BANK SUPERVISION

BANKING SECTOR REPORT

FOR THE

QUARTER ENDED 31 MARCH 2021

1. EXECUTIVE SUMMARY

1.1. The banking sector has largely coped well with the Covid-19 pandemic. The performance of the sector remained satisfactory as reflected by strong balance sheets, capital and earnings positions as at 31 March 2021.

1.2. The sectoral balance sheet increased by 16.20% to $406.22 billion as at 31 March 2021 from $349.59 billion as at 31 December 2020. The total assets comprised mainly loans & advances, balances with the central bank, securities and investments and balances with foreign institutions, which constituted 23.26%, 13.97%, 13.18% and 12.45%, respectively.

1.3. The aggregate net capital base increased by 20.74%, from $53.18 billion as at 31 December 2020 to $64.21 billion as at 31 March 2021.The growth in capital was mainly attributed to an increase in retained earnings.

1.4. Banking sector loans and advances increased by 27.69% from $82.41 billion as at 31 December 2020, to $105.23 billion. The sector has seen a recovery in new lending to corporations as lockdown restrictions were progressively relaxed during prior quarters.

1.5. The proportion of non-performing loans (NPLs) to total loans ratio was 0.36% as at 31 March 2021, compared to 0.31% as at 31 December 2020. This was well within the benchmark of 5%.

1.6. Aggregate deposits were $241.74 billion, representing an 18.42% increase over the review period from $204.13 billion reported as at 31 December 2020. The increase in total deposits was partly attributed to revaluation of foreign currency denominated deposits.

1.7. The average prudential liquidity ratio for the banking sector as at 31 March 2021 was 68.36% against the regulatory benchmark of 30%, largely reflecting the conservative approach to lending by many banking institutions.

1.8. Profitability indicators remained positive on the back of stabilising economic conditions and low default rates. Aggregate profits for the period were $6.58 billion compared to ZW$1.99 billion achieved in the corresponding period of 2020.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. As at 31 March 2021, there were 19 banking institutions and 201 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	191
Deposit-taking MFIs	8
Development Financial Institutions	2
Total	**201**

3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1. The pandemic has had a moderate impact on financial soundness, partly because of supportive government measures, regulatory relief measures as well as strong capital and liquidity buffers.

3.2. Non-performing loans are low and remain below the benchmark of 5%.

3.3. Retained earnings have enabled banks to build up their capital thus providing a buffer to absorb future losses.

3.4. The banking sector performance was satisfactory as reflected by the financial soundness indicators in the table.

Table 2: Financial Soundness Indicators

Key Indicators	Benchmark	Mar-20	Sept -20	Dec-20	Mar -21
Total Assets	-	$98.79bn	$284.37bn	$349.59bn	$406.22bn
Total Loans & Advances	-	$19.42bn	$56.76bn	$82.41bn	$105.23bn

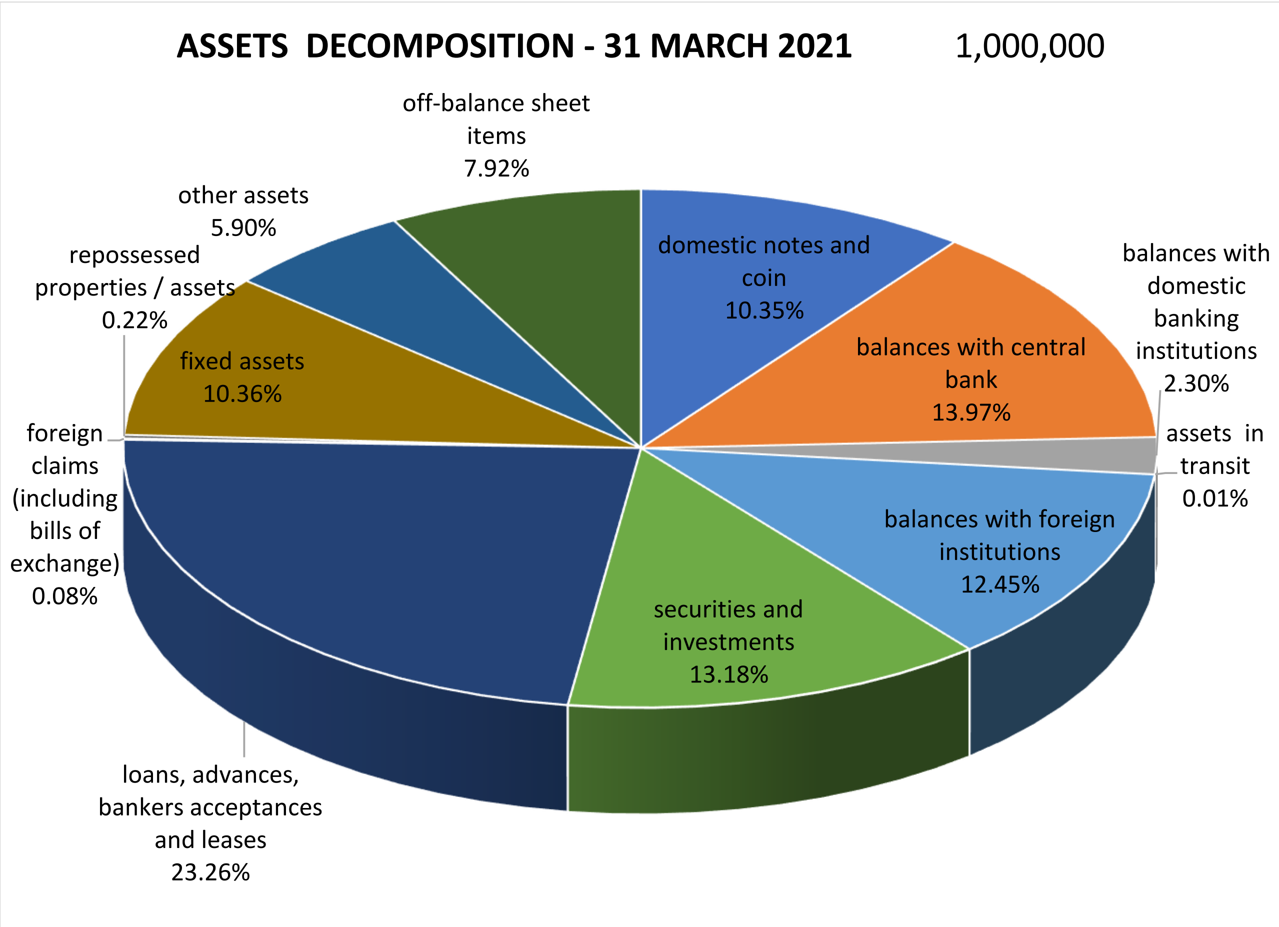
Key Indicators	Benchmark	Mar-20	Sept -20	Dec-20	Mar -21
Net Capital Base	-	$14.25bn	$42.06bn	$53.18bn	$64.21bn
Total Deposits	-	$47.05bn	$154.47bn	$204.13bn	$241.74bn
Net Profit	-	$1.99bn	$23.37bn	$34.24bn	$6.58bn
Return on Assets	-	2.44%	12.50%	13.55%	0.96%
Return on Equity	-	8.67%	39.92%	45.54%	5.90%
Capital Adequacy Ratio	12%	41.83%	47.16%	34.62%	30.04%
Tier 1 Ratio	8%	27.87%	27.61%	22.65%	19.43%
Loans to Deposits	70%	41.28%	36.75%	39.45%	43.53%
Non-Performing Loans Ratio	5%	1.42%	0.41%	0.31%	0.36%
Liquidity Ratio	30%	66.71%	71.69%	73.06%	68.36%

Composition of Banking Sector Assets

3.5. As at 31 March 2021, banking sector assets amounted to $406.22 billion.

3.6. The composition of the sector balance sheet is as indicated in figure 1.

Figure 1: Asset Mix as at 31 March 2021



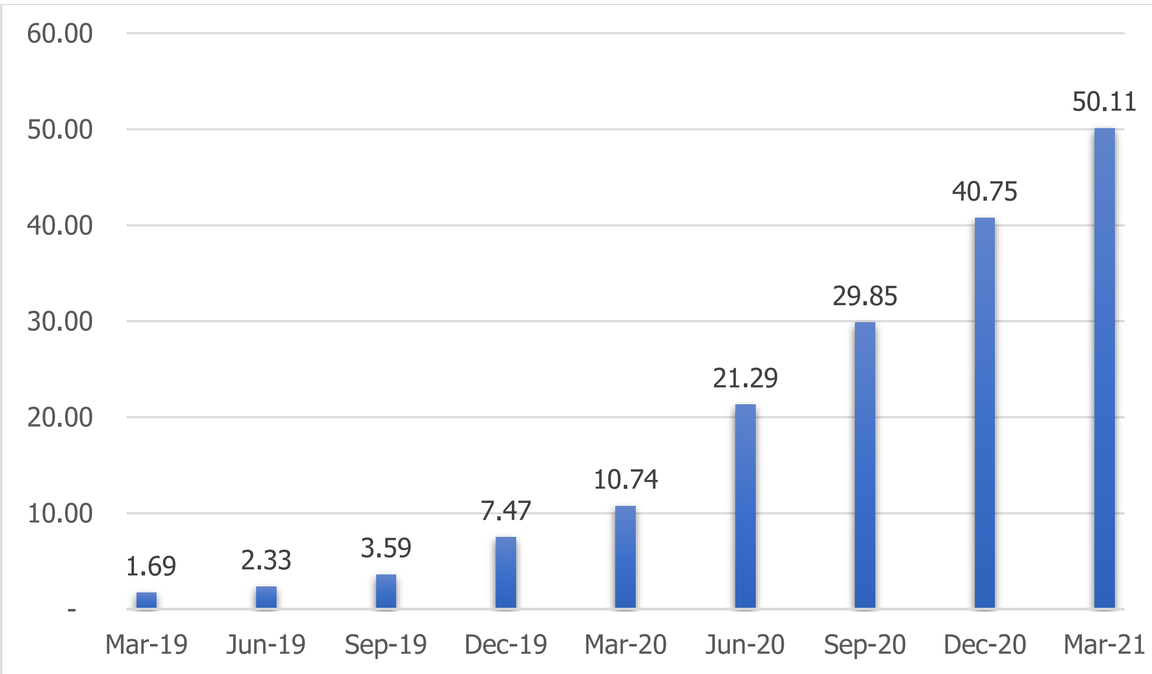
Capitalisation

3.7. Total core capital increased by 22.97%, from $40.75 billion as at 31 December 2020 to $50.11 billion as at 31 March 2021. As was the case in the previous quarter, the growth in aggregate core capital was mainly attributed to growth in retained earnings, mainly from translation gains on foreign exchange denominated assets, revaluation gains on investment properties as well as fees and commission.

3.8. The banking sector average capital adequacy and tier 1 ratios of 30.04% and 19.43% as at 31 March 2021, were above the regulatory minima of 12% and 8%, respectively.

3.9. The figure below shows core capital trends from March 2019 to March 2021.

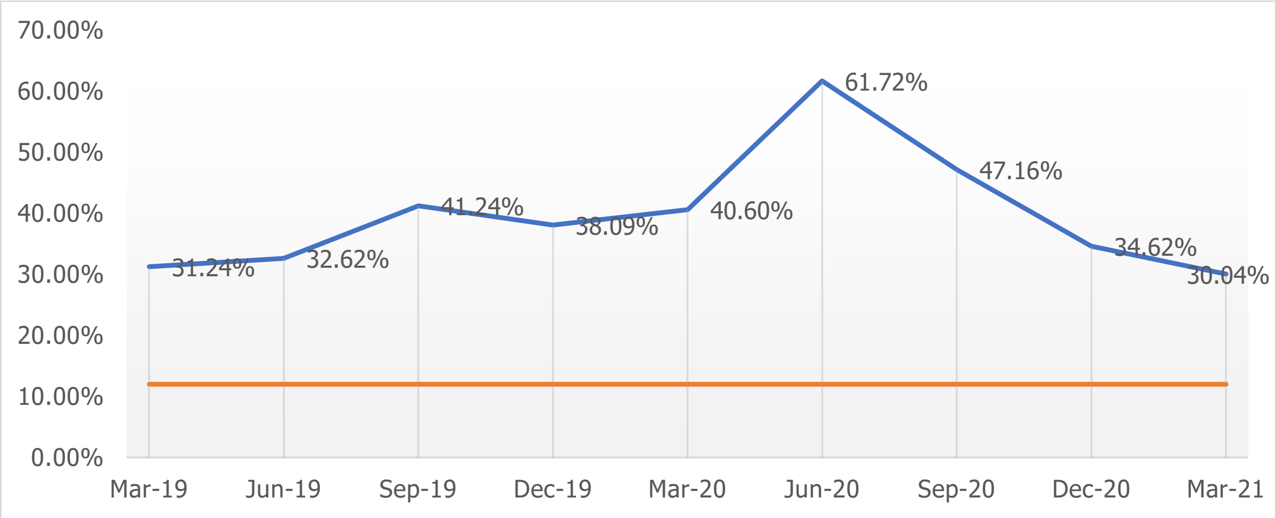
Figure 2: Core Capital – 2019- 2021 (ZW$ Billion)



3.10. The Bank continues to monitor banking institutions' progress towards meeting the new minimum capital requirements, which are effective from 31 December 2021. As part of the process of tracking the progress all banking institutions are required to submit updated recapitalisation plans by 30 June 2021.

3.11. The banking industry's average capital adequacy ratios from March 2019 to March 2021 are shown in the figure below:

Figure 3: Capital Adequacy Ratios



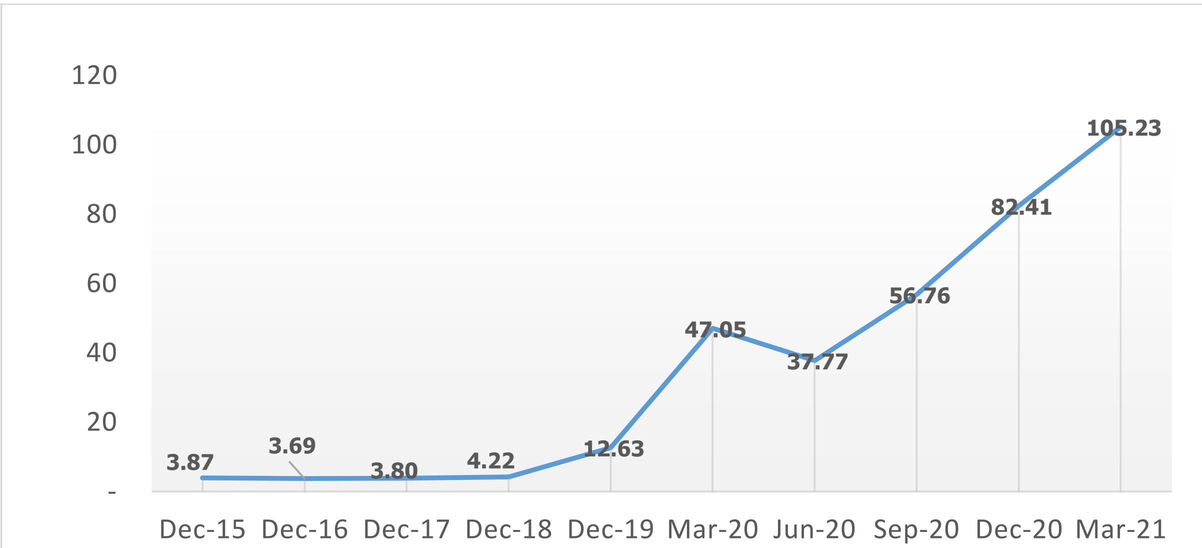
Asset Quality

3.12. Total banking sector loans and advances increased by 27.69% from $82.41 billion as at 31 December 2020 to $105.23 billion as at 31 March 2021.

3.13. The loans to deposits ratio of 43.53%, which depicts the proportion of deposits transformed to loans, reflects conservative lending approaches adopted by some banking institutions.

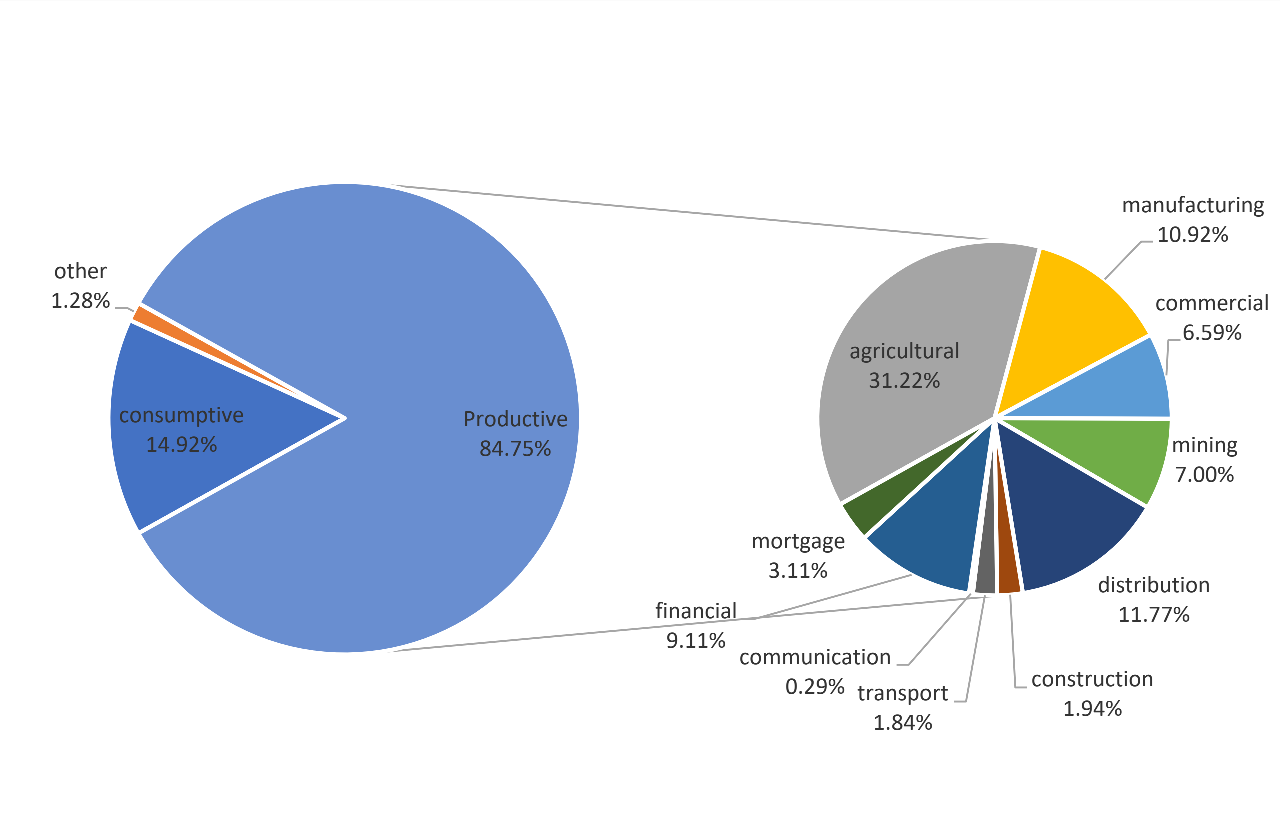
3.14. Figure 4 below shows the trend in the total banking sector loans and advances from December 2015 to March 2021.

Figure 4: Banking Sector Loans & Advances (ZW$ Billion)



3.15. Lending support to the productive sectors of the economy was predominantly to agriculture, manufacturing and the distribution sectors at 31.22%, 10.92% and 11.77%, respectively as shown in the figure below.

Figure 5: Sectoral Distribution of Loans



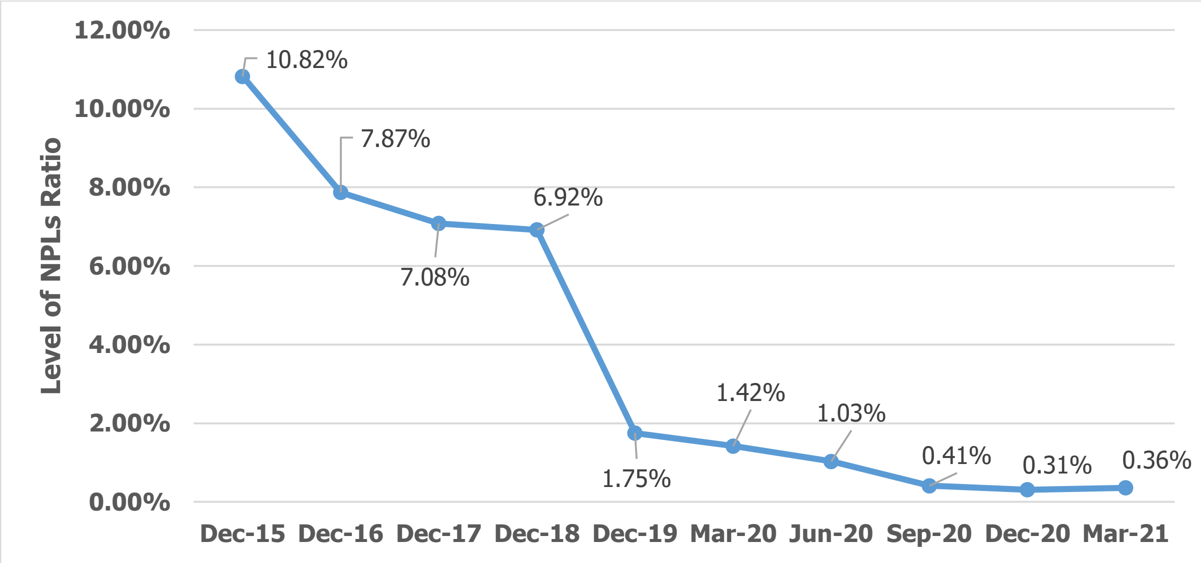
Loan Portfolio Quality

3.16. Regulatory relief measures and effective credit risk management have helped to mitigate the economic impact of Covid-19. As a result, there have been limited adverse impact on the financial system soundness to date.

3.17. Banks' non-performing loans (NPLs) to total loans ratio remained low 0.36% as at 31 March 2021, compared to 0.31% as at 31 December 2020.

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 March 2021.

Figure 6: Trend in NPL Ratio



3.19. Thirteen banking institutions had NPL ratios below 1%, whilst five (5) had NPL ratios above 1% as indicated in table 3.

Table 3: NPL Ratio Categories

	Below 1%	Between 1% & 3%	Above 3%
Number of Banks	13	5	1

3.20. Nine (9) out of 19 banking institutions recorded improvements in the NPL ratio during the quarter ended 31 March 2021

3.21. The economic outlook is generally positive and suggests that short term stress in lending portfolios will remain low.

Lending Rates

3.22. As at 31 March 2021 local currency lending rates were in the range of 6% - 85% per annum for both retail and corporate customers. Meanwhile, foreign currency lending rates for corporates remained in the same range of 7% - 12.5% per annum. The foreign currency lending rates were largely determined by the cost of funds from offshore lenders and the margin added by the local banks.

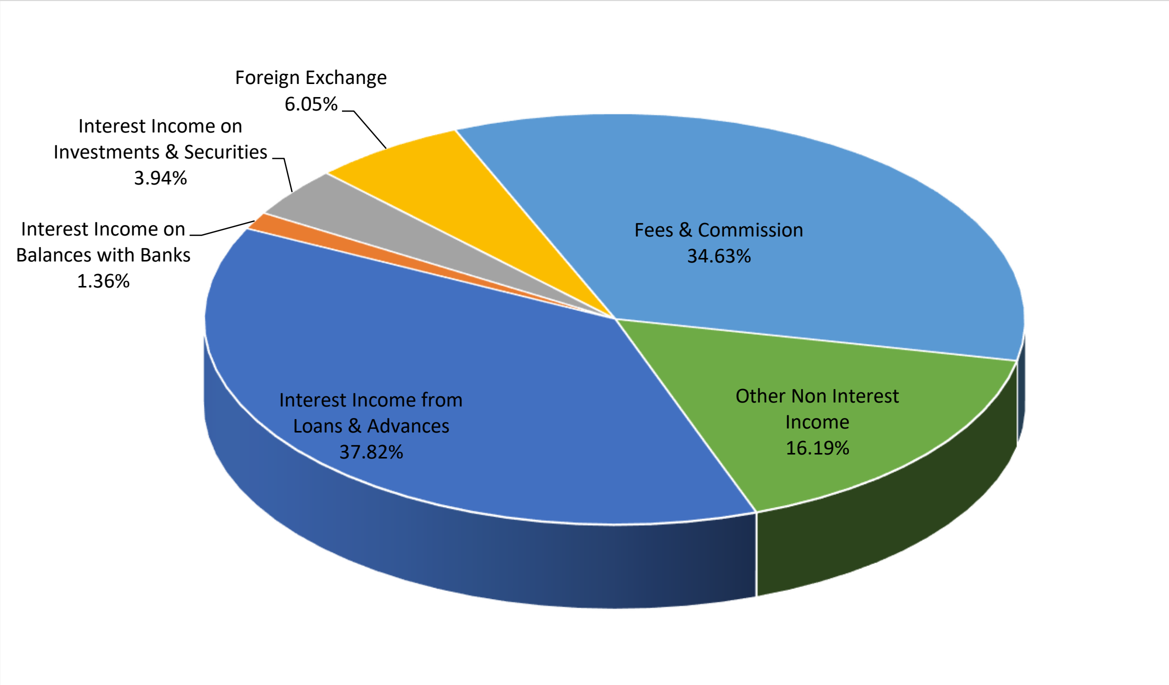
3.23. Foreign currency loans to individuals remained largely unchanged with the lending rates ranging between 12%-18% per annum.

Earnings Performance

3.24. During the quarter ended 31 March 2021, the banking sector profits amounted to ZW$6.58 billion, representing an increase from ZW$1.99 billion reported for the three (3) months ended 31 March 2020.

3.25. The key revenue drivers were interest income from loans and advances (37.82%), as well as fees and commissions which accounted for 34.63% of total income, while other non-interest income accounted for 16.19%, as shown in the figure below.

Figure 7: Income Mix - 31 March 2021

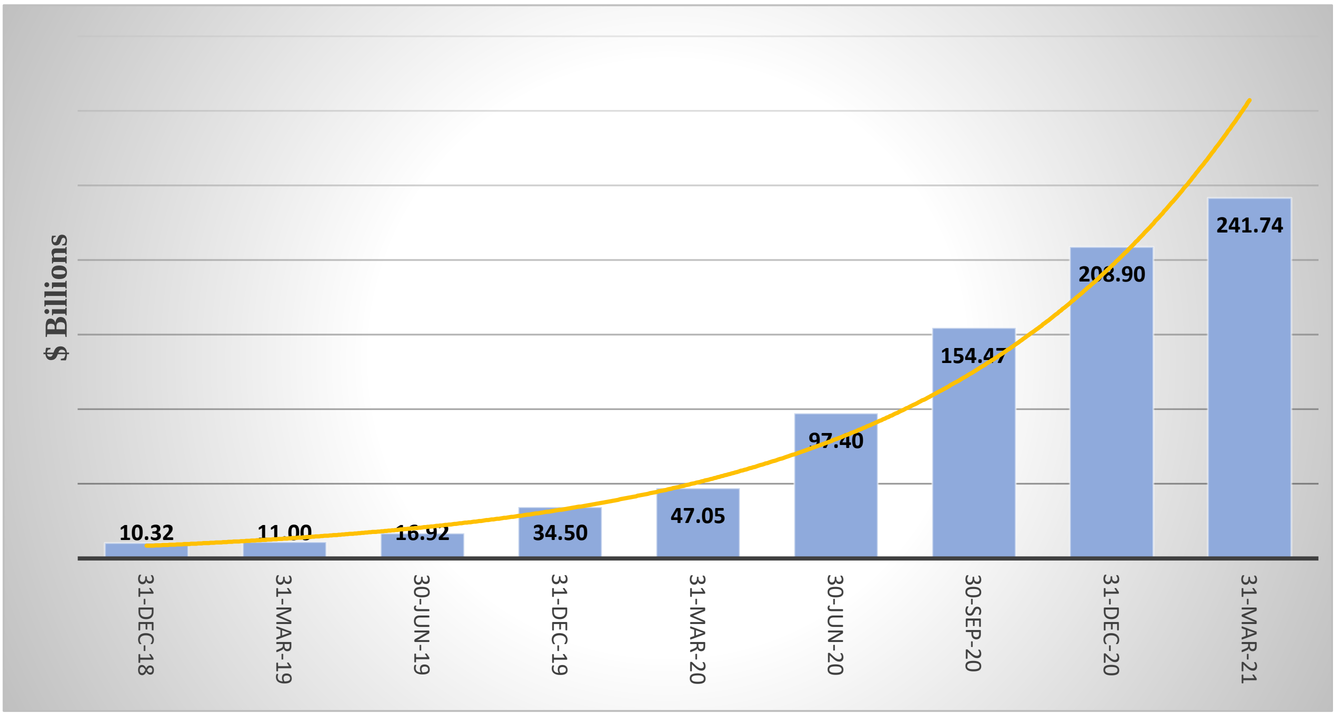


Liquidity and Funds Management

3.26. Total banking sector deposits increased by 15.72%, from ZW$208.90 billion reported as at 31 December 2020, to ZW$241.74 billion as at 31 March 2021.

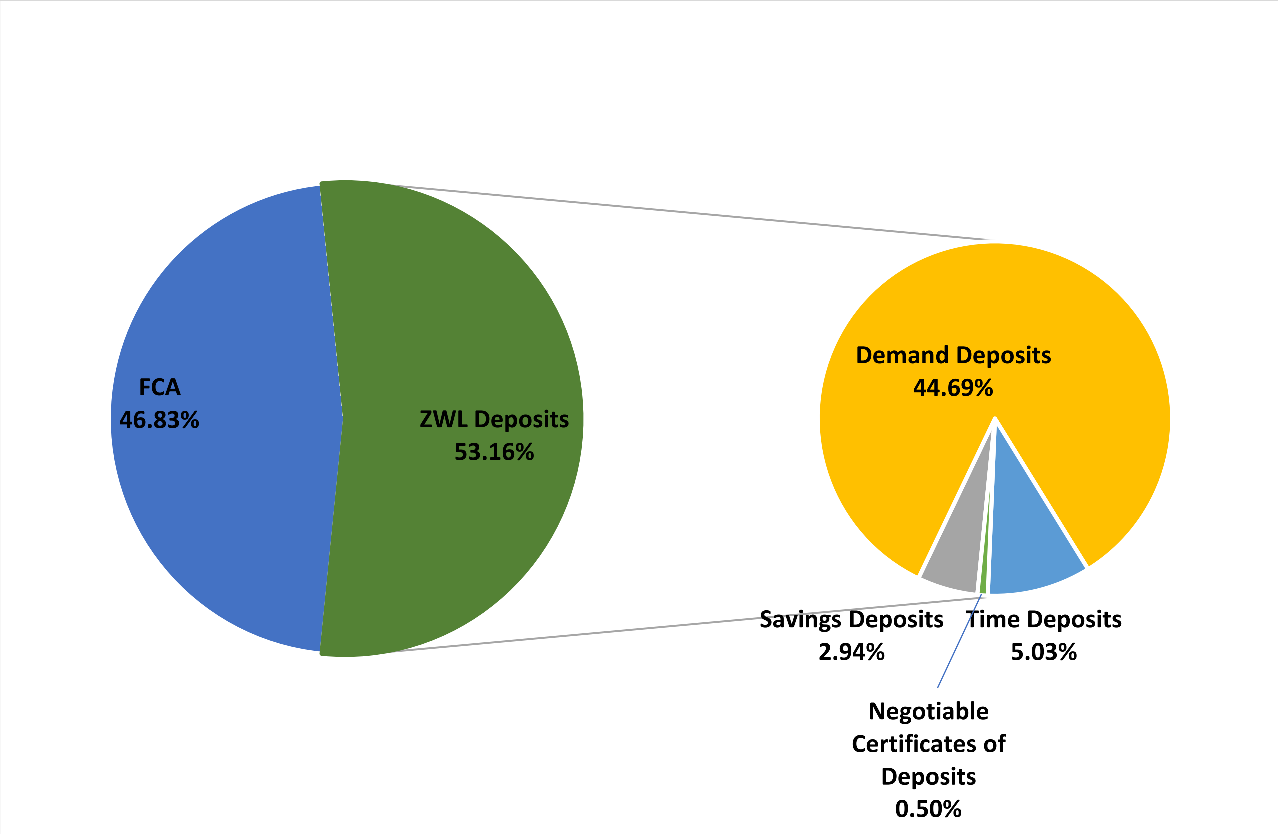
3.27. The trend of deposits over the period 31 December 2018 to 31 March 2021 is shown in the figure below.

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



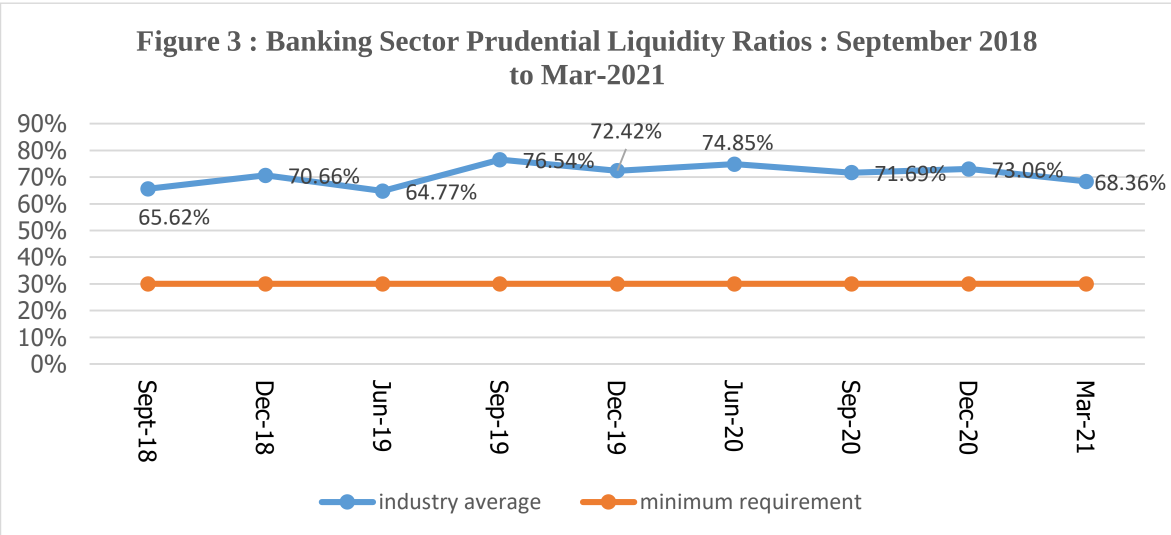
3.28. The composition of the deposit base has remained largely stable with FCA deposits constituting 46.83% while local currency deposits were 53.17%) as shown in the figure below.

Figure 9: Composition of Deposits as at 31 March 2021



3.29. The average prudential liquidity ratio for the banking sector was 68.36%, which is well above the regulatory minimum.

Figure 10: Prudential Liquidity Ratio Trend (%)



3.30. All banking institutions, except one, were compliant with the minimum prudential liquidity ratio of 30%.

Sensitivity to Market Risk

3.31. The banking sector had an overall asset sensitive book as at 31 March 2021, 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.

4. OUTLOOK

4.1. The improving economic environment, on the back of Covid-19 vaccine rollout, slowdown in inflation, good agricultural season, and stability of the local currency is expected to provide a conducive environment for the banking sector to continue supporting economic growth and development.

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