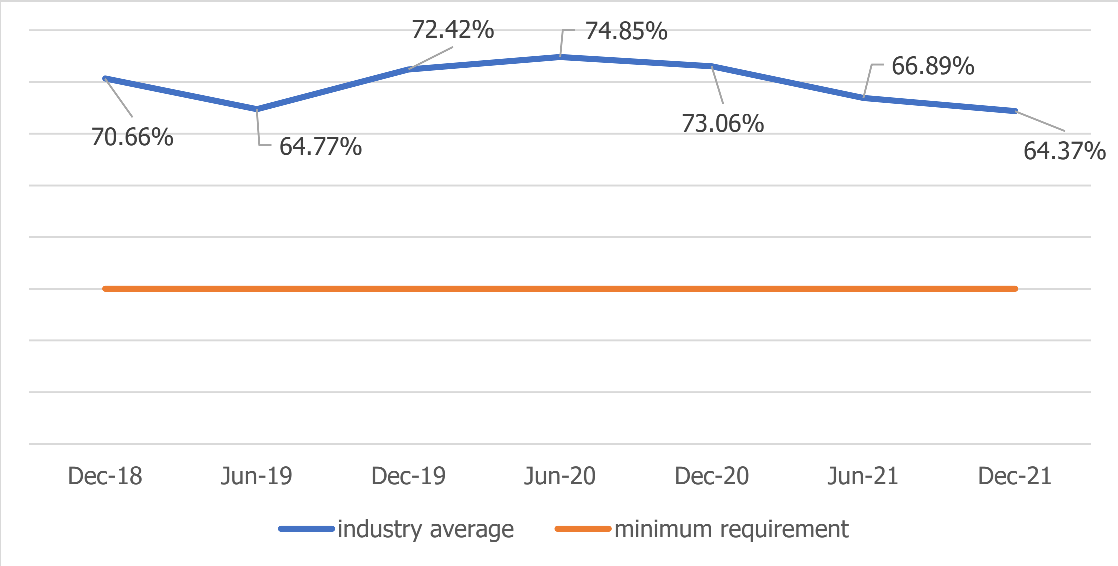
Figure 8: Trend in Deposits



3.29. The banking sector held high stock of liquid assets as reflected by the prudential liquidity ratio was 64.37% as at 31 December 2021, against the minimum regulatory requirement of 30%.

3.30. The trend in the liquidity ratio is shown in Figure 9 below.

Figure 9: Prudential Liquidity Ratio Trend (%)



Sensitivity to Market Risk

3.31. In the year ended 31 December 2021, the banking sector had an overall asset sensitive book, 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.

Outlook

3.32. The banking sector will continue to play a critical role in supporting the funding requirements of the economy. As the economy recovers, banking institutions will continue to find ways to refocus on growth while leveraging on technological innovations and responding to changing business landscape as well as shifts in consumer preferences.