BANK SUPERVISION DIVISION

BANKING SECTOR REPORT

FOR

QUARTER ENDED 31 MARCH 2020

1. EXECUTIVE SUMMARY

1.1. The coronavirus (COVID-19) pandemic has given rise to unprecedented challenges that have affected almost every aspect of modern life. Economic uncertainties and risks to overall banking sector's soundness increased during the first quarter of 2020, reflecting partly the impact of the pandemic.

1.2. However, despite increasing economic uncertainty due to the impact of the COVID-19 pandemic, the Zimbabwe banking sector performed satisfactorily during the first quarter of 2020.

1.3. The satisfactory performance of the banking sector as at 31 March 2020 is reflected by adequate capitalisation, satisfactory asset quality, improved earnings and liquidity. Stress testing results show that the banking sector is largely resilient to various shocks including credit, market and liquidity risks.

1.4. As at 31 March 2020, the banking sector was adequately capitalised with average tier 1 and capital adequacy ratios of 26.69% and 41.83%, respectively. All banking institutions complied with the minimum core capital requirements.

1.5. The aggregate core capital for the banking sector increased by 43.78% to $10.74 billion as at 31 March 2020 from $7.47 billion as at 31 December 2019. The growth in core capital was mainly attributed to capitalisation of retained earnings from translation gains and revaluation of properties.

1.6. Total banking sector assets increased by 62.91%, from $60.64 billion as at 31 December 2019 to $98.79 billion as at 31 March 2020. The growth was mainly attributable to revaluation gains on investment properties and translation gains other foreign currency denominated assets.

1.7. Total banking sector loans and advances increased by 53.76%, from $12.63

billion in December 2019 to $19.42 billion during the quarter under review. Meanwhile, asset quality improved marginally, as reflected by a decline in the non-performing loans (NPLs) to total loans ratio, from 1.75% as at 31 December 2019, to 1.42% as at 31 March 2020.

1.8. The banking sector reported an aggregate net profit of $1.99 billion as at 31 March 2020 up from $79.41 million reported for the corresponding period in 2019. The sector's profitability position was largely buoyed by revaluation gains on investment properties and foreign currency denominated assets.

1.9. Total banking sector deposits amounted to $47.05 billion as at 31 March 2020, representing an increase of 36.38%, from $34.50 billion reported as at 31 December 2019.

1.10. The level of the banking sector financial intermediation has, however, remained subdued as reflected by the loans to deposits ratio of 41.28%.

1.11. The average prudential liquidity ratio for the banking sector was 68.20% as at 31 March 2020, and all banking institutions, with the exception of two (2) institutions, were compliant with the minimum prudential liquidity ratio of 30%.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. As at 31 March 2020, there were 19 banking institutions and 235 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	225
Deposit-taking MFIs	8
Development Financial Institutions	2
Total	235

2.2. Two deposit-taking microfinance institutions which were licensed in September 2019 and February 2020, respectively, were still to commence operations as at the end of the review period.

3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1. The performance of the banking sector was considered largely satisfactory over the quarter ended 31 March 2020, on the back of improvement in capitalization, profitability, asset quality and liquidity.

3.2. The financial soundness indicators for the review period are shown in Table 2 below.

Table 2: Financial Soundness Indicators

Key Indicators	Benchmark	Mar-19	June-19	Dec-19	Mar-20
Total Assets	-	$15.40bn	$23.54bn	$60.64bn	$98.79bn
Total Loans & Advances	-	$4.44bn	$6.17bn	$12.63bn	$19.42bn
Net Capital Base	-	$2.21bn	$3.31bn	$9.75bn	$14.25bn

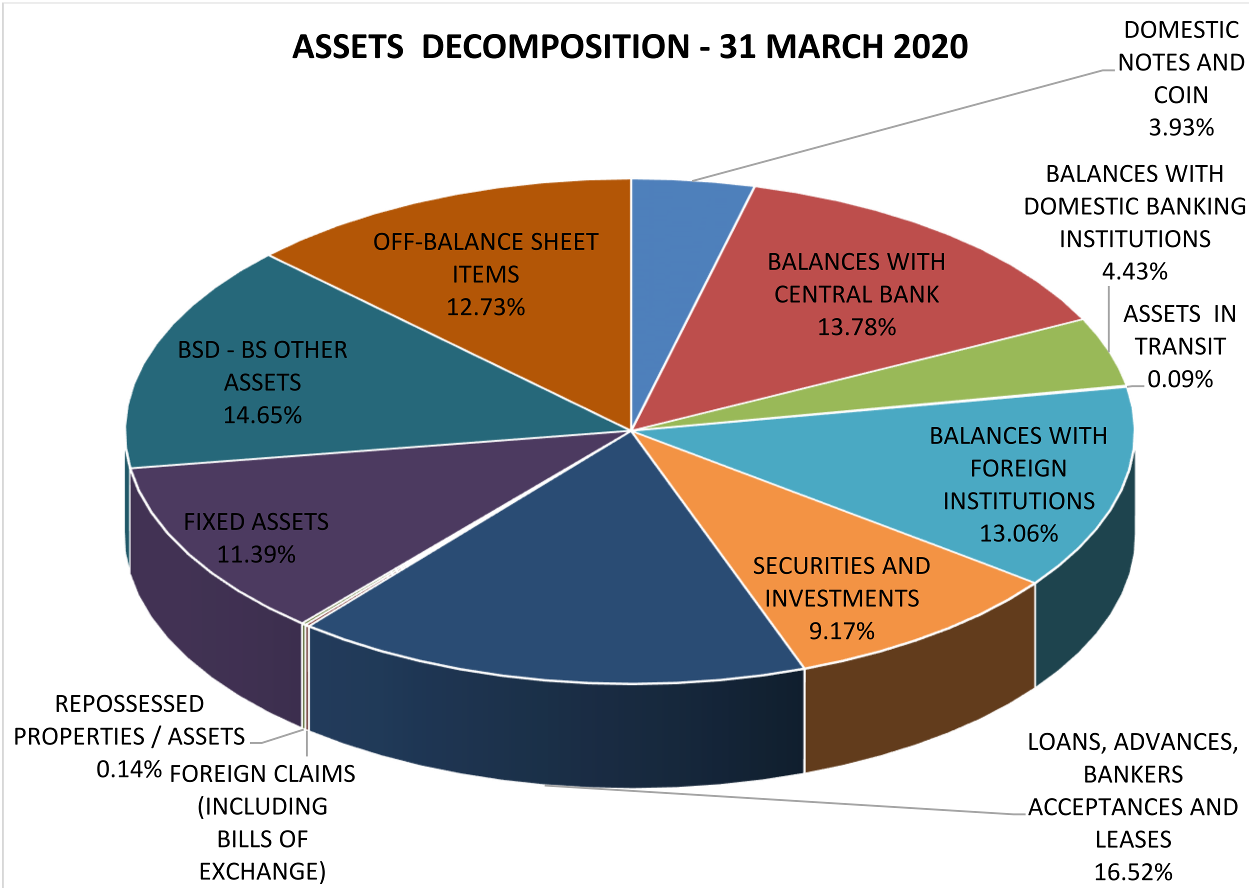
Key Indicators	Benchmark	Mar-19	June-19	Dec-19	Mar-20
Total Deposits	-	$11.00bn	$16.92bn	$34.50bn	$47.05bn
Net Profit	-	$79.40m	$929.95m	$6.41bn	$1.99bn
Return on Assets	-	1.37%	5.11%	8.99%	2.44%
Return on Equity	-	4.92%	20.95%	33.02%	8.67%
Capital Adequacy Ratio	12%	31.24%	32.64%	39.56%	41.83%
Tier 1 Ratio	8%	27.67%	27.24%	26.69%	27.78%
Loans to Deposits	70%	40.43%	36.49%	36.60%	41.28%
Non-Performing Loans Ratio	5%	5.56%	3.95%	1.75%	1.42%
Liquidity Ratio	30%	66.32%	64.77%	72.42%	68.20%

Composition of Banking Sector Assets…

3.3. Total banking sector assets amounted to $98.79 billion as at 31 March 2020 up from $60.64 billion as at 31 December 2019, an increase of 62.91%. The growth in banking sector assets was mainly attributable to translation of foreign currency denominated loans & balances with foreign institutions. The ratio of fixed assets, including investment properties, to total assets declined to 10.48% from 13.77% during the period under review.

3.4. The dominant assets on the bank balance sheets are loans & advances, balances with central bank, and balances with foreign institutions at 16.52%, 13.78% and 13.06%, respectively

Figure 1: Asset Mix as at 31 March 2020

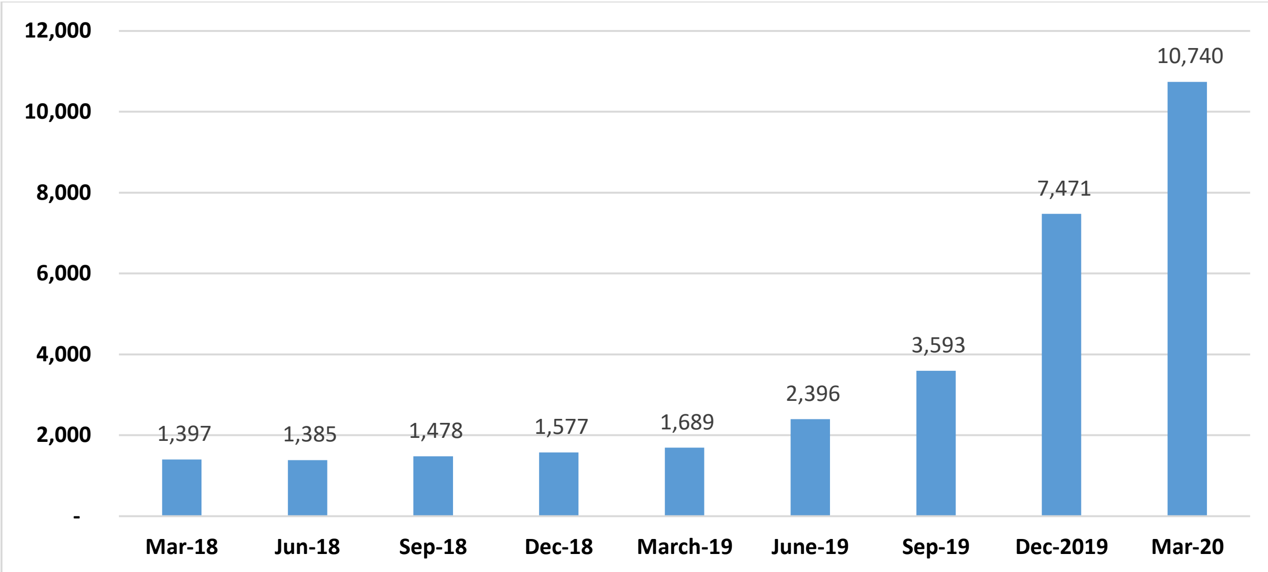


Capitalisation…

3.5. As at 31 March 2020, the reported total banking sector core capital was $10.74 billion, representing a 43.78% increase, from $7.47 billion as at 31 December 2019. It is anticipated the individual banks will continue to retain their earnings as they work towards meeting the 2020 regulatory minimum core capital of ZW$ equivalent to USD30 million.

3.6. Figure 2 shows core capital trends from March 2018.

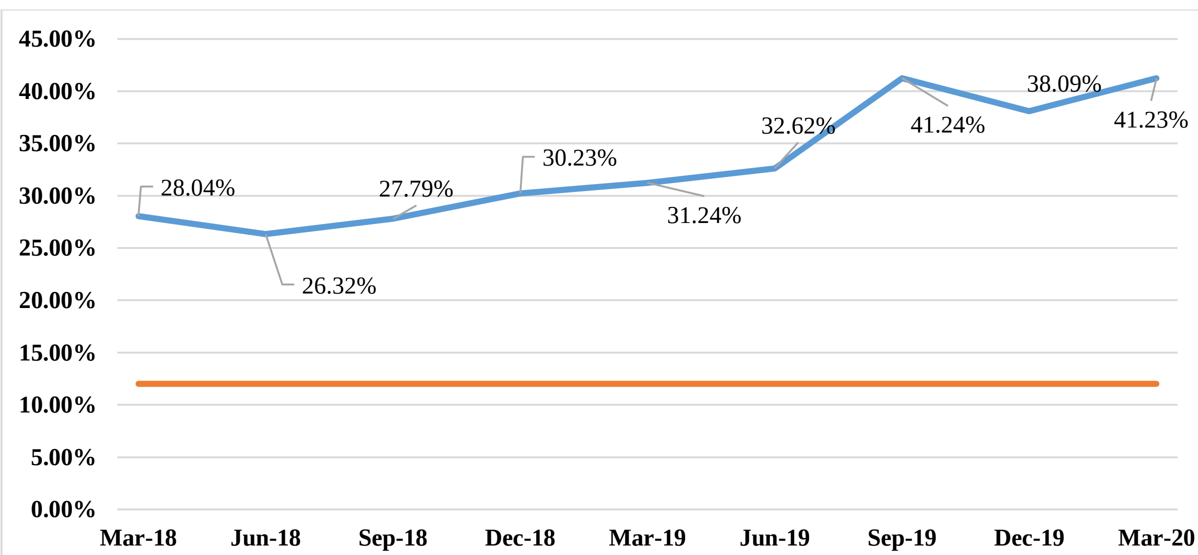
Figure 2: Core Capital Trends 2018 to March 2020 ($million)



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

3.8. The banking industry's average capital adequacy ratios from June 2016 to March 2020 are shown in the figure below:

Figure 3: Capital Adequacy Ratios Trend



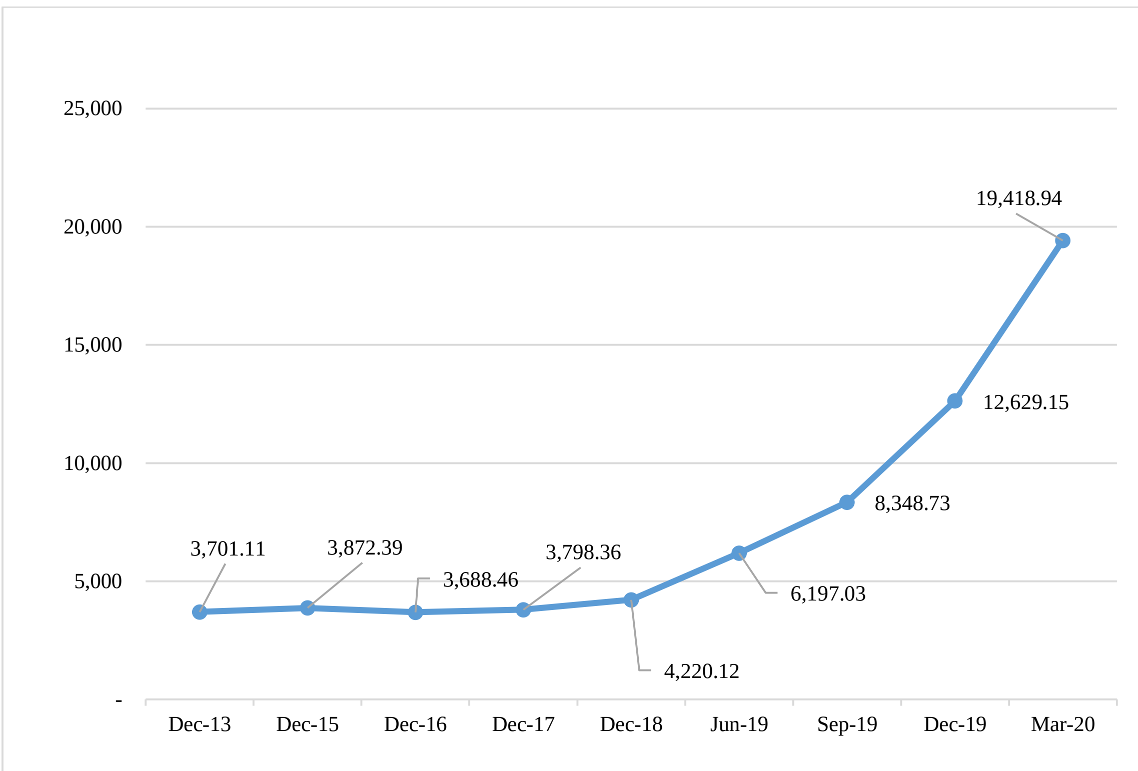
Asset Quality...

3.9. Banking sector loans and advances increased by 53.76%, from $12.63 billion as at 31 December 2019 to $19.42 billion as at 31 March 2020.

3.10. The level of the banking sector financial intermediation has, however, remained subdued as reflected by the loans to deposits ratio of 41.28%, largely as a result of a cautious lending approach adopted by some banking institutions.

3.11. The trend of banking sector loans and advances from 31 December 2013 to 31 March 2020 is shown in the figure below:

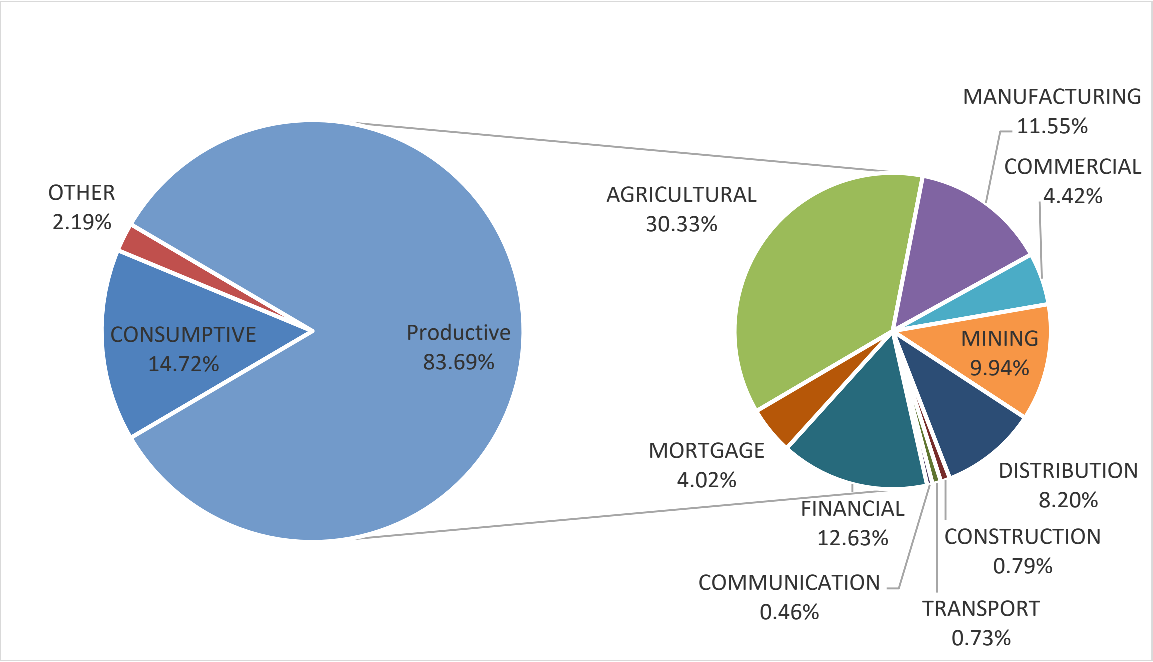
Figure 4: Banking Sector Loans & Advances ($ billions)



Distribution of Loans and Advances…

3.12. Loans to productive sectors of the economy constituted 83.69% of total banking sector loans as at 31 March 2020, as shown in the figure below.

Figure 5: Sectoral Distribution of Loans as at 31 March 2020



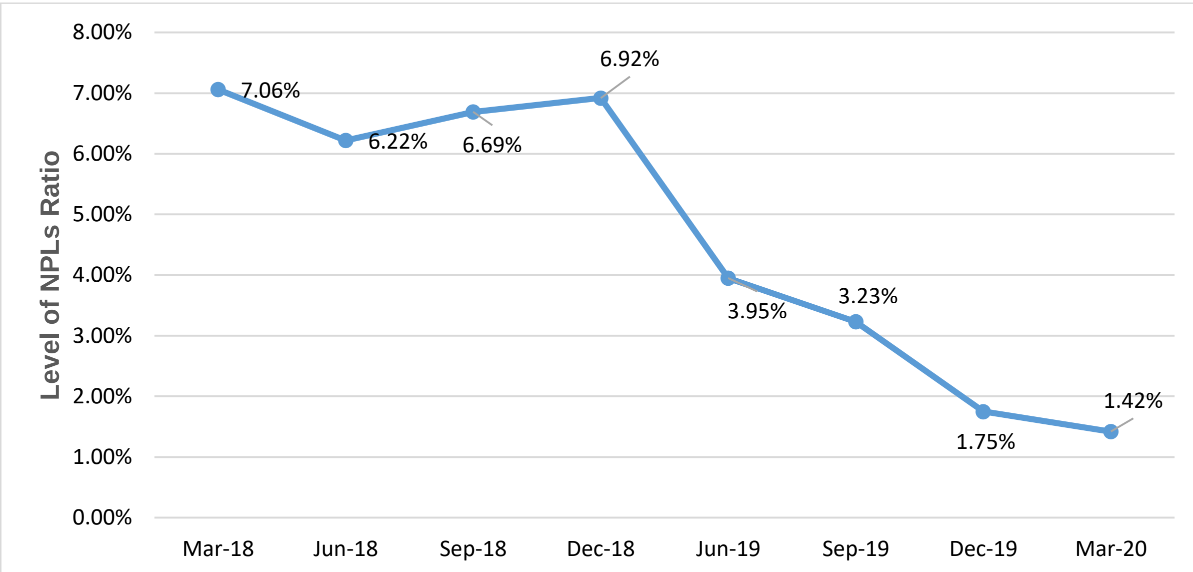
Non-Performing Loans

3.13. The quality of the banking sector loan portfolio continued to improve, as reflected by a decline in the non-performing loans (NPLs) to total loans ratio, from 1.75% as at 31 December 2019 to 1.42% as at 31 March 2020. The improvement is notwithstanding the marginal increase in the level of non-performing loans during the quarter from $221.62 million to $275.59 million.

3.14. Against the backdrop of a challenging macroeconomic environment and the impact of the Covid-19 pandemic, banking institutions continue to institute a number of measures to improve the quality of their credit portfolios.

3.15. Figure 6 below shows the trend in the level of non-performing loans to total loans ratio (NPLs ratio) from March 2018 to March 2020.

Figure 6: Trend in Non-Performing Loans Ratio

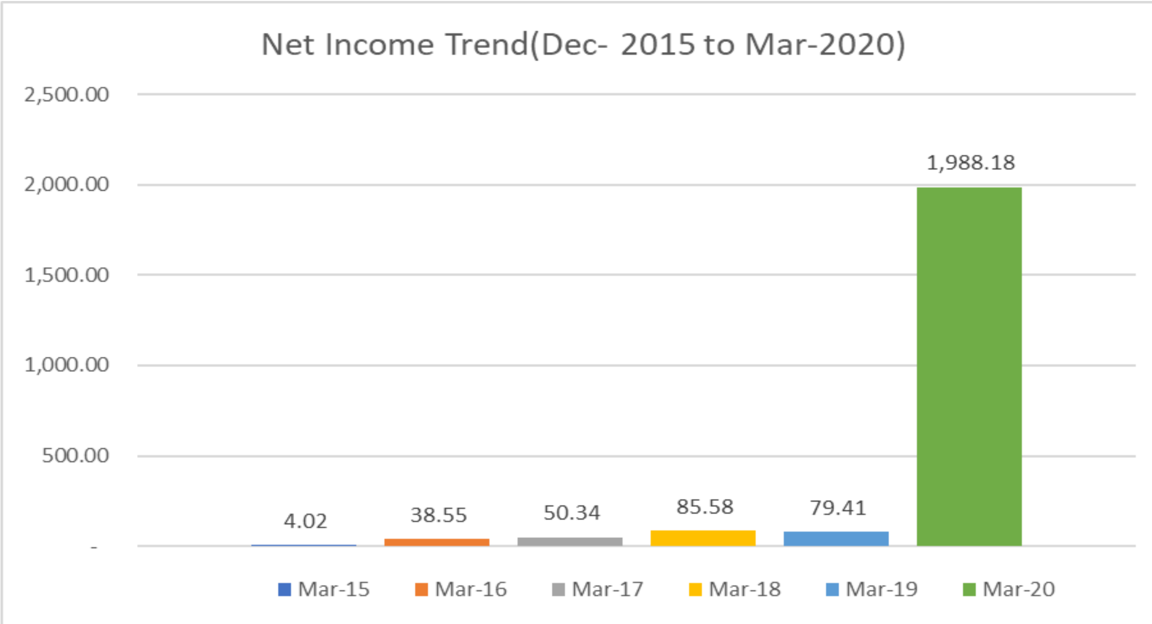


Earnings Performance...

3.16. During the period under review, all banking institutions reported profits, with aggregate profit of $1.99 billion for the three (3) months ended 31 March 2020, up from $79.40 million for the corresponding period in 2019.

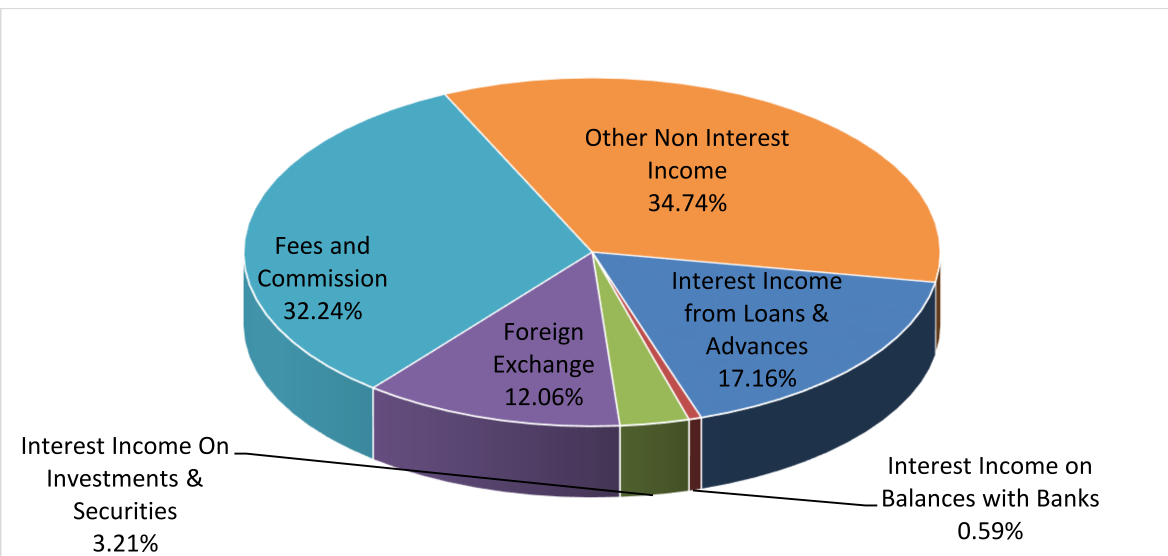
3.17. Net income growth was mainly driven by translation gains on foreign currency denominated assets and investment properties. Revaluation gains from investment properties and translation gains on foreign currency contributed 11.85% and 27.41% of banking sector total income as at 31 March 2020. This position reflects the high inflation environment and the exchange rate dynamics following the introduction of a floating exchange rate in February 2020.The figure below shows the trend in net income from March 2015 to March 2020.

Figure 7: Net Income Trend ($ millions)



3.18. During the period ended 31 March 2020, key revenue drivers were fees and commissions, as well as, other non-interest income, mainly from revaluation gains on foreign currency assets. The figure below shows the income mix as at 31 March 2020.

Figure 8: Banking Sector Income Mix as at 31 March 2020



3.19. Banking sector earnings performance improved over the review period. The average return on assets and average return on equity ratios increased to 2.44% and 8.67% from 1.37% and 4.92%, respectively, as at 31 March 2019.

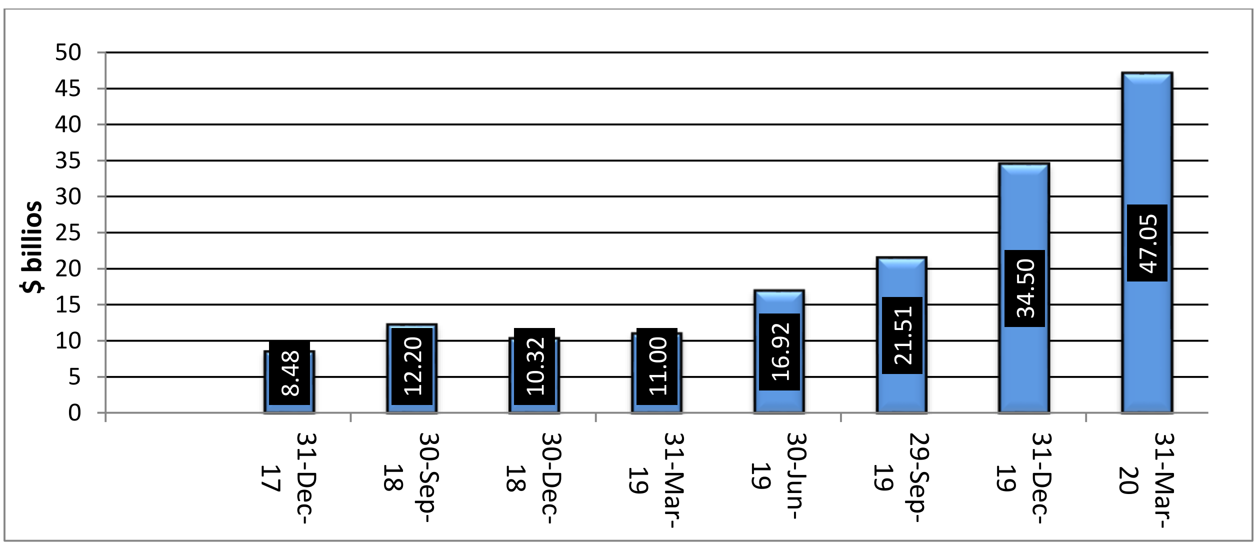
3.20. During the period under review some banking institutions reported inflation adjusted losses, largely driven by net monetary loss adjustment (monetary assets -monetary liabilities).

Liquidity and Funds Management...

3.21. Total banking sector deposits amounted to $47.05 billion as at 31 March 2020, representing an increase of 36.38%, from $34.50 billion reported as at 31 December 2019.

3.22. The trend of banking sector deposits over the period 31 December 2017 to 31 March 2020 is shown in the Figure 9.

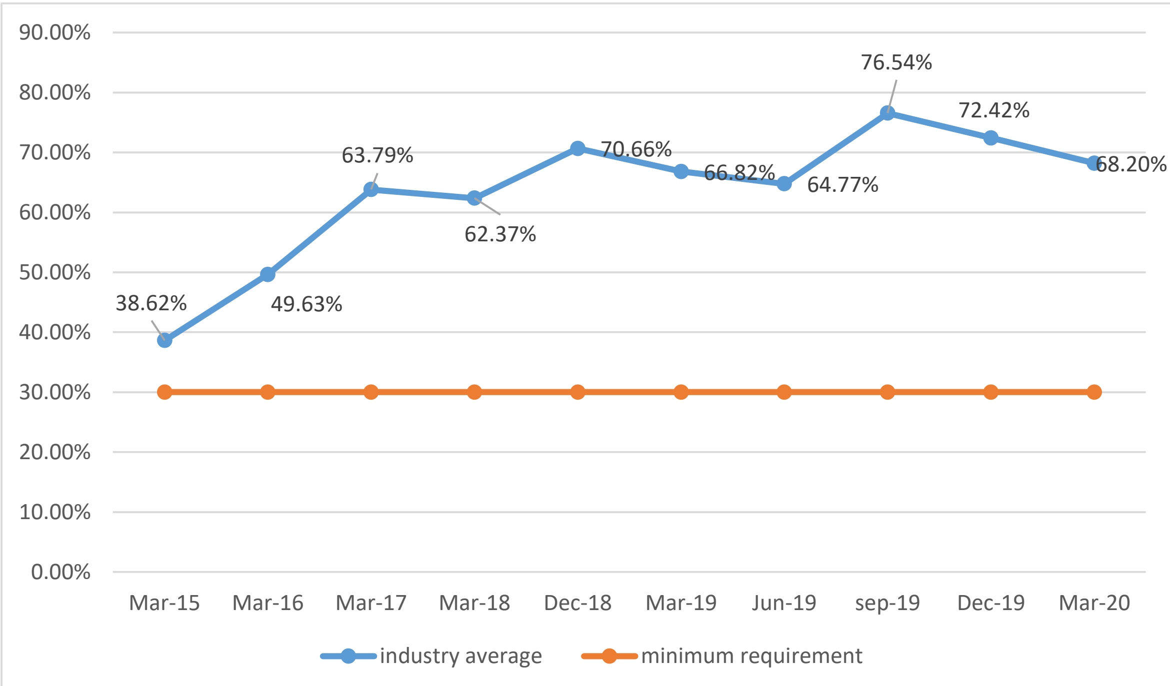
Figure 9: Trend of Banking Sector Deposits ($ billions)



3.23. The average prudential liquidity ratio for the banking sector of 68.20% as at 31 March 2020, was above the minimum regulatory requirement of 30%.

3.24. The trend in the average prudential liquidity ratio since March 2015 is shown in the figure 10 below.

Figure 10: Prudential Liquidity Ratio Trend (%)



3.25. The high liquidity ratio partly reflects the cautious lending approach adopted by banking institutions at the back of high inherent credit risk and preference for securities and investments.

Sensitivity to Market Risk…

3.26. The banking sector had an overall asset sensitive book as at 31 March 2020, 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.

3.27. As at 31 March 2020, some institutions reported negative net open positions largely reflecting offshore borrowings not matched by corresponding foreign assets.

Outlook…

3.28. The banking sector will continue to play a central role in supporting the economy during the crisis and in facilitating rapid and sustained recovery post Covid-19.

3.29. The major risks faced by banking institutions as a result of the COVID-19 pandemic include higher credit losses, reduced income generation capacity and operational constraints of keeping employees safe and meeting customer expectations.

3.30. Banking institutions will need to rethink their business models to continue being profitable and relevant in the face of the pandemic.

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