



BANK SUPERVISION DIVISION

BANKING SECTOR REPORT

FOR THE

QUARTER ENDED 30 JUNE 2021

1. EXECUTIVE SUMMARY

- 1.1. The banking sector demonstrated resilience in the face of the disruptive effects of the COVID-19 pandemic, and continues to play a critical role in supporting the economy during the growth and recovery phase.
- 1.2. The sector has adapted to the “new normal”, adopting a hybrid approach of remote and physical service delivery.
- 1.3. The banking sector average capital adequacy and tier 1 ratios of 35.32% and 25.05% as at 30 June 2021, were above the regulatory minima of 12% and 8%, respectively. All banking institutions were compliant with the minimum capital adequacy requirements. Aggregate core capital amounted to \$57.54 billion, up from \$50.62 billion as at 31 March 2021.
- 1.4. As at 30 June 2021, 10 out of 19 banking institutions had already surpassed the new minimum capital requirement of US\$30 million, effective 31 December 2021.
- 1.5. The growth in banking sector core capital was mainly attributed to growth in retained earnings, emanating mostly from an increase in non-interest income arising from fees and commissions, translation gains on foreign exchange denominated assets and revaluation gains on investment properties.
- 1.6. Total banking sector assets increased by 18.72%, from \$406.22 billion as at 31 March 2021 to \$482.28 billion as at 30 June 2021 while total banking sector loans and advances increased by 35.69% to \$142.79 billion as at 30 June 2021, from \$105.23 billion as at 31 March 2021. The growth was mainly attributable to translation of foreign currency denominated assets.
- 1.7. There was, however, a marginal increase in the ratio of adversely classified loans to total loans over the review period from 0.36% as at 31 March 2021 to 0.55% as at 30 June 2021. The international benchmark for non-performing loans to total loans ratio for a lending institution is 5%.
- 1.8. Total banking sector deposits increased by 28.86% from \$241.74 billion to \$311.50 billion during the quarter ended 30 June 2021. The increase was mainly attributable to revaluation of foreign currency denominated deposits.
- 1.9. The average prudential liquidity ratio was 66.89% as at 30 June 2021. The minimum regulatory threshold for every banking institution is 30%.

1.10. During the half-year ended 30 June 2021, the banking sector reported aggregate net profit amounting to \$15.09 billion, compared to \$13.46 billion recorded during the corresponding period in 2020.

1.11. The growth in income was attributable to both interest and non-interest income constituting 45.18% and 54.82% of total income, with the latter mainly comprising of fees and commissions.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. The composition of the banking sector remained unchanged during the period under review, 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	176
Deposit-taking MFIs	8
Development Financial Institutions (SMEDCO & IDBZ)*	2
Total Other Institutions	187

*The Government of Zimbabwe is in the process of establishing a development finance institution, under the name AFC Land & Development Bank of Zimbabwe Limited.

3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1. During the quarter ended 30 June 2021, the banking sector performance was satisfactory as reflected by the financial soundness indicators in the table below:

Table 2: Financial Soundness Indicators

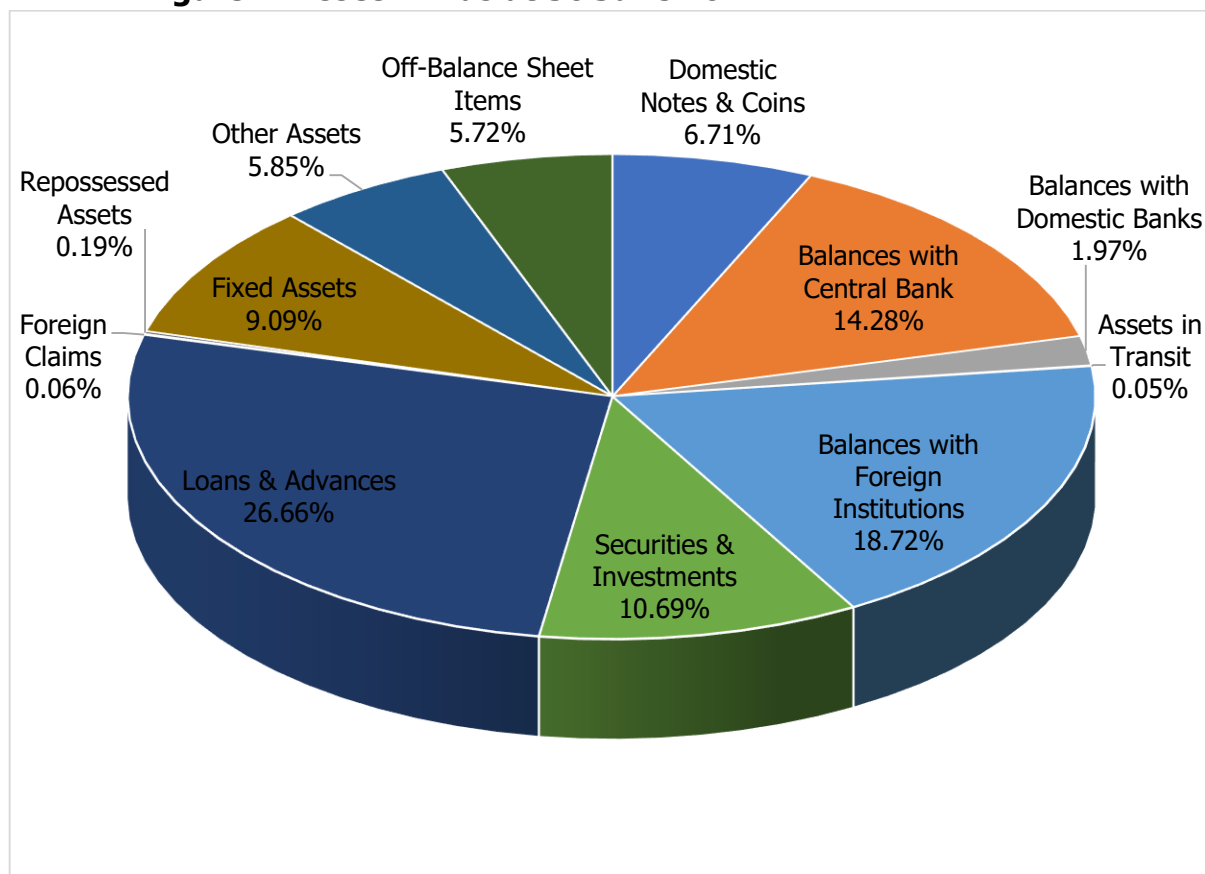
Key Indicators	Benchmark	June-20	Dec-20	Mar -21	June -21
Total Assets	-	\$193.56bn	\$349.59bn	\$406.22bn	\$482.28bn
Total Loans & Advances	-	\$37.77bn	\$82.41bn	\$105.23bn	\$142.79bn
Net Capital Base	-	\$29.47bn	\$53.18bn	\$64.21bn	\$72.90bn

Key Indicators	Benchmark	June-20	Dec-20	Mar -21	June -21
Total Deposits	-	\$97.40bn	\$204.13bn	\$241.74bn	\$311.50bn
Net Profit	-	\$13.46bn	\$34.24bn	\$6.58bn	\$15.09bn
Return on Assets	-	10.53%	13.55%	0.96%	4.38%
Return on Equity	-	27.38%	45.54%	5.90%	18.71%
Capital Adequacy Ratio	12%	61.72%	34.62%	30.04%	35.32%
Tier 1 Ratio	8%	34.35%	22.65%	19.43%	25.05%
Loans to Deposits	70%	37.71%	39.45%	43.53%	45.84%
Non-Performing Loans Ratio	5%	1.03%	0.31%	0.36%	0.55%
Liquidity Ratio	30%	74.85%	73.06%	68.36%	66.89%

Composition of Banking Sector Assets...

- 3.2. Banking sector total assets amounted to \$482.28 billion as at 30 June 2021 and largely comprised loans & advances, balances with foreign institutions and balances with the central bank.
- 3.3. The banking sector asset mix as at 30 June 2021 is shown in Figure 1 below.

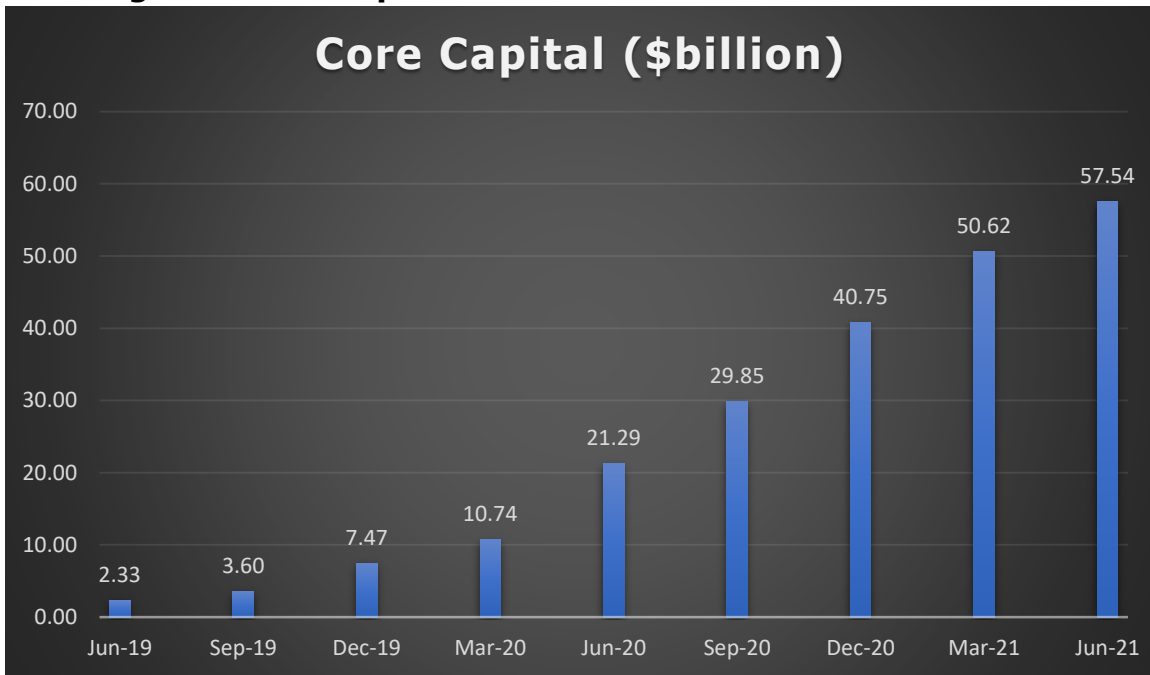
Figure 1: Asset Mix as at 30 June 2021



Capitalisation...

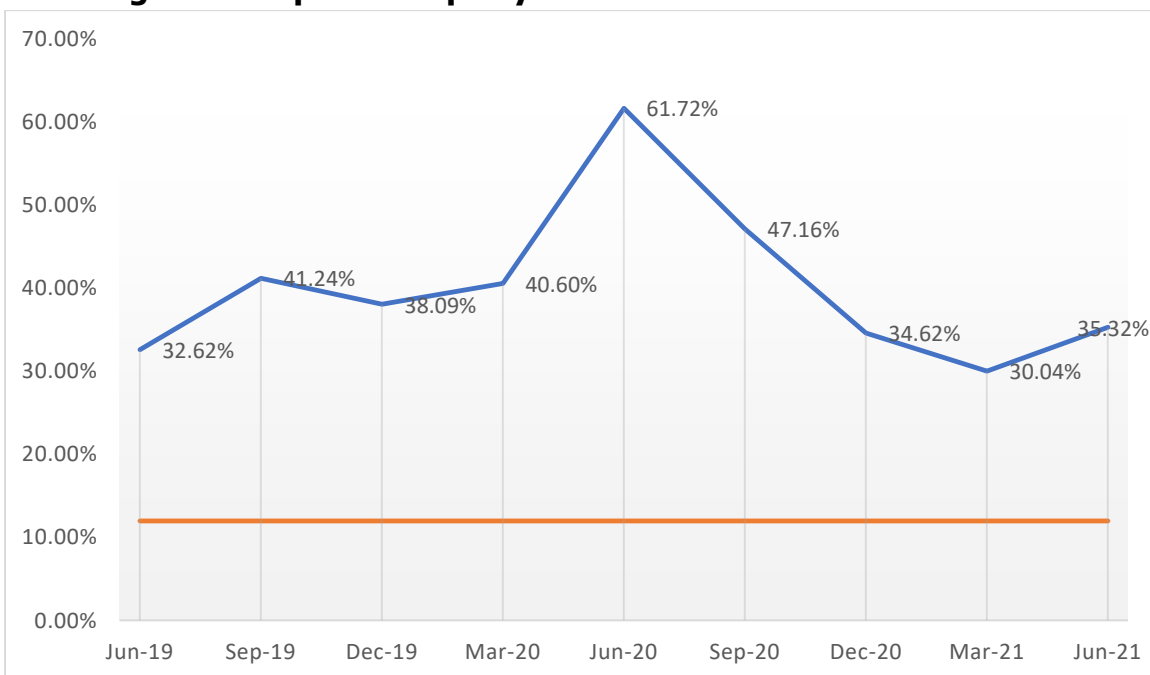
- 3.4. The banking sector was adequately capitalised as at 30 June 2021, as reflected by average capital adequacy and tier 1 ratios of 35.32% and 25.05%. The regulatory minima for banking institutions is 12% and 8%, respectively.
- 3.5. Total banking sector core capital increased by 13.66% during the period under review, from \$50.62 billion to \$57.54 billion as at 30 June 2021.
- 3.6. The growth in banking sector core capital was mainly attributed to growth in retained earnings, emanating mostly from an increase in non-interest income arising from fees and commissions, translation gains on foreign exchange denominated assets and revaluation gains on investment properties.
- 3.7. Consistent with International Accounting Standard (IAS 40), banking institutions recognised the revaluation gains arising from a change in the fair value of investment properties through the profit and loss account, forming part of retained earnings.
- 3.8. Figure 2 below shows core capital trends from June 2019 to June 2021.

Figure 2: Core Capital trends from June 2019



3.9. The banking industry’s average capital adequacy ratios from June 2019 to June 2021 are shown in the figure below:

Figure 3: Capital Adequacy Ratios Trend



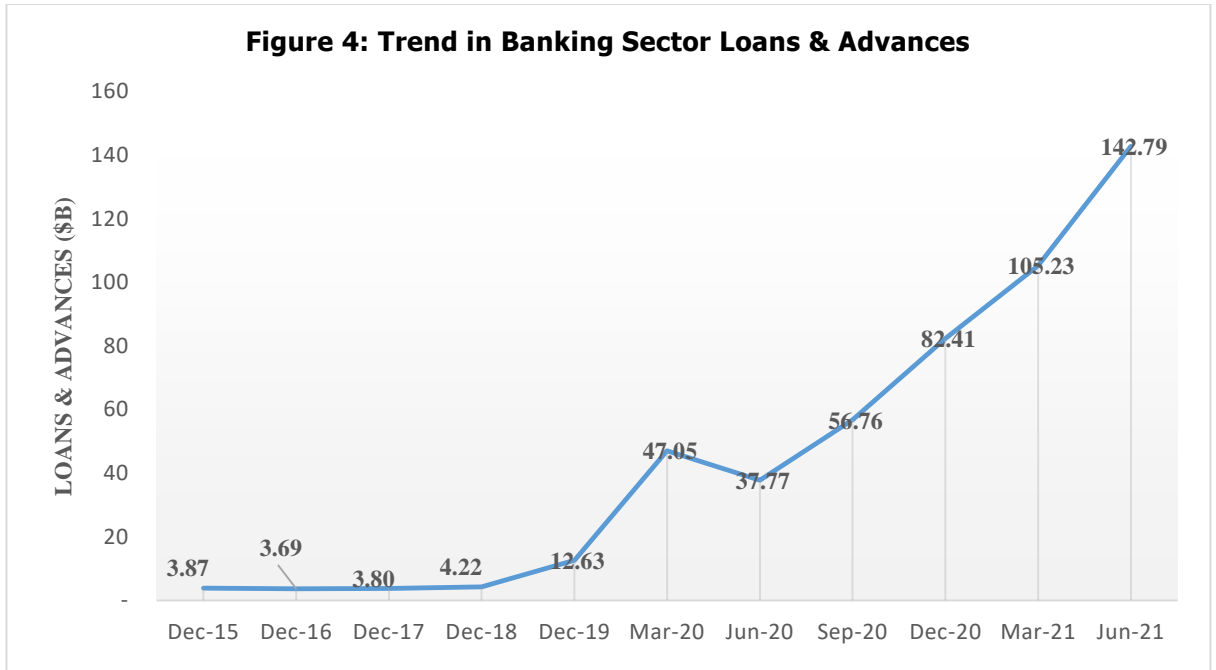
3.10. The sharp decrease in the CAR ratio, from June 2020 is in relation to the significant growth in asset bases, largely as a consequence of revaluation and translation gains.

Capitalisation Plans as at 30 June 2021...

- 3.11. All operating banking institutions submitted capitalisation plans as at 30 June 2021.
- 3.12. As at 30 June 2021, out of the 19 operating banking institutions, 10 were already compliant with the revised minimum capital requirement equivalent of US\$30 million by 31 December 2021 for tier 1 banking institutions.
- 3.13. An assessment of the capitalisation plans revealed that the capitalisation strategies adopted by banking institutions to comply with the new minimum capital requirements by 31 December 2021 include organic growth, capital injection by shareholders, as well as mergers of building societies with the commercial banks for institutions that are part of banking groups.
- 3.14. The Bank continues to monitor the recapitalisation plans and has urged banking institutions to give priority to the capitalisation issue, including expediting requisite processes in the implementation of the recapitalisation plans.

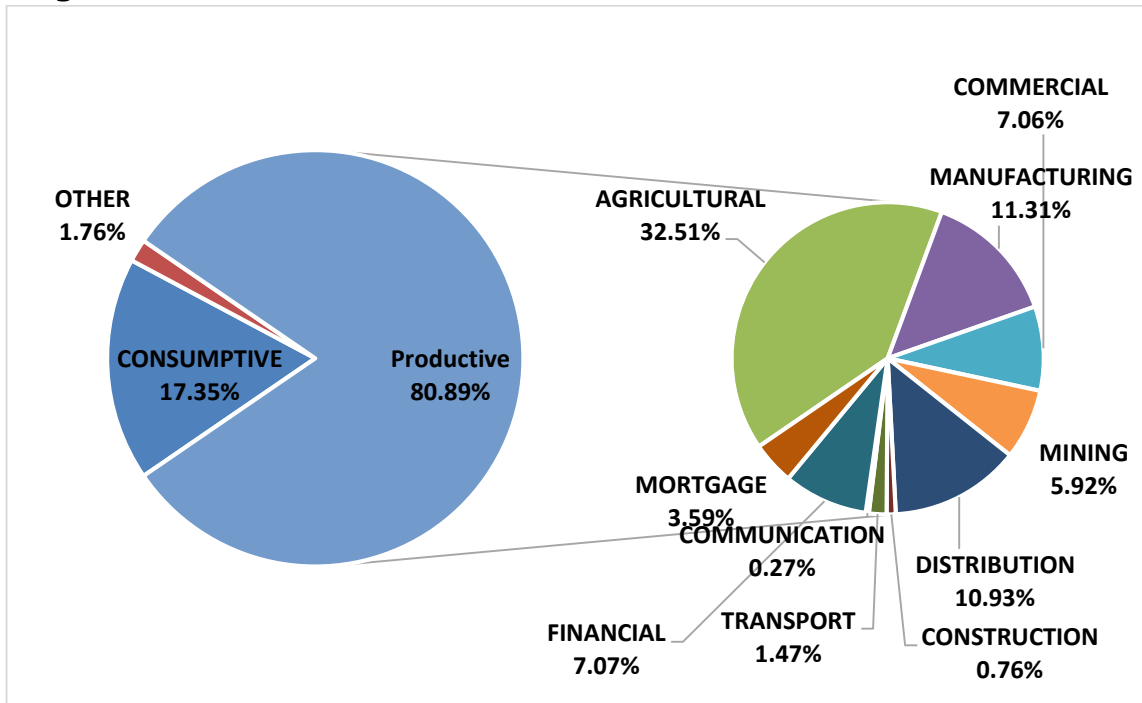
Asset Quality...

- 3.15. Total banking sector loans and advances increased by 35.69%, from \$105.23 billion as at 31 March 2021 to \$142.79 billion as at 30 June 2021. The Growth was largely attributed to the translation of foreign currency denominated loans.
- 3.16. During the quarter under review, banking sector financial intermediation slightly improved as reflected by a loans to deposits ratio of 45.84% as at 30 June 2021, compared to 43.53% as at 31 March 2021. The loans to deposits ratio (45.84%) indicates that there is scope to further improve financial intermediation, however, some banking institutions exercise a cautious approach to lending, restraining growth of loans and advances.
- 3.17. Figure 4 shows the trend in the total banking sector loans and advances from December 2015 to June 2021.



3.18. The banking sector continued to support the productive sectors of the economy, as loans to productive sectors constituted 80.89% of total banking sector loans as at 30 June 2021, as shown in Figure 5.

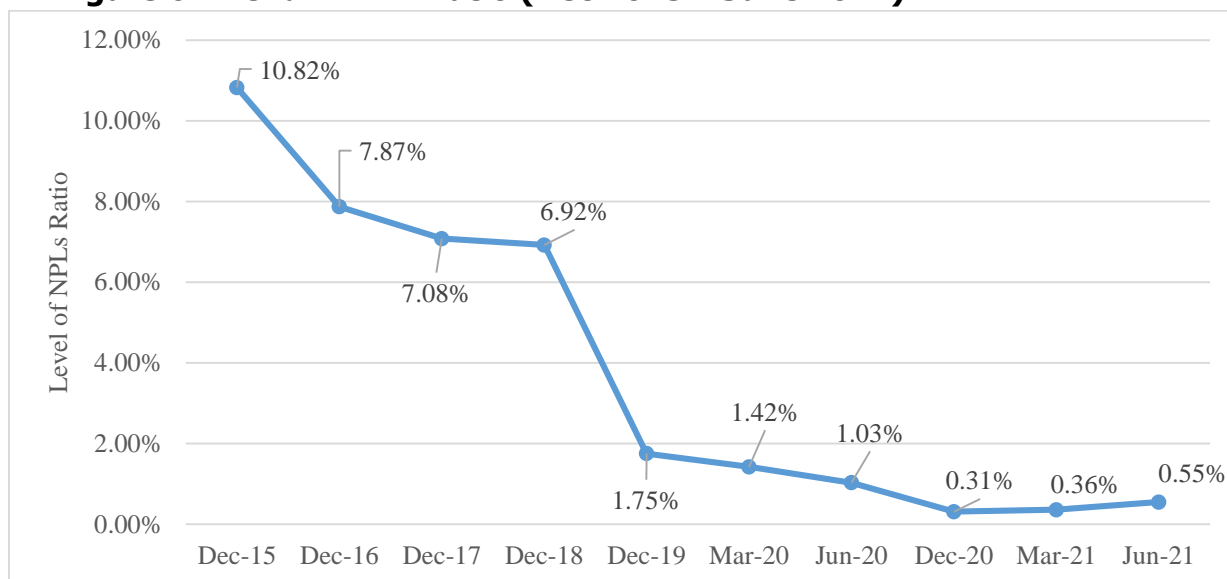
Figure 5: Sectoral Distribution of Loans as at 30 June 2021



Loan Portfolio Quality...

- 3.19. Banking sector loan quality remained strong, as reflected by the non-performing loans (NPLs) to total loans ratio of 0.55% as at 30 June 2021, against the international benchmark of 5%.
- 3.20. Figure 6 shows the trend in the level of non-performing loans to total loans ratio (NPLs ratio) from December 2015 to June 2021.

Figure 6: Trend in NPL Ratio (Dec 2015 – June 2021)



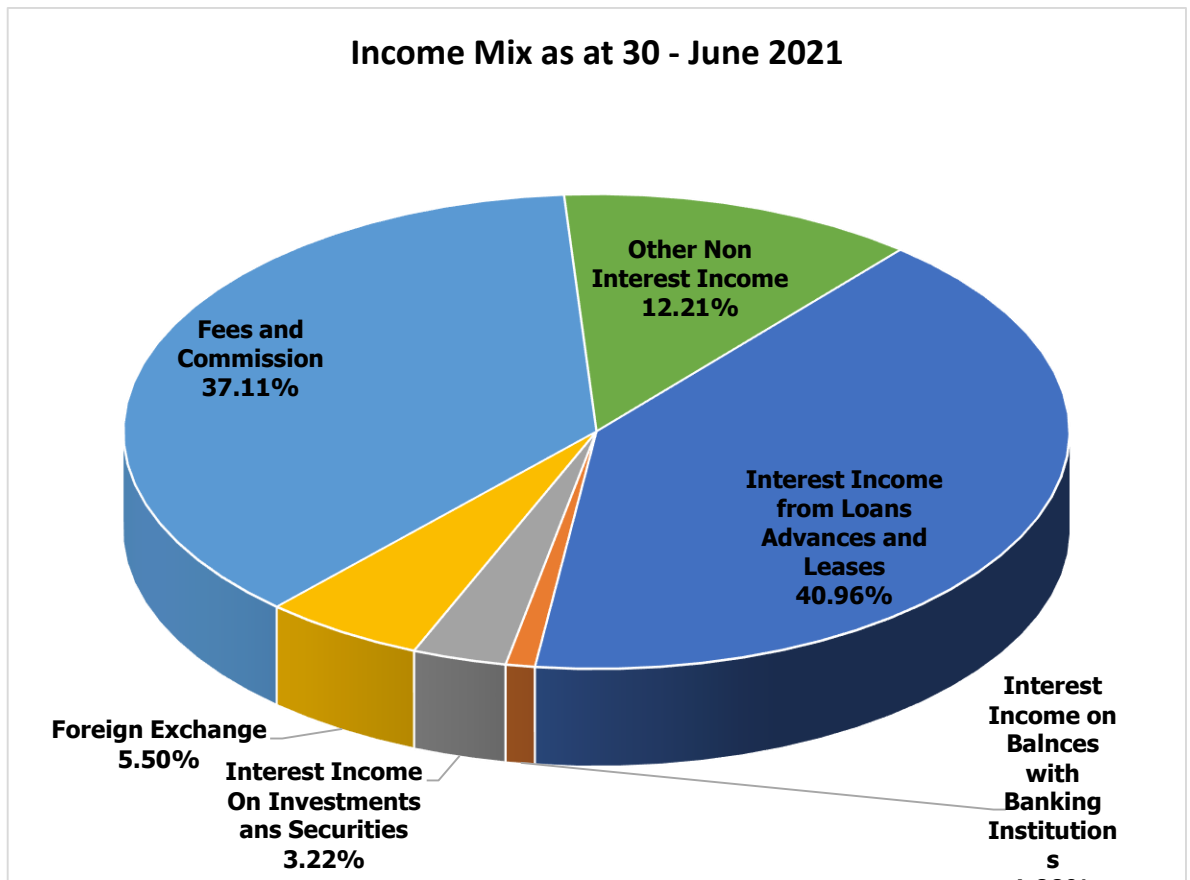
- 3.21. As shown in the figure above, there has been a downward trend in the NPLs ratio over the years, from above 5% in December 2018 to below 1% currently as banking institutions enhanced their credit risk management systems.
- 3.22. The Reserve Bank continues to utilise its early warning system framework to closely monitor developments in the banking sector's credit risk exposures.

Earnings Performance...

- 3.23. During the period under review, 18 out of 19 banking institutions reported profits, with aggregate profit of \$15.09 billion for the six (6) months ended 30 June 2021, up from \$13.46 billion for the corresponding period in 2020.
- 3.24. Income growth was largely attributable to non-interest income emanating mainly from fees and commissions, translation gains on foreign currency

denominated assets, as well as, revaluation gains from investment properties. Non-interest income accounted for 54.82% of total income as at 30 June 2021.

3.25. The figure below shows the income mix as at 30 June 2021.



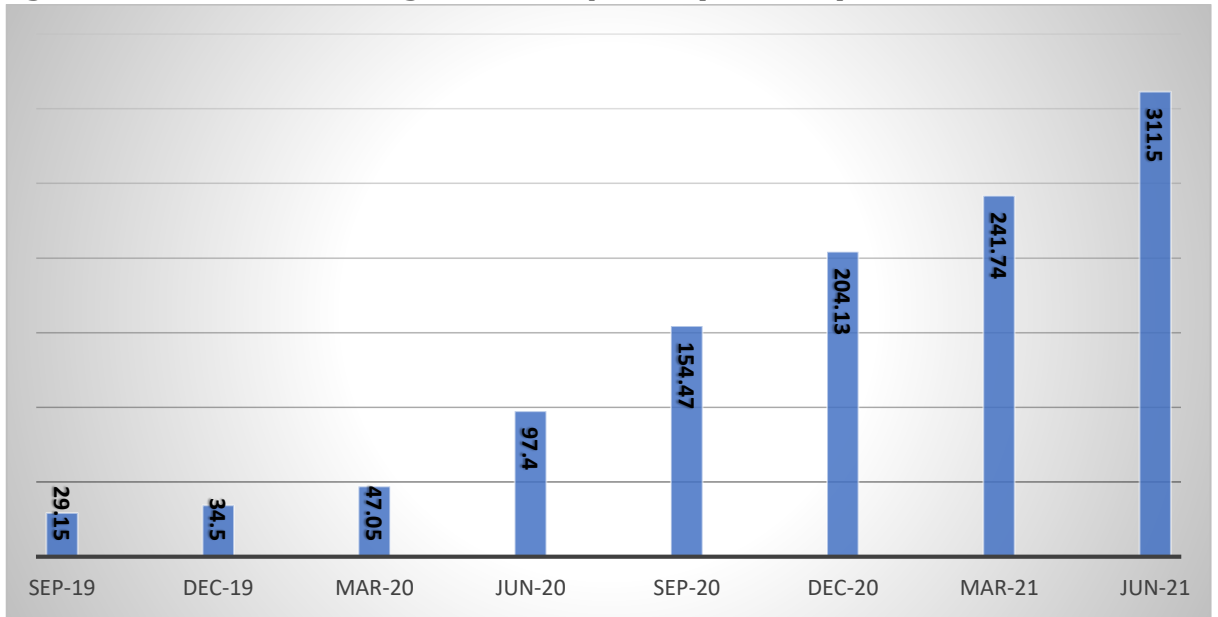
3.26. Interest income from the core business of lending contributed 40.96% of the sector's income (followed by income from fees & commission (37.11%). The income from fees & commission is largely attributed to increased transactional volumes on digital platforms in the wake of COVID -19, as well as initiatives to promote the use of plastic money.

Liquidity and Funds Management...

3.27. Total banking sector deposits amounted to \$311.50 billion as at 30 June 2021, representing an increase of 28.86%, from \$241.74 billion reported as at 31 March 2021.

3.28. The trend of banking sector deposits over the period 30 September 2019 to 30 June 2021 is shown in the Figure 7 below;

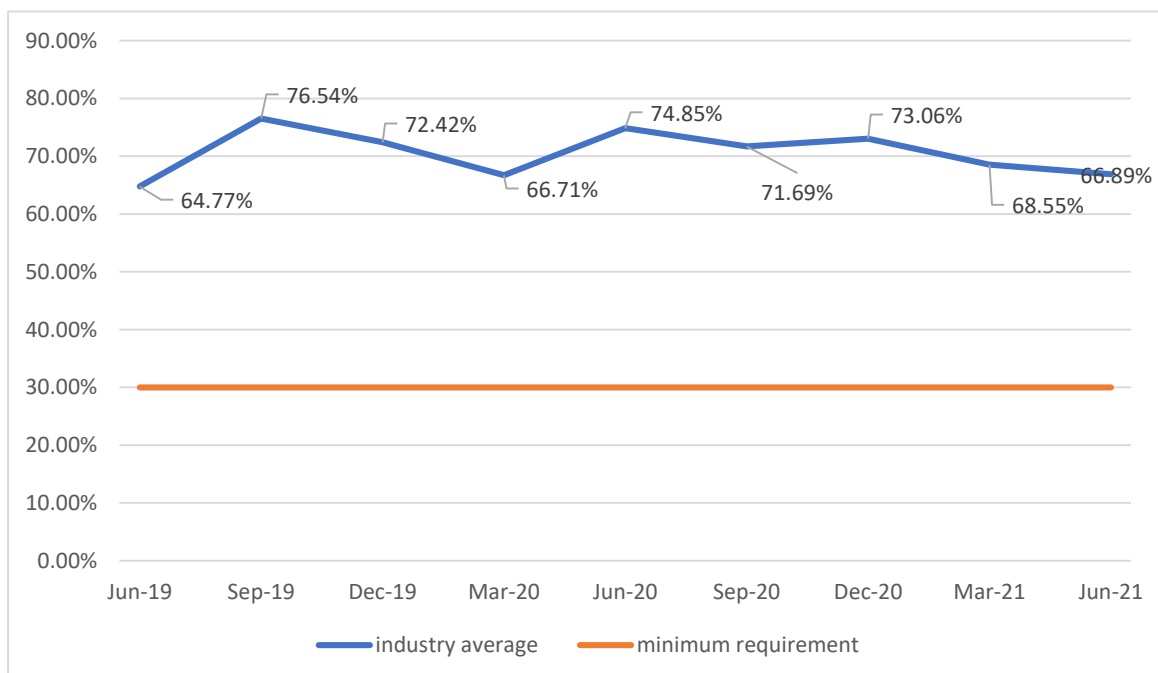
Figure 7: Trend in Banking Sector Deposits (\$ billion)



3.29. The average prudential liquidity ratio for the banking sector was 66.89% as at 30 June 2021. The minimum regulatory threshold for banking institutions is 30%.

3.30. The trend in the average prudential liquidity ratio since June 2019 is shown in figure 8 below;

Figure 8: Prudential Liquidity Ratio Trend (%)



- 3.31. The high liquidity ratio in the sector partly reflects the cautious lending approach adopted by banking institutions, at the back of high COVID-19 pandemic induced inherent credit risk and preference for securities and investments.

Sensitivity to Market Risk...

- 3.32. The banking sector had an overall asset sensitive book as at 30 June 2021, with positive cumulative re-pricing gaps in all time bands implying that most banking institutions will gain in a scenario where market interest rates increase.

Outlook

- 3.33. The effects of the COVID-19 pandemic remain a key driver of vulnerabilities in the banking sector.
- 3.34. Inflationary pressures have eased, from 837.53% recorded in June 2020 to 106.64% recorded in June 2021. Inflation is expected to continue on a downward trend in the outlook period.
- 3.35. Preventative measures aimed at flattening the curve, including the Government's vaccination drive has led to the decrease of COVID-19 infection levels in the country.
- 3.36. The increasing economic activity on the back of good harvest, slowdown in inflation, stability of the local currency and the COVID-19 vaccine rollout is expected to provide a stable environment for the banking sector.
- 3.37. The banking sector will continue to play an important role in supporting the economic recovery process. In the face of the COVID-19 pandemic, automation of banking systems will be embedded more widely to reduce human interactions and also cater for machine executable repetitive cognitive tasks.
- 3.38. The increasing need to innovate and digitise by banking institutions, will, however, be accompanied by cyber risk as the top risk on risk registers.