BANK SUPERVISION DIVISION

BANKING SECTOR REPORT

FOR

QUARTER ENDED 30 SEPTEMBER 2019

1. EXECUTIVE SUMMARY

1.1. The banking sector exhibited resilience during the quarter ended 30 September 2019, reflected by adequate capitalisation, sustained earnings performance, as well as satisfactory asset quality and liquidity. A combination of foreign currency and investment property revaluation gains contributed to the overall banking sector profitability.

1.2. Stress tests conducted by the Reserve Bank, however, indicate banking sector vulnerabilities to credit and foreign exchange risks.

1.3. During the quarter under review, all banking institutions were adequately capitalised with average tier 1 and capital adequacy ratios of 27.92% and 41.24%, respectively.

1.4. There was an increase of 54.08% in the aggregate core capital from $2.33 billion as at 30 June 2019 to $3.59 billion as at 30 September 2019, mainly driven by capitalisation of retained earnings.

1.5. Total banking sector assets increased by 74.13% from $23.54 billion as at 30 June 2019, to $40.99 billion as at 30 September 2019. The increase was mainly attributable to revaluation of investment properties and foreign currency denominated loans due to exchange rate movements of the Zimbabwe dollar against the United States dollar.

1.6. Total banking sector loans and advances increased by 35.33%, from $6.17 billion to $8.35 billion during the quarter ended 30 September 2019, largely attributable to revaluation of foreign currency denominated loans.

1.7. The upward trajectory in total banking sector deposits continued, rising from $16.92 billion to $21.51 billion during the quarter ended 30 September 2019, mainly attributable to revaluation of foreign currency denominated balances.

The deposits largely comprised demand (61.48%) foreign currency accounts (27.02%) and time deposits (6.57%).

1.8. For the nine months ended 30 September 2019, the aggregate banking sector profits amounted to $2.09 billion, in comparison to $238.98 million reported in the corresponding period in 2018. The growth was mainly attributed to foreign exchange and property revaluation gains at a number of banks.

1.9. Banking sector asset quality continued to improve, reflected by a decline in the non-performing loans (NPLs) to total loans ratio, from 3.95% as at 30 June 2019 to 3.23% as at September 2019. The improvement in the NPLs ratio was mainly driven by an increase in total banking sector loans and advances during the period under review. It is, however, noted that total non-performing loans marginally increased from $245.65 million as at 30 June 2019 to $269.26 million as at 30 September 2019.

1.10. The average prudential liquidity ratio improved from 64.77% to 75.59% during the quarter ended 30 September 2019. Nonetheless, the demand for physical cash remains high in the economy.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. As at 30 September 2019, there were 19 banking institutions and 227 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	218
Deposit-taking MFIs	7
Development Financial Institutions	2
Total Other Institutions	**227**

3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1. The banking sector remained generally stable and continued to exhibit resilience as evidenced by adequate capitalization, improved earnings performance, satisfactory asset quality and improved liquidity position for the period ended 30 September 2019.

3.2. The trends in key financial soundness indicators since September 2018 are shown in Table 2 below.

Table 2: Financial Soundness Indicators

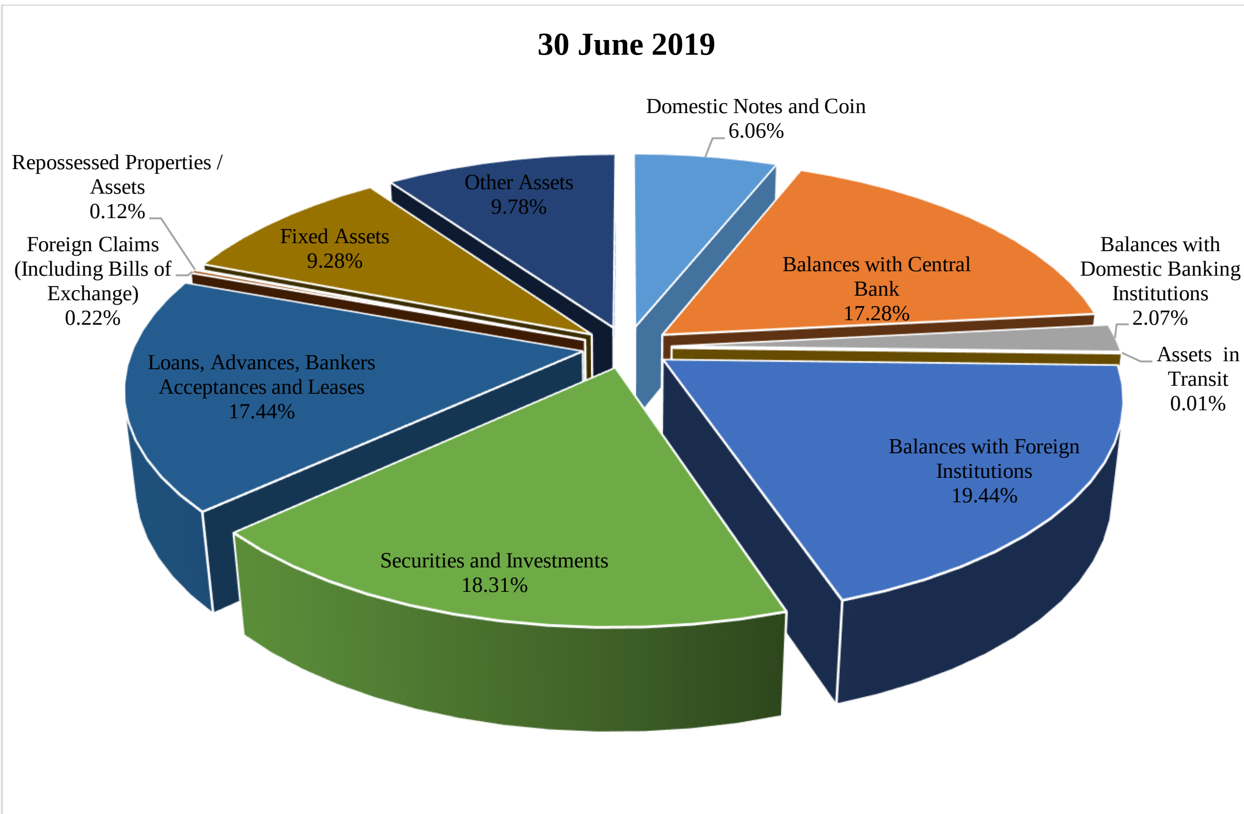
Key Indicators	Benchmark	Sep-18	Mar-19	June-19	Sep-19
Total Assets	-	$13.31bn	$15.40bn	$23.54bn	$40.99bn
Total Loans & Advances		$4.00bn	$4.44bn	$6.17bn	$8.35bn
Securities & Investments	-	$4.85bn	$4.54bn	$5.20bn	$6.82bn
Net Capital Base	-	$1.72bn	$2.09bn	$3.31bn	$5.35bn
Total Deposits	-	$10.38bn	$11.00bn	$16.92bn	$21.51bn
Net Profit	-	$238.98m	$78.05m	$929.95m	$2.09bn
Return on Assets	-	2.61%	1.37%	5.11%	7.91%
Return on Equity	-	16.80%	4.92%	20.95%	26.85%
Capital Adequacy Ratio	12%	27.79%	30.74%	32.64%	41.24%
Tier 1 Ratio	8%	22.68%	27.67%	27.24%	27.92%
Loans to Deposits	70%	41.80%	40.43%	36.49%	38.82%
Non-Performing Loans Ratio	5%	6.69%	5.58%	3.95%	3.23%
Liquidity Ratio	30%	70.66%	66.82%	64.77%	75.59%

Composition of Banking Sector Assets…

3.3. Total banking sector assets increased by 74.13%, from $23.54 billion as at 30 June 2019, to $40.99 billion as at 30 September 2019. The growth in banking sector assets was mainly attributable to revaluation of properties and translation of foreign currency denominated loans.

3.4. As at 30 September 2019, total banking sector assets largely comprised balances with foreign institutions (19.44%), investment & securities (18.31%) as well as loans and advances (17.44%). The structure of banking sector assets, as compared to June 2019, shifted towards balances with foreign institutions, domestic notes and coins, partly explained by the increase in cash in circulation as well as revaluations due to exchange rate movements. The figure below shows the asset composition as at 30 September 2019 and 30 June 2019:

Figure 1: Asset Mix as at 30 September 2019



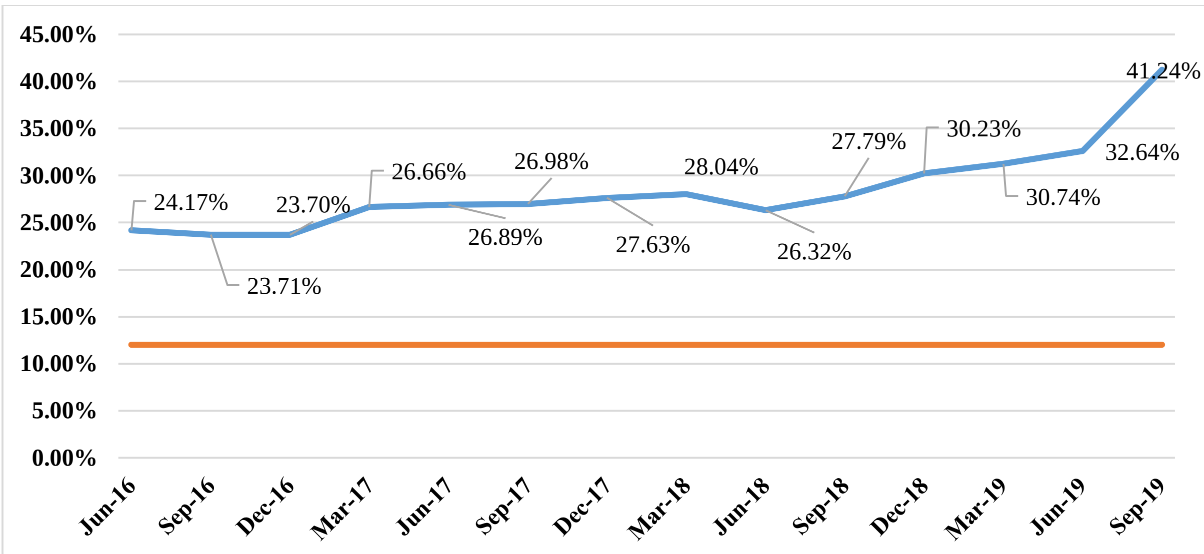
Capitalisation…

3.5. As at 30 September 2019, the banking sector was adequately capitalised, with average capital adequacy and tier 1 ratios of 41.24% and 27.92%, respectively, which complied with the regulatory minima of 12% and 8%.

3.6. All banking institutions complied with the minimum regulatory capital adequacy and tier 1 ratios.

3.7. The banking industry's average capital adequacy ratios from June 2016 to September 2019 are shown in the figure below:

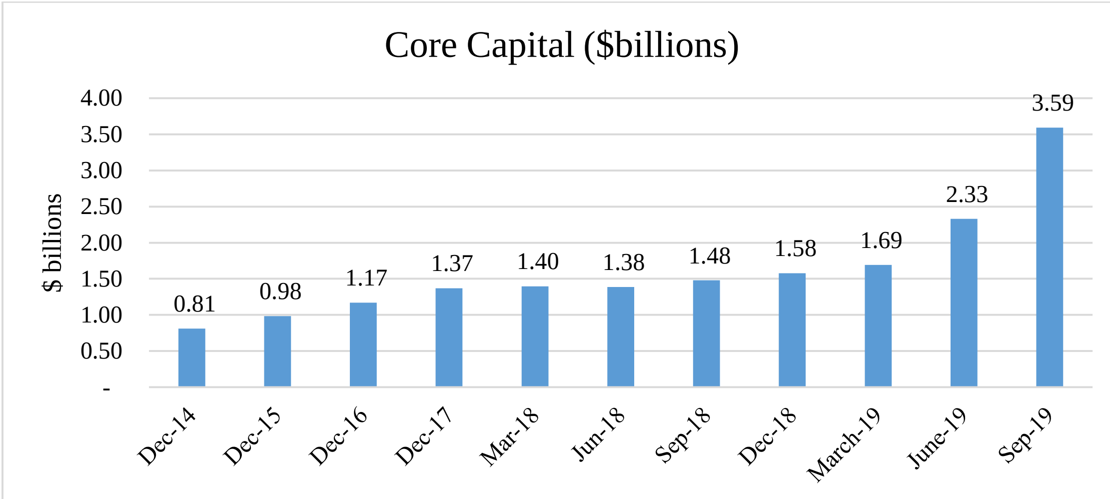
Figure 3: Capital Adequacy Ratios Trend



3.8. There has been an upward trend in the industry capital adequacy ratios, mainly as a result of the increase in the level of aggregate sector core capital due to organic growth.

3.9. Aggregate core capital increased from \$2.33 billion as at 30 June 2019 to \$3.59 billion as at 30 September 2019. The graph below shows the trend in the banking sector core capital levels for the period December 2014 to September 2019.

Figure 2: Core Capital Trends 2014 to September 2019



3.10. The growth in aggregate core capital was mainly as a result in organic growth, arising from foreign currency translation gains and revaluation of investment properties.

Asset Quality...

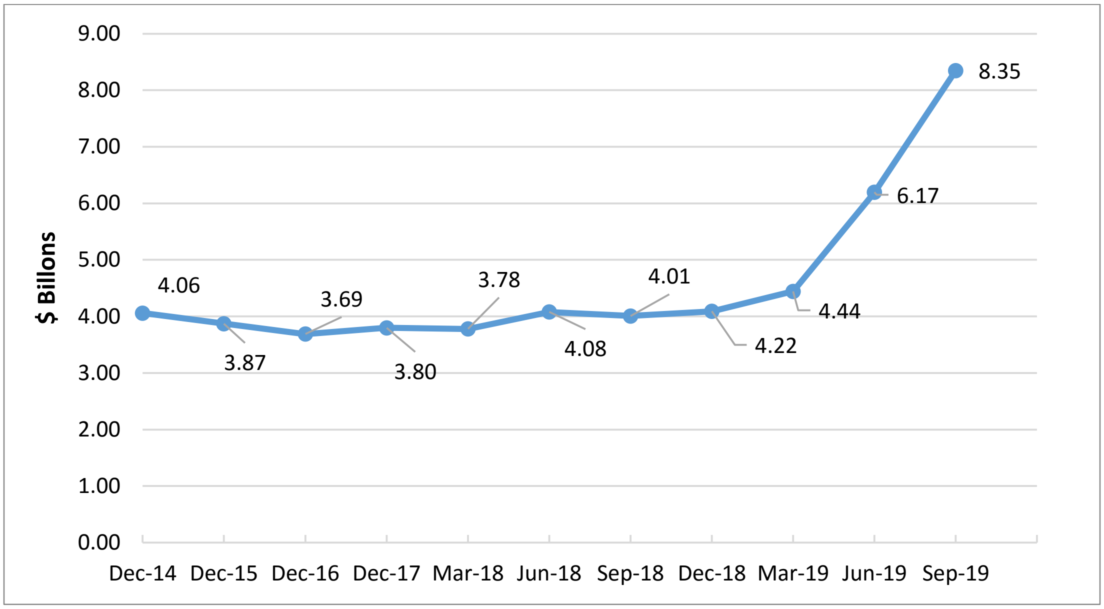
3.11. Total banking sector loans and advances increased by 35.33% from $6.17 billion as at 30 June 2019, to $8.35 billion as at 30 September 2019.

3.12. The growth in loan balances during the quarter was driven by the effect of translation of foreign currency denominated loans to the reporting currency.

3.13. The loans to deposits ratio has remained low at 38.82% as at 30 September 2019, reflective of subdued financial intermediation due to challenges in the macroeconomic environment and foreign currency shortages.

3.14. The trend of banking sector loans and advances from 31 December 2014 to 30 September 2019 is shown in the figure below:

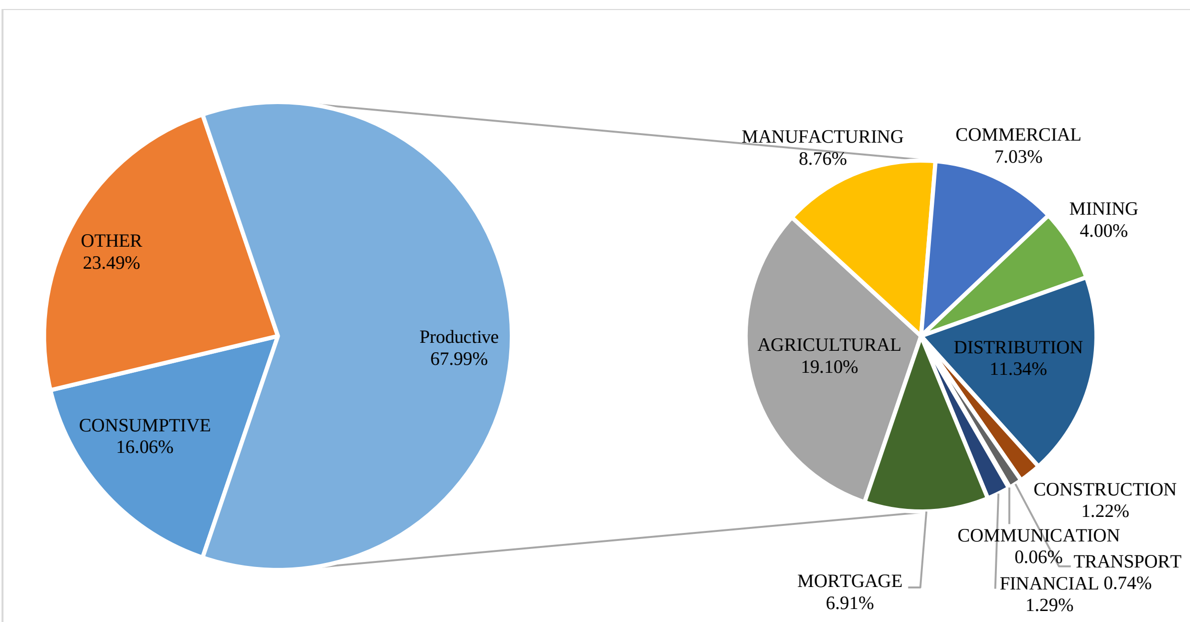
Figure 4: Banking Sector Loans & Advances ($ billions)



Distribution of Loans and Advances…

3.15. Productive sector loans accounted for 67.99% of total sector loans as at 30 September 2019 as shown in the diagram below.

Figure 5: Sectoral Distribution of Loans as at 30 September 2019



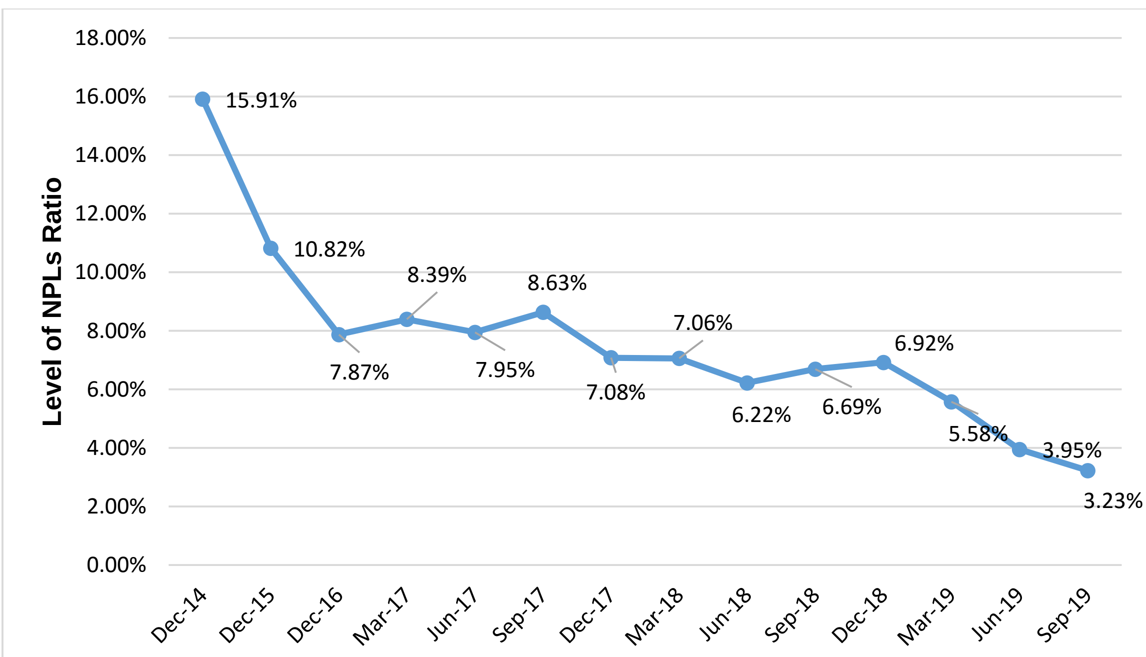
Non-Performing Loans

3.16. The ratio of non-performing loans (NPLs) to total loans decreased from 3.95% as at 30 June 2019 to 3.23% as at 30 September 2019, reflective of the continued improvement in the quality of the banking sector loan portfolio.

3.17. The improvement in the NPLs ratio during the quarter under review was largely a result of a 35.33% increase in total loans and advances, whilst the total non-performing loans marginally increased by 9.61% from $245.65 million as at 30 June 2019 to $269.26 million as at 30 September 2019.

3.18. The trend in the level of non-performing loans to total loans ratio from December 2014 to September 2019 is shown in the figure below.

Figure 6: Trend in Non-Performing Loans Dec 2014 – Sep 2019



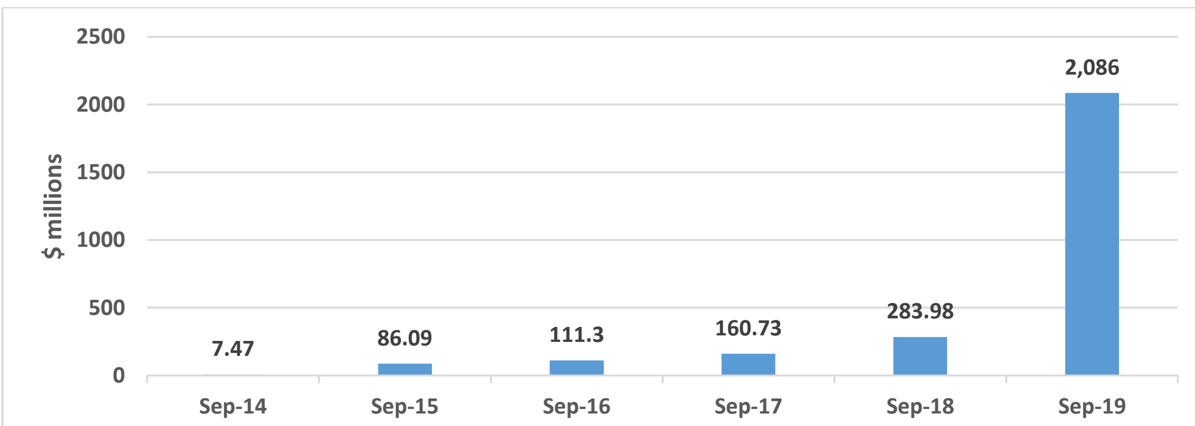
Earnings Performance...

3.19. All banking institutions were profitable during the period under review.

3.20. For the nine months ended 30 September 2019, the aggregate banking sector net income amounted to $2.09 billion, representing a seven-fold increase from $283.98 million reported for the corresponding period in 2018. The growth was largely driven by translation gains on foreign currency denominated assets and investment properties.

3.21. The figure below shows the trend in net income from September 2014 to September 2019.

Figure 7: Net Income Trend from September 2014 to September 2019 ($ millions)

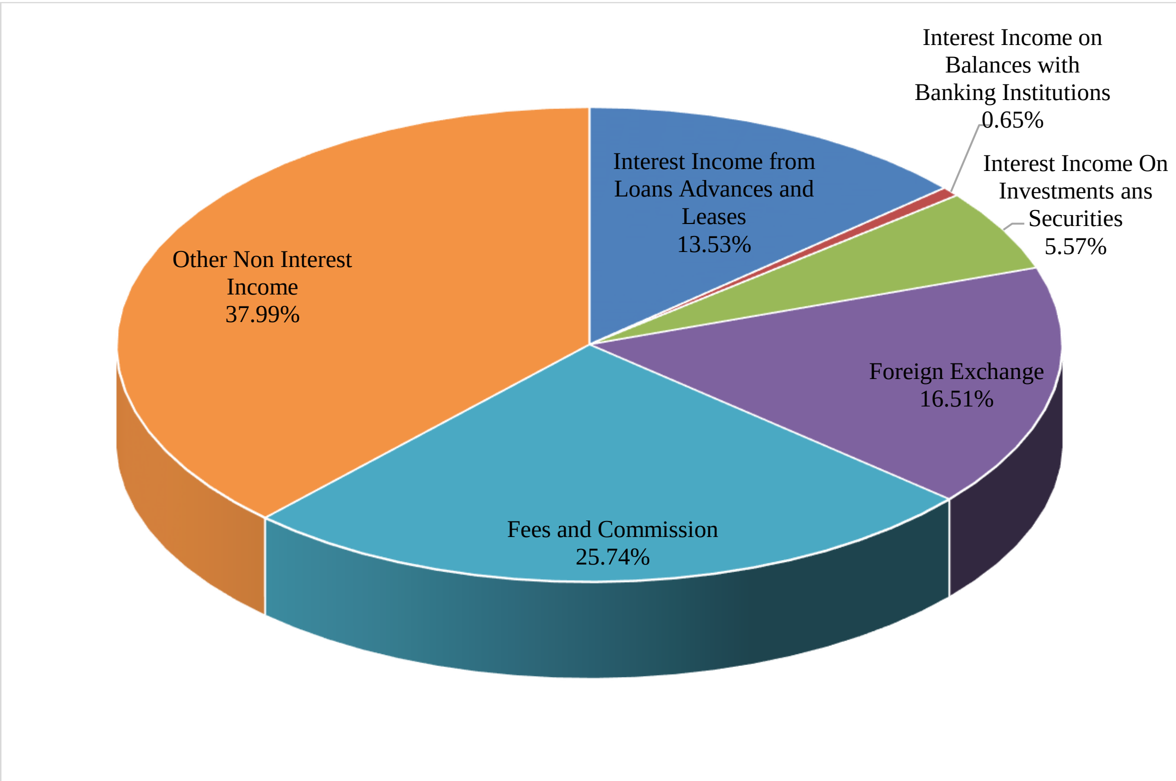


3.22. Other non-interest income which accounted for 5.93% of total income for the period ended 30 September 2018 increased to 37.99% for the corresponding period in 2019, largely driven by currency revaluation gains. However, interest income from loans and advances accounted for 13.53% of total income compared to 29.73% in 2018, whilst income from fees and commissions accounted for 25.74% of total income in 2019, compared to 35.50% in 2018.

3.23. There has been a general declining trend in interest income from loans and advances which accounted for 13.53% of total income in 2019, compared to 29.73% in 2018.

3.24. The banking sector income mix is shown in the pie chart below.

Figure 8: Banking Sector Income Mix as at 30 September 2019

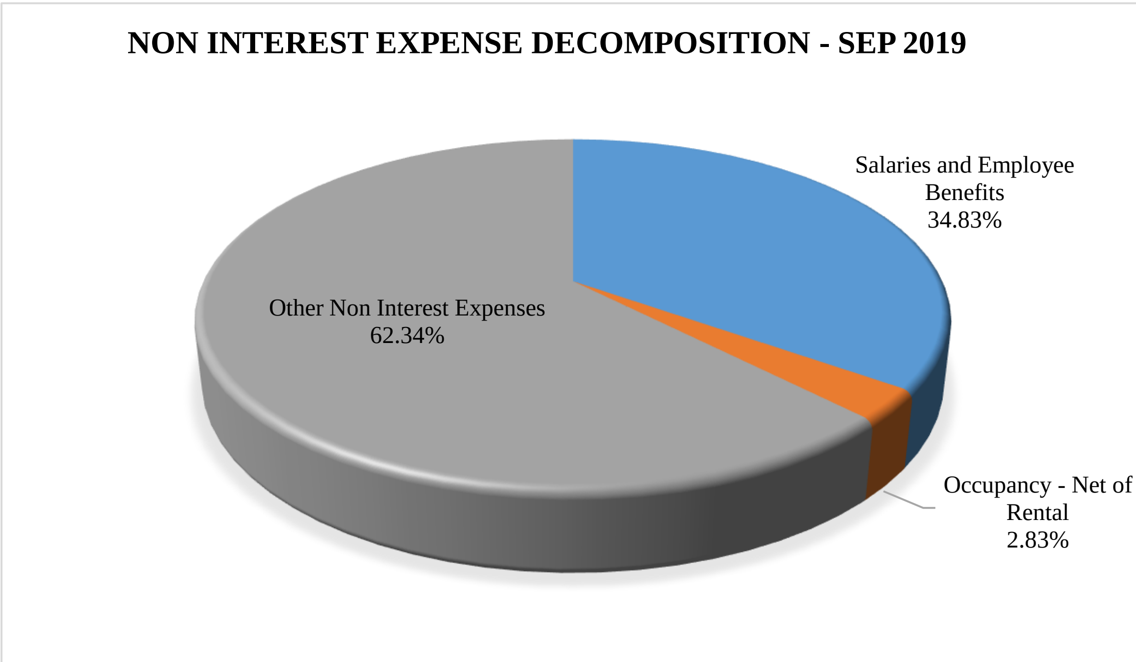


3.25. Banking sector earnings performance as measured by the average return on assets and average return on equity ratios improved from 2.56% and 16.64% as at 30 September 2018, to 6.91% and 19.82% as at 30 September 2019, respectively.

3.26. During the period under review, all other non-interest expense and salaries &

employment benefits contributed 62.34% and 34.83%, respectively, of total non-interest expenses as shown in the Figure 9.

Figure 9: Banking Sector Operating Expenses

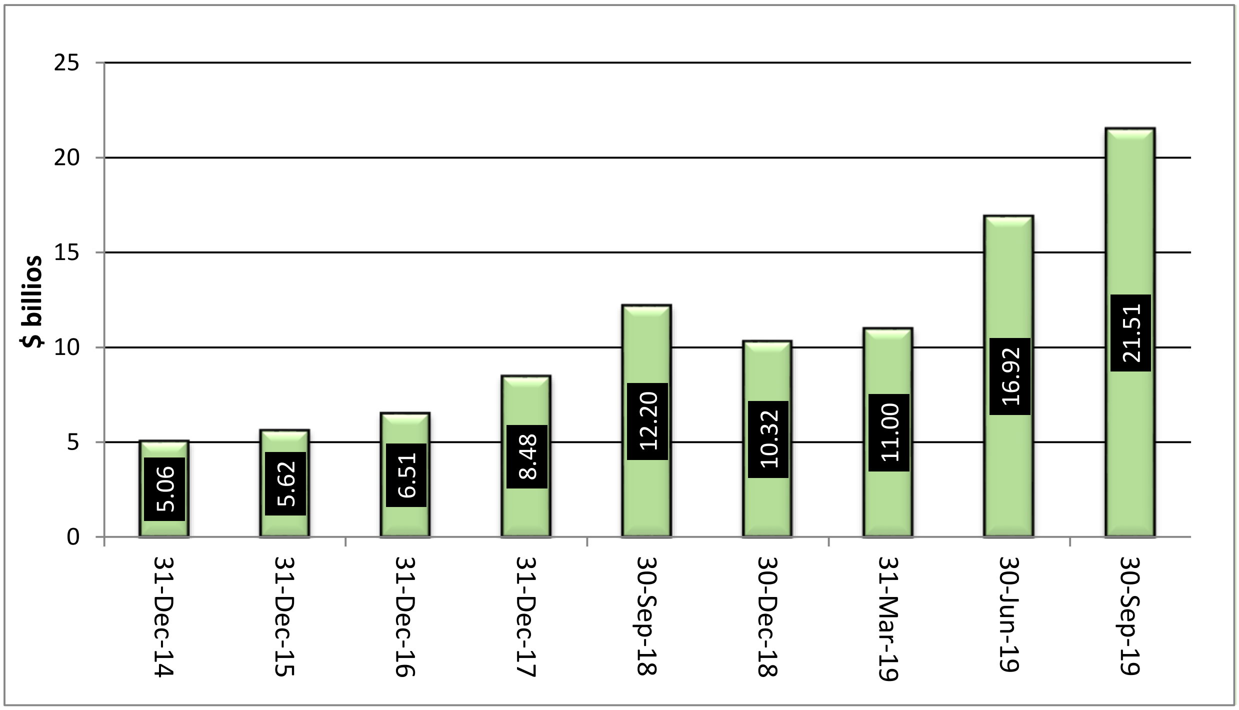


Liquidity and Funds Management...

3.27. During the quarter under review, total banking sector deposits increased by 27.13% from $16.92 billion as at 30 June 2019, to $21.51 billion as at 30 September 2019. The growth in deposits was largely due to the translation of foreign denominated deposits to the local currency.

3.28. The trend of banking sector deposits over the period 31 December 2014 to 30 September 2019 is shown in the Figure 10.

Figure 10: Trend of Banking Sector Deposits ($ billions)

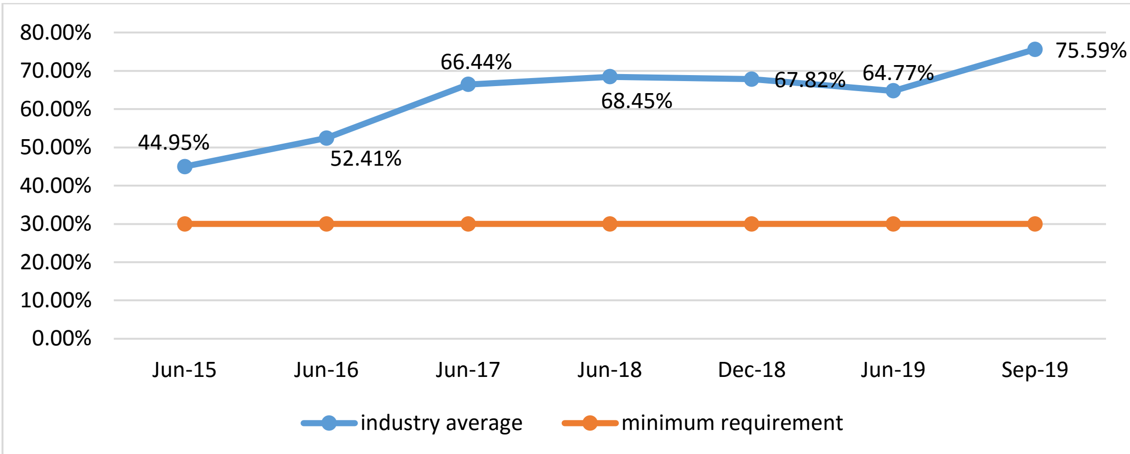


3.29. As at 30 September 2019, the average prudential liquidity ratio was 75.59%, an increase from 64.77% as at 30 June 2019.

3.30. Two (2) banking institutions were non-compliant with the minimum prudential liquidity ratio of 30%. The institutions are implementing measures to address the non-compliance issue. The Reserve Bank continues to monitor these institutions to ensure compliance with the minimum prudential liquidity ratio.

3.31. The trend in the banking sector average prudential liquidity ratio since June 2015 is shown in the figure 12 below.

Figure 11: Prudential Liquidity Ratio Trend (%)



3.32. The persistently high prudential liquidity ratio has been reflective of a cautious approach to lending by banking institutions on the back of high inherent credit risk and preference for securities and investments.

Sensitivity to Market Risk…

3.33. As at 30 September 2019, the banking sector had overall asset sensitive book with a cumulative re-pricing gap of $1.84 billion in 1-365 days' time bucket. This was largely due to the interest rate changes in certain banking institutions. Thirteen (13) banking institutions, however, had liability sensitive books, implying that the banks would incur losses if market interest rates continue on an upward trajectory.

30 September 2019

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