



BANK SUPERVISION DIVISION

BANKING SECTOR REPORT

FOR THE

QUARTER ENDED 30 SEPTEMBER 2021

1. EXECUTIVE SUMMARY

- 1.1. The banking sector performed satisfactorily during the quarter and continues to play a critical role in supporting the economy during the economic recovery phase.
- 1.2. Financial soundness indicators reflect resilience and adequate capitalisation of banking institutions and capacity for increased support to meet the funding needs of the economy.
- 1.3. The sector was adequately capitalized with an average capital adequacy and tier 1 ratio of 35.34% and 26.78%, against regulatory minima of 12% and 8%, respectively.
- 1.4. Aggregate core capital amounted to \$63.39 billion as at 30 September 2021, up from \$53.66 billion as at 30 June 2021. The growth in banking sector capital was mainly attributed to growth in retained earnings, which was largely driven by increase in non-interest income.
- 1.5. Banking institutions have made significant progress towards meeting the new minimum capital requirements effective 31 December 2021.
- 1.6. Total banking sector assets increased by 18.19%, from \$482.28 billion as at 30 June 2021 to \$569.99 billion as at 30 September 2021. The growth was mainly attributable to translation of foreign currency denominated assets.
- 1.7. Total banking sector loans and advances increased by 22.98% from \$142.79 billion as at 30 June 2021, to \$175.60 billion as at 30 September 2021. The proportion of foreign currency loans to total banking sector loans has increased gradually from 21% as at 31 December 2020 to 32% as at 30 September 2021.
- 1.8. Asset quality remained strong, as reflected by average non-performing loans to total loans (NPL) ratio of 0.61% as at 30 September 2021, against the international generally accepted threshold of 5%.
- 1.9. Total banking sector deposits continued on an upward trajectory, increasing from \$311.20 billion as at 30 June 2021, to \$374.64 billion as at 30 September 2021, mainly driven by growth in foreign currency deposits.
- 1.10. The average banking sector prudential liquidity ratio was high at 62.87%, against the minimum regulatory requirement of 30%, reflecting the cautious lending approach adopted by banking institutions.
- 1.11. Aggregate banking sector net profit increased from \$23.37 billion for the period

ended 30 September 2020 to \$25.39 billion for the period ended 30 September 2021, on the back of growth in non-interest income, mainly attributable to fees from the increased use of digital banking platforms.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. The number of banking institutions remained unchanged, while the number of credit only microfinance institutions decreased to 168 as at 30 September 2021 from 176 as at 30 June 2021, as some institutions ceased operations citing negative effects of the Covid-19 pandemic. 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

2.2. The number of development financial institutions under purview of the Bank increased from two (2) to three (3) following the commencement of operations of AFC Land & Development Bank of Zimbabwe Limited. The institution was granted authority to commence operations on 18 October 2021.

3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1. The banking sector registered satisfactory performance during the period ended 30 September 2021, as depicted by the key financial soundness indicators shown in Table 2 below.

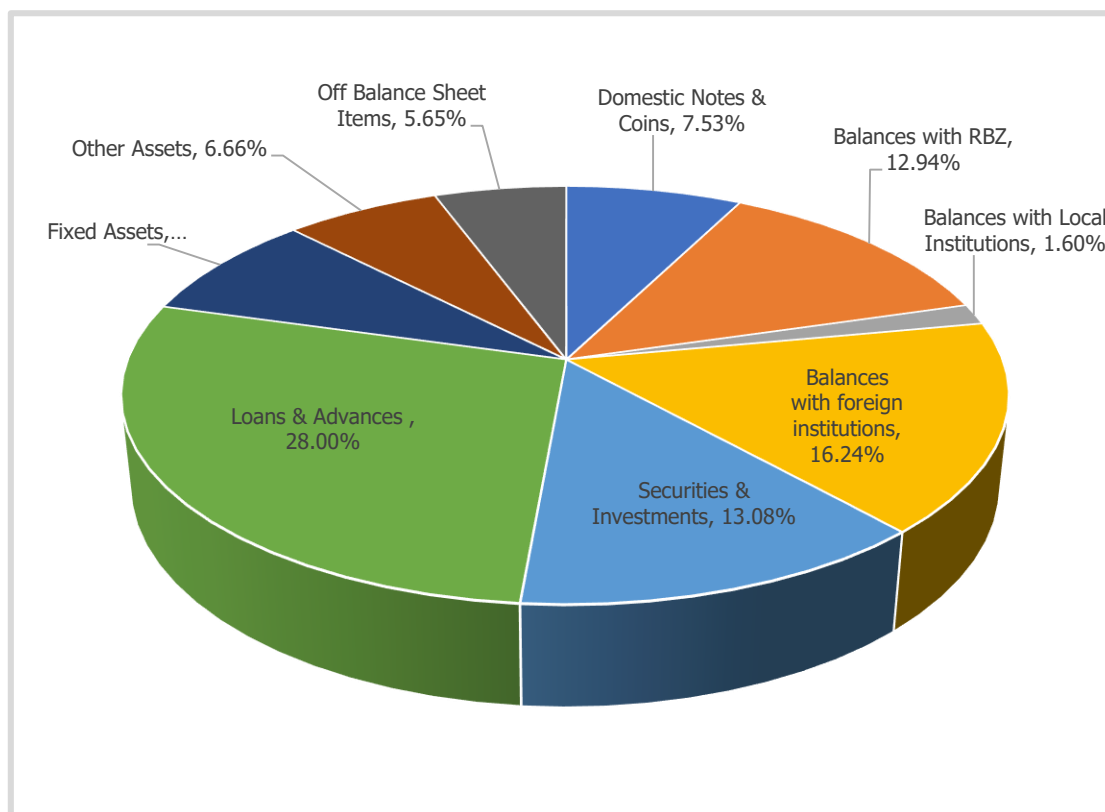
Table 2: Financial Soundness Indicators

Key Indicators	Benchmark	Sept -20	Mar -21	June -21	Sept -21
Total Assets	-	\$284.37bn	\$406.22bn	\$482.28bn	\$569.99bn
Total Loans & Advances	-	\$56.76bn	\$105.23bn	\$142.79bn	\$175.60bn
Net Capital Base	-	\$42.06bn	\$64.21bn	\$72.90bn	\$84.58bn
Core Capital	-	\$29.85bn	\$50.02bn	\$53.66bn	\$63.39bn
Total Deposits	-	\$154.47bn	\$241.74bn	\$311.50bn	\$374.64bn
Net Profit	-	\$23.37bn	\$6.58bn	\$15.09bn	\$25.39bn
Return on Assets	-	12.50%	0.96%	4.38%	8.23%
Return on Equity	-	39.92%	5.90%	18.71%	31.87%
Capital Adequacy Ratio	12%	47.16%	30.04%	35.32%	35.34%
Tier 1 Ratio	8%	27.61%	19.43%	25.05%	26.78%
Loans to Deposits Ratio	70%	36.75%	43.53%	45.84%	46.87%
Non-Performing Loans Ratio	5%	0.41%	0.36%	0.55%	0.61%
Liquidity Ratio	30%	71.69%	68.36%	66.89%	62.87%

Composition of Banking Sector Assets

- 3.2. Banking sector assets amounted to \$569.99 billion as at 30 September 2021 and largely comprised of loans and advances (28.00%), balances with foreign institutions (16.24%) and securities and investments (13.08%). The securities were largely government securities.
- 3.3. Figure 1 shows the composition of banking sector assets as at 30 September 2021.

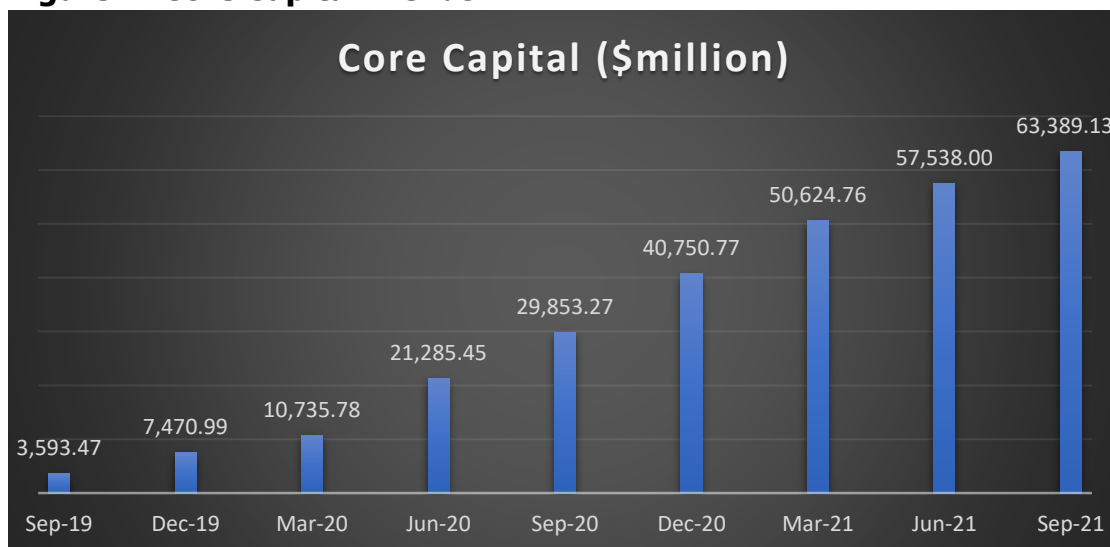
Figure 1: Asset Mix as at 30 September 2021



Capitalisation

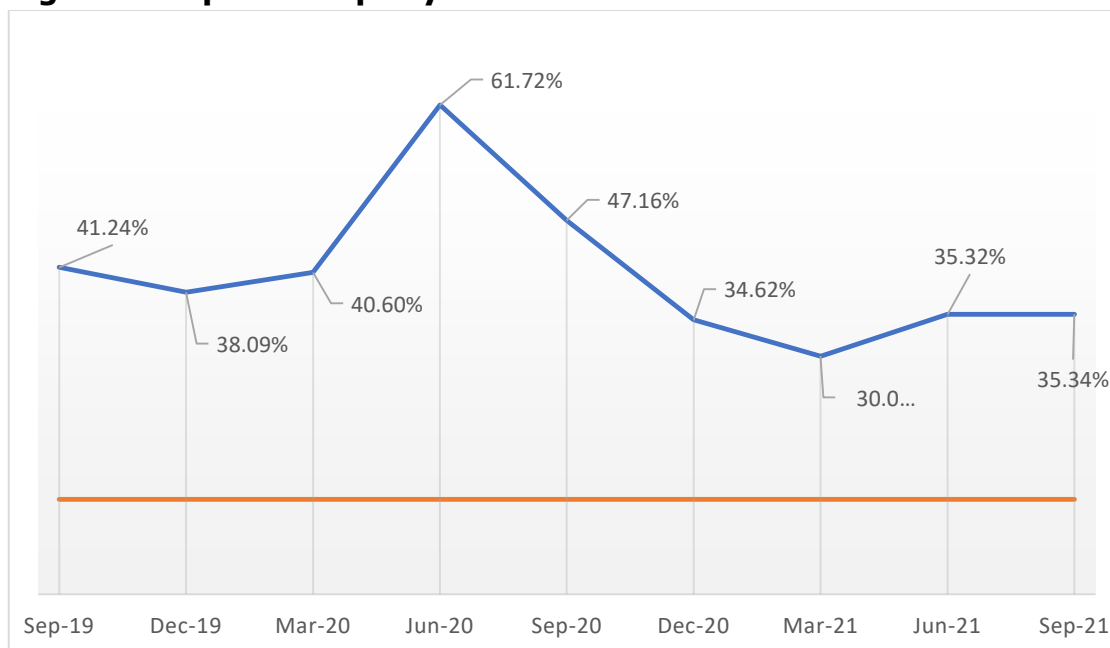
- 3.4. As at 30 September 2021, the banking sector was adequately capitalised as reflected by the average capital adequacy and tier 1 ratios of 35.34% and 26.78%, which were above the regulatory minima of 12% and 8%, respectively.
- 3.5. Aggregate core capital increased from \$53.66 billion as at 30 June 2021 to \$63.39 billion as at 30 September 2021, driven by capitalisation of retained earnings. In a number of institutions, net income largely emanated 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.
- 3.6. Figure 2 below shows core capital trends from September 2019 to September 2021.

Figure 2: Core Capital Trends



- 3.7. Banking institutions continue to give priority to recapitalisation ahead of the deadline for compliance with new minimum regulatory capital requirements effective 31 December 2021.
- 3.8. The banking industry's average capital adequacy ratios from September 2019 to September 2021 are shown in the figure below:

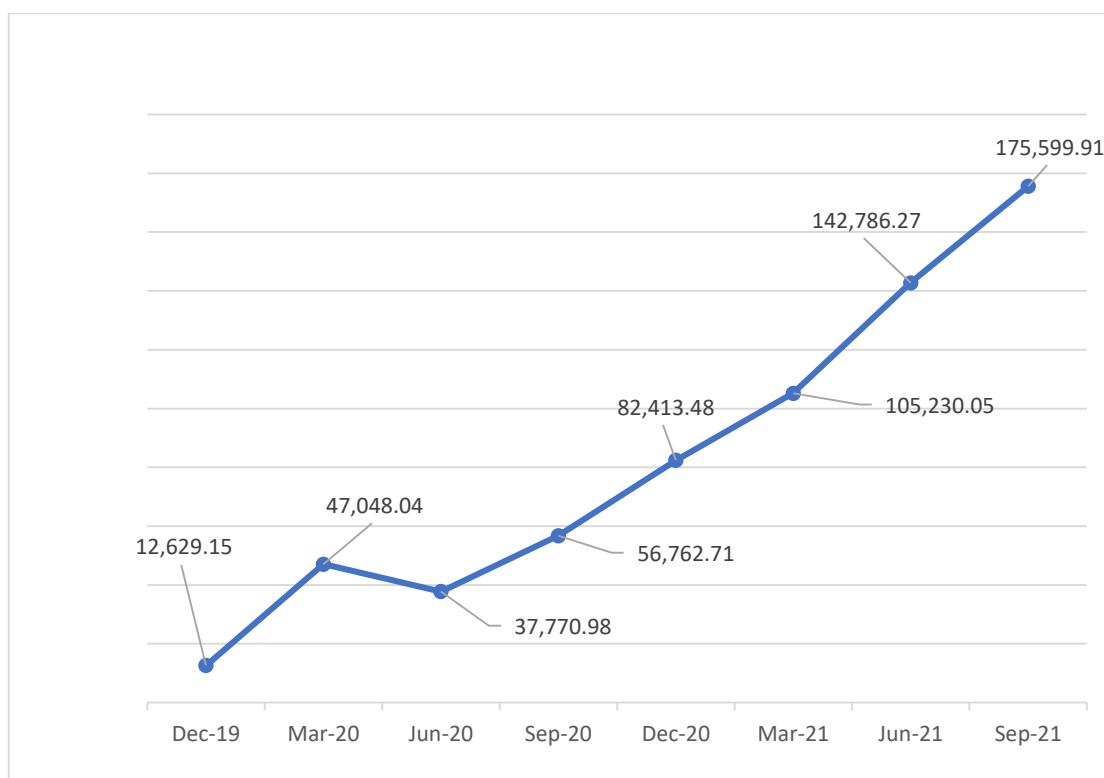
Figure 3: Capital Adequacy Ratios Trend



Asset Quality

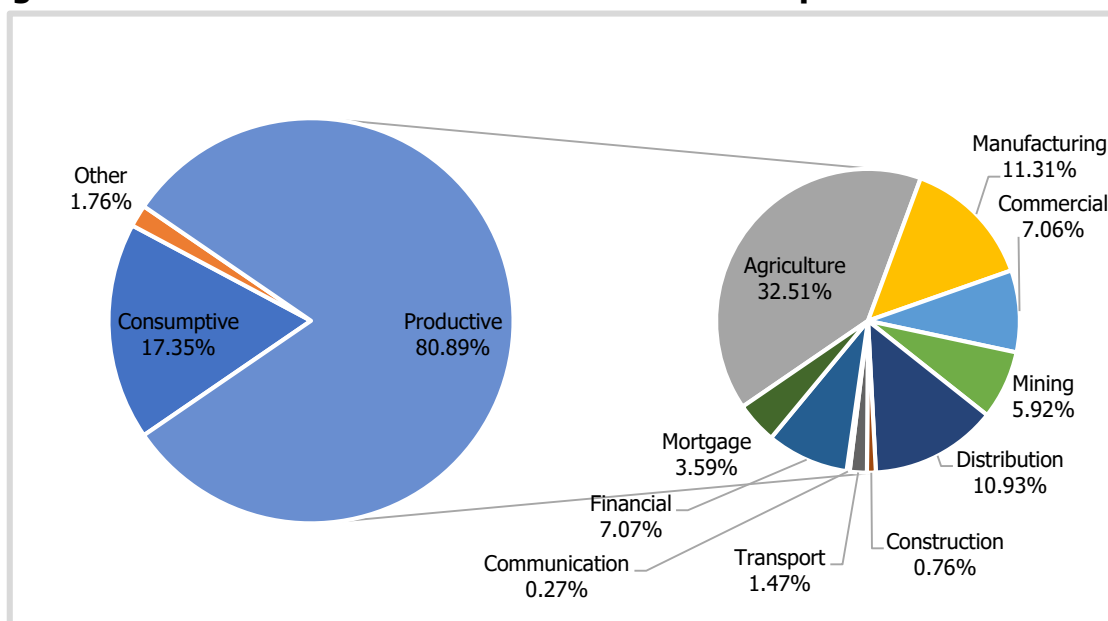
- 3.9. Total banking sector loans and advances increased by 22.98% from \$142.79 billion as at 30 June 2021, to \$175.60 billion as at 30 September 2021, largely attributed to the translation of foreign currency denominated loans. Foreign currency loans accounted for 32% of total banking sector loans as at 30 September 2021.
- 3.10. The level of banking sector financial intermediation has remained moderate as reflected by the loans to deposits ratio of 46.87% as at 30 September 2021, which registered a marginal increase from 45.84% reported as at 30 June 2021.
- 3.11. Figure 4 shows the trend in the total banking sector loans and advances from December 2019 to September 2021.

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



- 3.12. 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 September 2021, as shown in Figure 5.

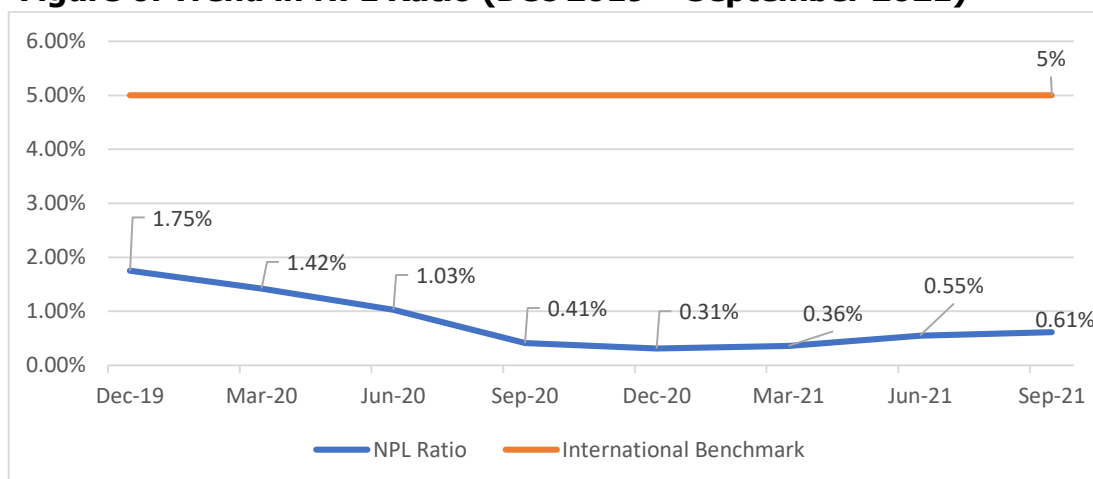
Figure 5: Sectoral Distribution of Loans as at 30 September 2021



Loan Portfolio Quality

- 3.13. The banking sector loan portfolio quality remained strong with the non-performing loans (NPLs) to total loans ratio of 0.61% as at 30 September 2021, against the generally acceptable international threshold of 5%.
- 3.14. Figure 6 shows the trend in the level of non-performing loans to total loans ratio (NPLs ratio) from December 2019 to September 2021.

Figure 6: Trend in NPL Ratio (Dec 2019 – September 2021)



- 3.15. The Reserve Bank continues to utilize its early warning system framework to closely monitor developments in the banking sector's credit risk exposures.

Earnings Performance

3.16. The banking sector was profitable during the period under review, with aggregate profit of \$25.39 billion for the nine months ended 30 September 2021, a marginal increase from a profit of \$23.37 billion reported for the corresponding period in 2020. During the period under review, 18 out of 19 banking institutions reported profits.

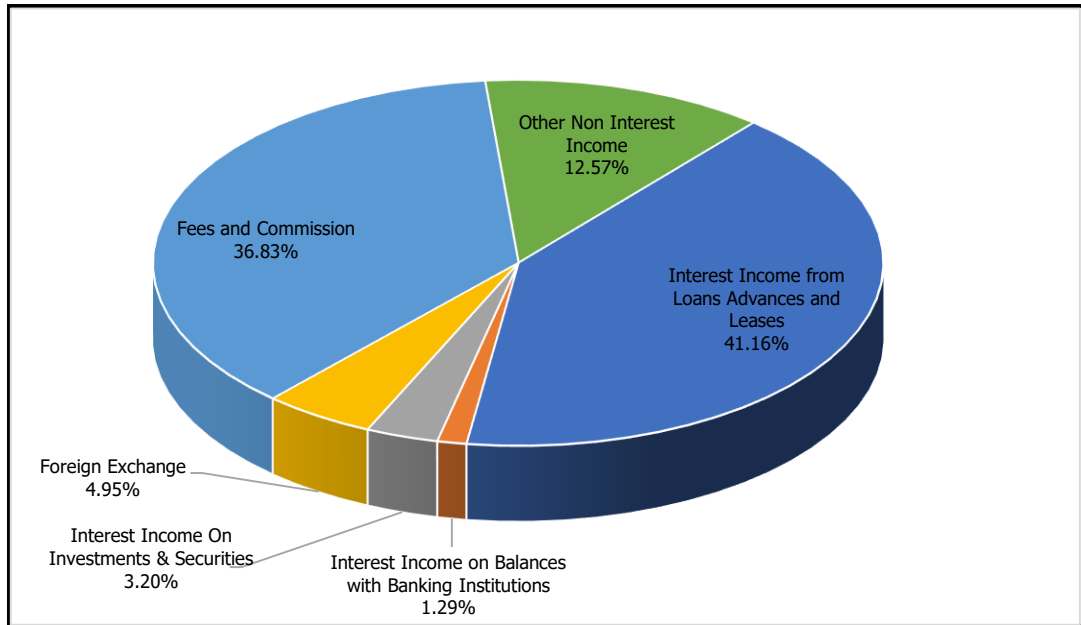
3.17. The table below shows a comparison of profitability indicators in 2020 and 2021.

Profitability Indicator	September 2020	September 2021
Net Income	\$23.37 billion	\$25.39 billion
Return on Assets (ROA)	12.50%	8.23%
Return on Equity (ROE)	39.92%	31.87%
Net Interest Margin	3.58%	9.83%
Cost to Income Ratio	54.35%	71.85%

3.18. Income growth during the nine months ended 30 September 2021 was largely attributable to non-interest income which accounted for 54.35% of total income. 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.

3.19. Figure 7 below shows banking sector income mix as at 30 September 2021.

Figure 7: Income Mix



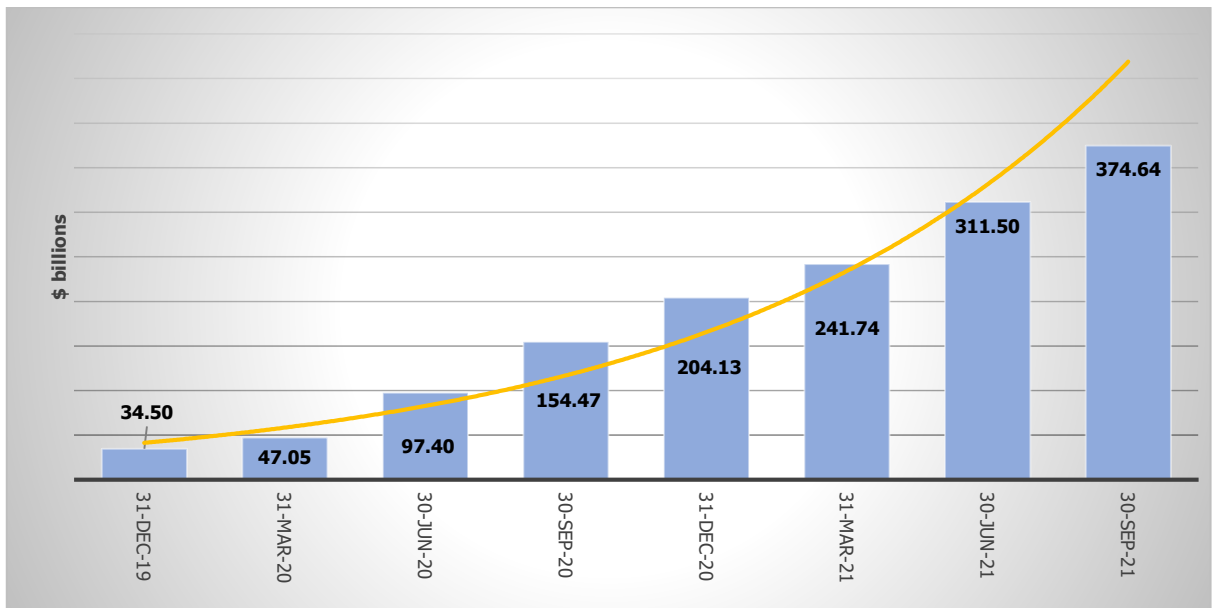
3.20. During the period under review, interest income from loans and advances contributed 41.16% of the total income, an improvement from 16.29% of total income in reported in 2020. This indicates that the sector is shifting towards the traditional sources of revenue such as income from financial intermediation activities, which are considered stable and less vulnerable to changes in economic conditions and exchange rate movements.

Liquidity and Funds Management

3.21. Total banking sector deposits increased by 20.27%, from \$311.50 billion as at 30 June 2021, to \$374.64 billion as at 30 September 2021, mainly driven by translation of foreign currency denominated deposits.

3.22. The figure below shows deposit trends from 31 December 2018 to 30 September 2021.

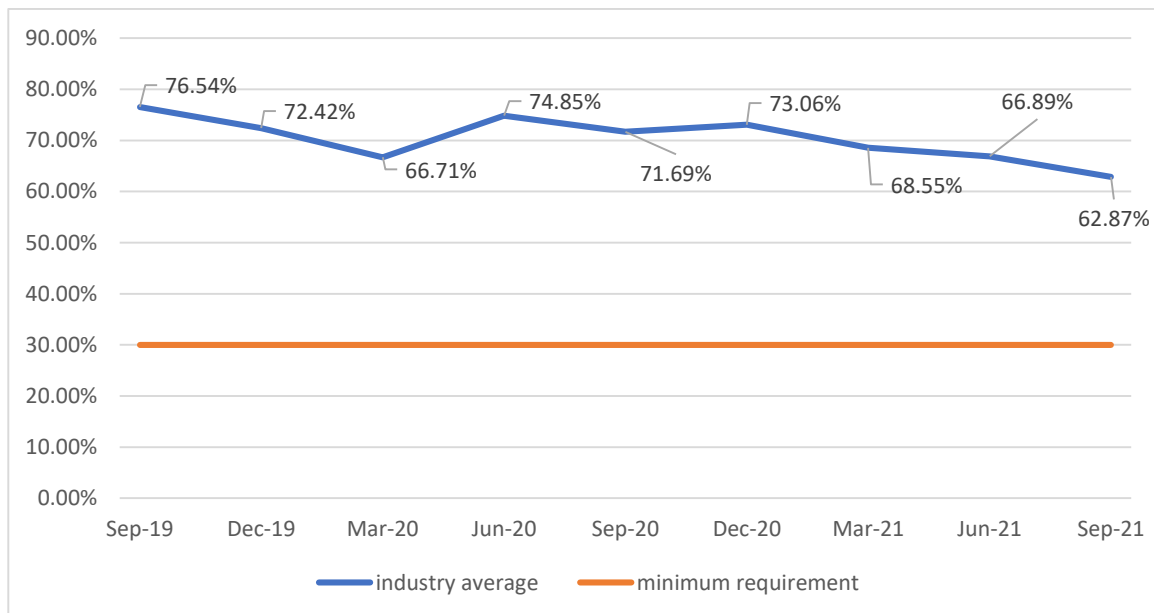
Figure 8: Trend in Deposits



3.23. The average prudential liquidity ratio for the banking sector remained high as at 30 September 2021 at 62.87%, against the minimum regulatory requirement of 30%.

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

Figure 9: Prudential Liquidity Ratio Trend (%)



3.25. The high liquidity ratio in the sector partly reflects the cautious lending approach adopted by banking institutions.

Sensitivity to Market Risk

- 3.26. The banking sector had an overall asset sensitive book as at 30 September 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.

Outlook

- 3.27. The increasing economic activity on the back of vaccine rollout, slowdown in inflation, expected good rains in the 2021/2022 farming season, and stability of the local currency is expected to provide a stable environment for the banking sector.
- 3.28. The banking sector will continue to play an important role in supporting the funding requirements of the economy as recovery gains traction.