# BANK SUPERVISION DIVISION

# BANKING SECTOR REPORT

# FOR

# QUARTER ENDED 30 SEPTEMBER 2020

## 1. EXECUTIVE SUMMARY

1.1. The banking system has continued to function satisfactorily despite the varied impact of covid-19 on the different economic sectors of our economy.

1.2. During the quarter ended 30 September 2020, the banking sector demonstrated resilience to various shocks. The macro and financial stability during the second half of 2020 bolsters the resiliency of the banking sector against the disruptive effects of covid-19.

1.3. As at 30 September 2020, the banking sector was adequately capitalised with average capital adequacy and tier 1 ratios of 47.16% and 27.61%, which were above the regulatory minima of 12% and 8%, respectively. All banking institutions were compliant with the minimum capital adequacy requirements.

1.4. The sector recorded an aggregate core capital of $29.85 billion reflecting an increase of 42.21% from $20.99 billion as at 30 June 2020. The increase in banking sector aggregate capital was mainly attributed to growth in retained earnings, bolstered by revaluation gains from foreign exchange denominated assets and investment properties.

1.5. Total banking sector assets amounted to $284.37 billion as at 30 September 2020, representing a 46.91% increase from $193.56 billion as at 30 June 2020. The growth in banking sector assets was mainly attributable to translation of foreign currency denominated assets.

1.6. Total banking sector loans and advances increased by 50.28%, from $37.77 billion as at 30 June 2020 to $56.76 billion as at 30 September 2020 largely attributed to the translation of foreign currency denominated loans.

1.7. During the period under review, asset quality continued to improve, as reflected by the shift in the non-performing loans (NPLs) to total loans ratio from 1.03% as at 30 June 2020 to 0.41% as at 30 September 2020. The improvement in the NPL ratio was on the back of a combination of a growth in the banking sector's loan portfolio and a decline in the stock of non-performing loans, through ongoing recovery efforts.

1.8. Banking sector deposits amounted to $154.47 billion as at 30 September 2020, representing an increase of 58.59%, from $97.40 billion reported as at 30 June 2020. The loans to deposits ratio was 36.75% as at 30 September 2020, reflecting subdued financial intermediation in the sector, largely due to cautious lending by some banking institutions.

1.9. The average prudential liquidity ratio for the banking sector was 71.69%, a marginal decline from 74.85% reported as at 30 June 2020**,** against the regulatory minimum requirement of 30%.

1.10. All banking institutions were profitable during the period under review with aggregate banking sector profits growing to $23.37 billion, from $2.09 billion reported for the corresponding period in 2019.

1.11. The growth in income was largely attributable to non-interest income which constituted 83.39% of total income.

1.12. Resilient and sustainable financial institutions will play a pivotal role in the economic reinvigoration and recovery post covid-19 and in supporting the national development agenda.

## 2. ARCHITECTURE OF THE BANKING SECTOR

2.1. As at 30 September 2020, there were 19 banking institutions and 216 other institutions under the supervision of the 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 |

| Type of Institution | Number |
|---|---|
| **Total Banking Institutions** | **19** |
| **Other Institutions Under the Supervision of Reserve Bank** | |
| Credit-only-MFIs | 209 |
| Deposit-taking MFIs* | 5 |
| Development Financial Institutions | 2 |
| **Total** | **216** |

- ***Lion Microfinance resumed operations on 23 November 2020, following the lifting of the curatorship on 30 September 2020.***

## 3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1. The banking performance was satisfactory as reflected by the financial soundness indicators provided in the table below:

**Table 2: Financial Soundness Indicators**

| Key Indicators | Benchmark | Sept -19 | Dec-19 | June -20 | Sept -20 |
|---|---|---|---|---|---|
| **Total Assets** | - | $40.99bn | $60.64bn | $193.56bn | $284.37bn |
| **Total Loans & Advances** | - | $8.35bn | $12.63bn | $37.77bn | $56.76bn |
| **Net Capital Base** | - | $5.35bn | $9.75bn | $29.47bn | $42.06bn |
| **Total Deposits** | - | $21.51bn | $34.50bn | $97.40bn | $154.47bn |
| **Net Profit** | - | $2.09bn | $6.41bn | $13.46bn | $23.37bn |
| **Return on Assets** | - | 7.91% | 8.99% | 10.53% | 12.50% |
| **Return on Equity** | - | 26.85% | 33.02% | 27.38% | 39.92% |
| **Capital Adequacy Ratio** | 12% | 41.24% | 39.56% | 61.72% | 47.16% |
| **Tier 1 Ratio** | 8% | 27.92% | 27.87% | 34.35% | 27.61% |
| **Loans to Deposits** | 70% | 38.82% | 36.60% | 37.71% | 36.75% |
| **Non-Performing Loans** | 5% | 3.23% | 1.75% | 1.03% | 0.41% |

| Key Indicators | Benchmark | Sept -19 | Dec-19 | June -20 | Sept -20 |
|---|---|---|---|---|---|
| **Ratio** | | | | | |
| **Liquidity Ratio** | 30% | 76.54% | 72.42% | 74.85% | 71.69% |

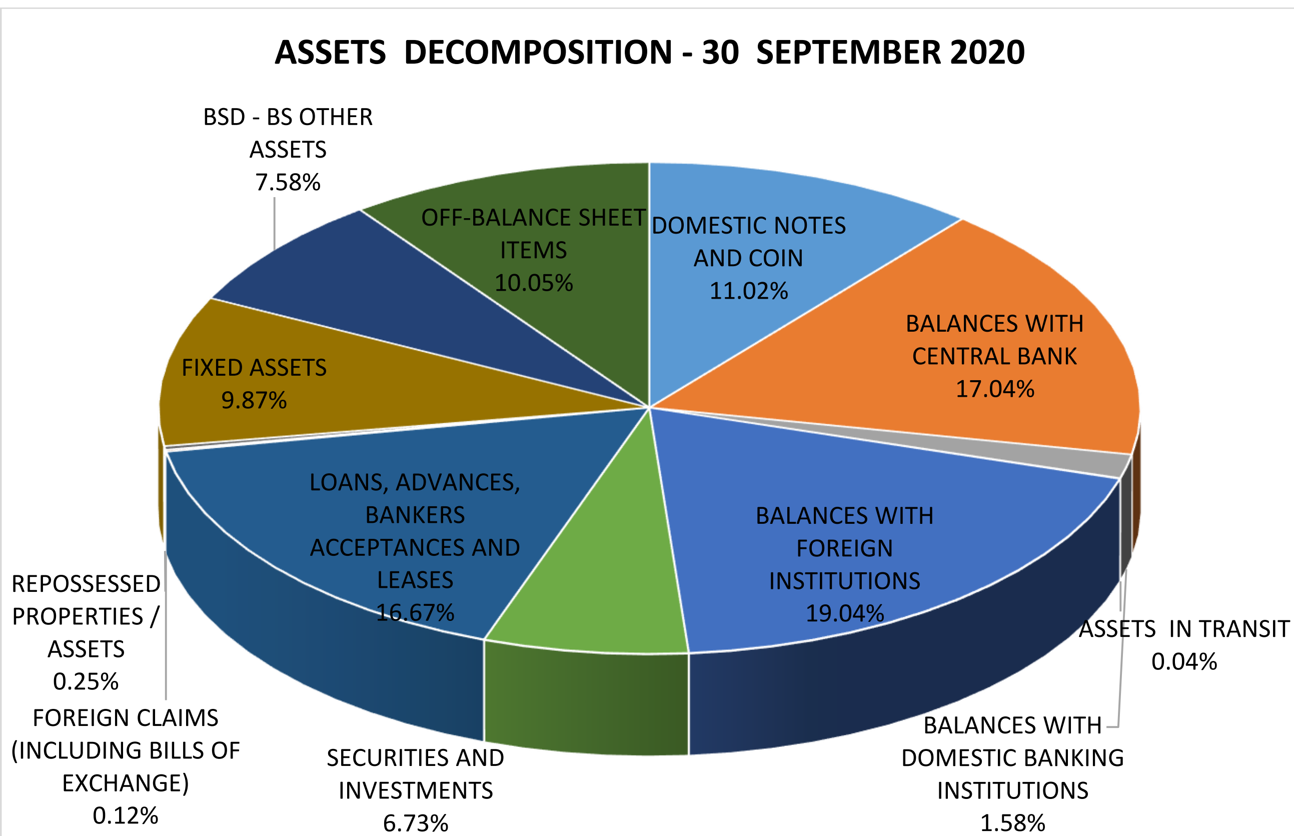
**Composition of Banking Sector Assets…**

3.2. Total banking sector assets amounted to $284.37 billion as at 30 September 2020, representing a 46.91% increase from $193.56 billion as at 30 June 2020. The growth in banking sector assets was mainly attributable to translation of foreign currency denominated assets.

3.3. Banking sector assets largely comprised balances with foreign institutions (19.04%), balances with the central bank (17.04%) and loans & advances (16.67%).

3.4. The banking sector asset mix is shown in the figure below:

**Figure 1: Asset Mix as at 30 September 2020**



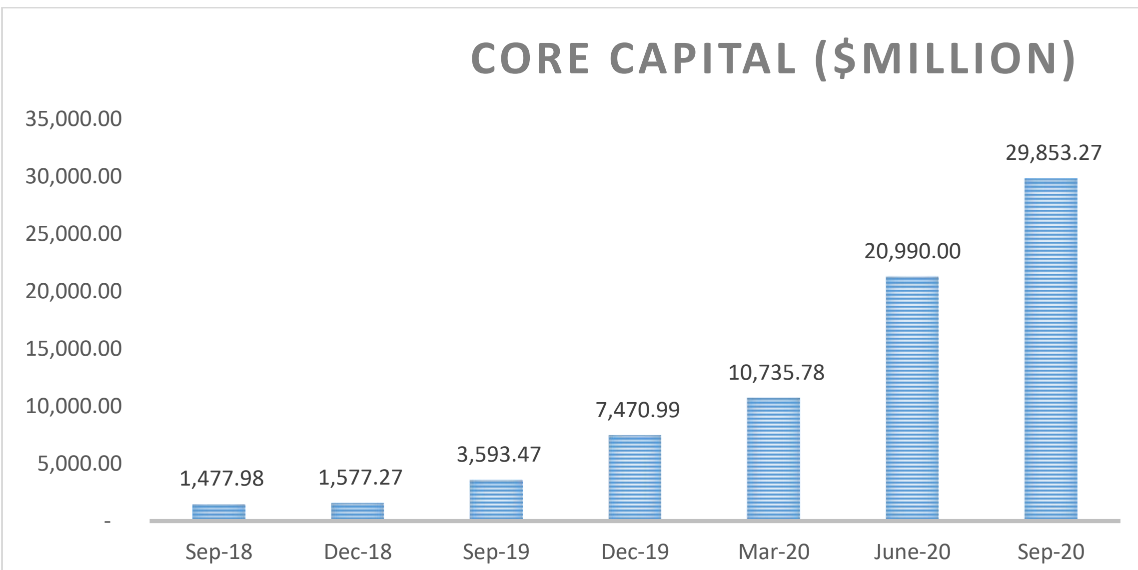
**Capitalisation…**

3.5. During the quarter under review, the total aggregate banking sector core capital increased by 42.21% from $20.99 billion as at 30 June 2020 to $29.85 billion as at 30 September 2020, mainly as a result of growth in retained earnings, associated with revaluation gains from foreign exchange denominated assets and investment properties.

3.6. All banking institutions complied with the minimum regulatory capital adequacy and tier 1 ratios of 12%and 8%, respectively.

3.7. Figure 2 shows core capital trends from September 2018.

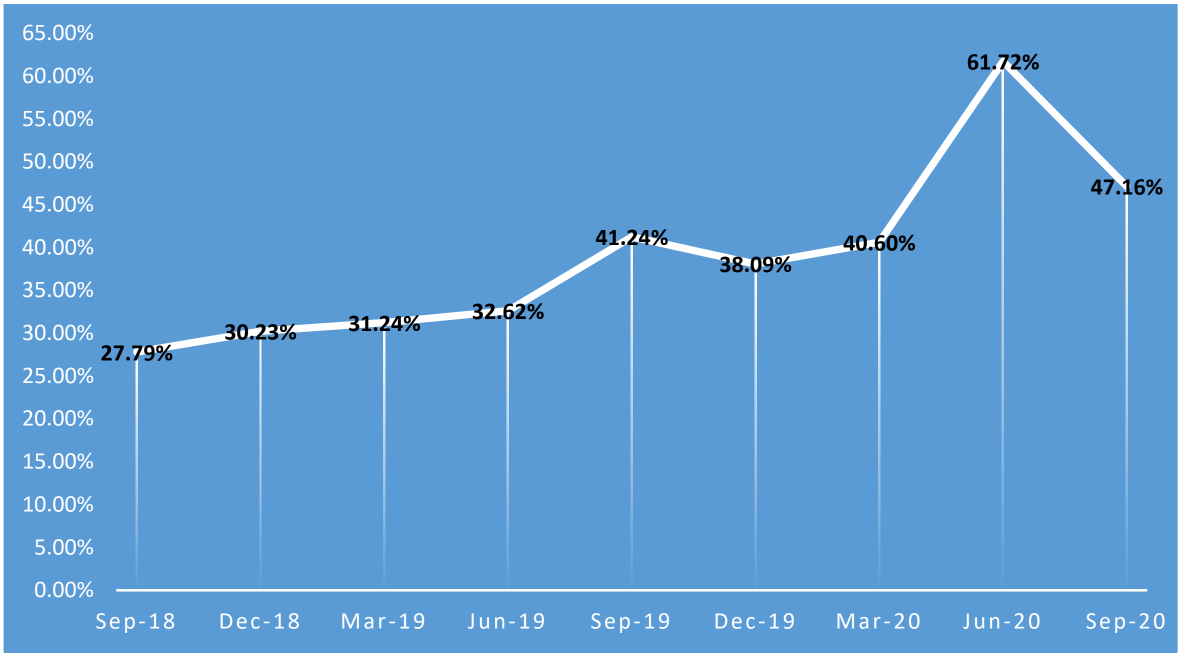
**Figure 2: Core Capital Trends September 2018 to September 2020 ($million)**




3.8. Following a review of minimum capital requirements effective 31 December 2021, banking institutions are expected to submit updated capital plans as at 31 December 2020 and 30 June 2021.

3.9. The banking industry's average capital adequacy ratios from June 2018 to September 2020 are shown in the figure below:

**Figure 3: Capital Adequacy Ratios Trend**



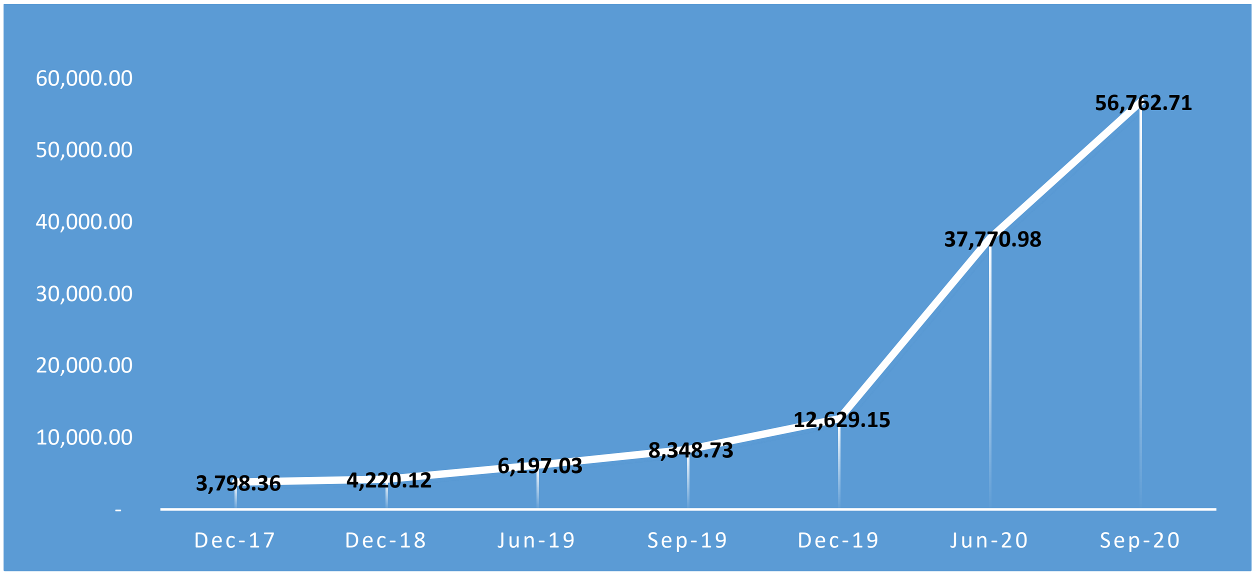

**Asset Quality...**

3.10. Total banking sector loans and advances increased by 50.28%, from $37.77 billion as at 30 June 2020 to $56.76 billion as at 30 September 2020, largely attributed to the translation of foreign currency denominated loans.

3.11. Banking sector financial intermediation remained low, as reflected by the loans to deposits ratio of 36.75% as at 30 September 2020, largely as a result of cautious lending approach adopted by some banking institutions.

3.12. The trend in banking sector loans and advances from 31 December 2017 to 30 September 2020 is shown in the figure below:

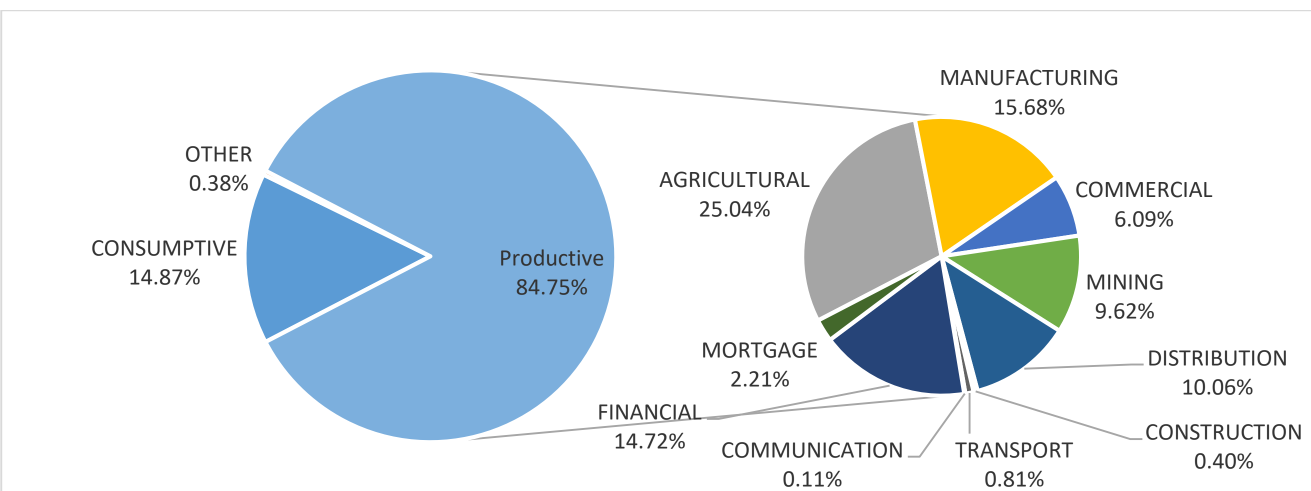
**Figure 4: Banking Sector Loans & Advances**




***Distribution of Loans and Advances…***

3.13. Banking sector lending remained largely skewed to the productive sectors of the economy constituting 84.75% of total banking sector loans as at 30 September 2020, as shown in the figure below.

**Figure 5: Sectoral Distribution of Loans as at 30 September 2020**



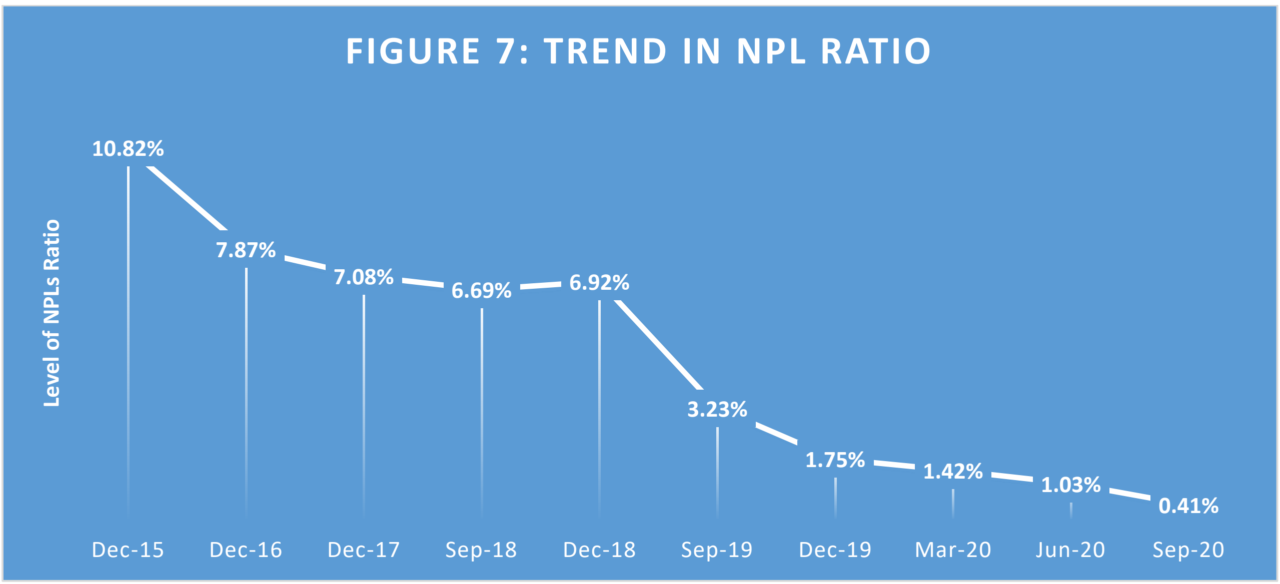

***Non-Performing Loans***

3.14. The quality of the banking sector loan portfolio continued to improve, as reflected by the shift in the non-performing loans (NPLs) to total loans ratio, from 1.03% as at 30 June 2020, to 0.41% as at 30 September 2020.

3.15. The improvement in the NPLs ratio was mainly due to an increase in total banking sector loans and advances during the period under review, from $37.77 to $56.76 billion, coupled with a decline in the stock of non-performing loans from $390.87 million in June 2020 to $275.59 million in September 2020.

3.16. Figure 6 below shows the trend in the level of non-performing loans to total loans ratio (NPLs ratio) from December 2015 to September 2020.

**Figure 6: Trend in NPL Ratio**




3.17. At the onset of the pandemic, heightened credit risk was envisaged emanating from anticipated disruptions in production and economic activity and the resultant impact on the cash-flows and income of some consumers and businesses. However, the covid-19 disruptive effects were not as severe as initially anticipated and this coupled with strengthened credit risk management practices by banks mitigated potential delinquencies.

3.18. The Bank is utilizing its early warning system framework to closely monitor developments in the banking sector's credit risk exposures.

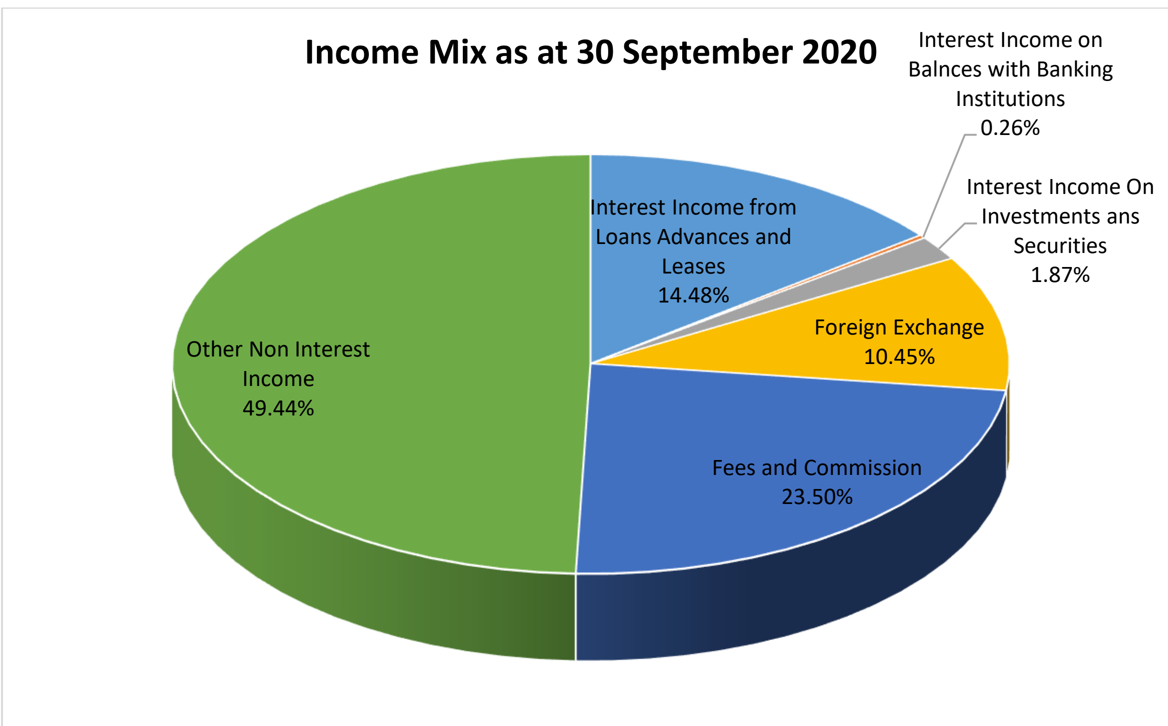
**Earnings Performance...**

3.19. During the period ended 30 September 2020, all banking institutions were profitable, with aggregate banking sector profits of $23.37 billion, an increase from $2.09 billion reported for the corresponding period in 2019.

3.20. The growth in income was largely attributable to non-interest income which constituted 83.39% of total income. Translation gains on foreign currency denominated assets as well as fees and commissions were the major contributors of non-interest income constituting 29.92% and 25.32% of total banking sector income, respectively.

3.21. The figure below shows the income mix as at 30 September 2020.

**Figure 7: Banking Sector Income Mix as at 30 September 2020**




3.22. During the period under review, non-funded income dominated the sector's total income, with interest income from loans only accounting for 16.61% of the banking sector's total income of $36.38 billion.

3.23. The significant contribution of non-interest income indicates a shift from traditional sources of revenue such as interest income from loans and advances, towards activities that generate fee income, trading revenue, and other types of non-interest income.

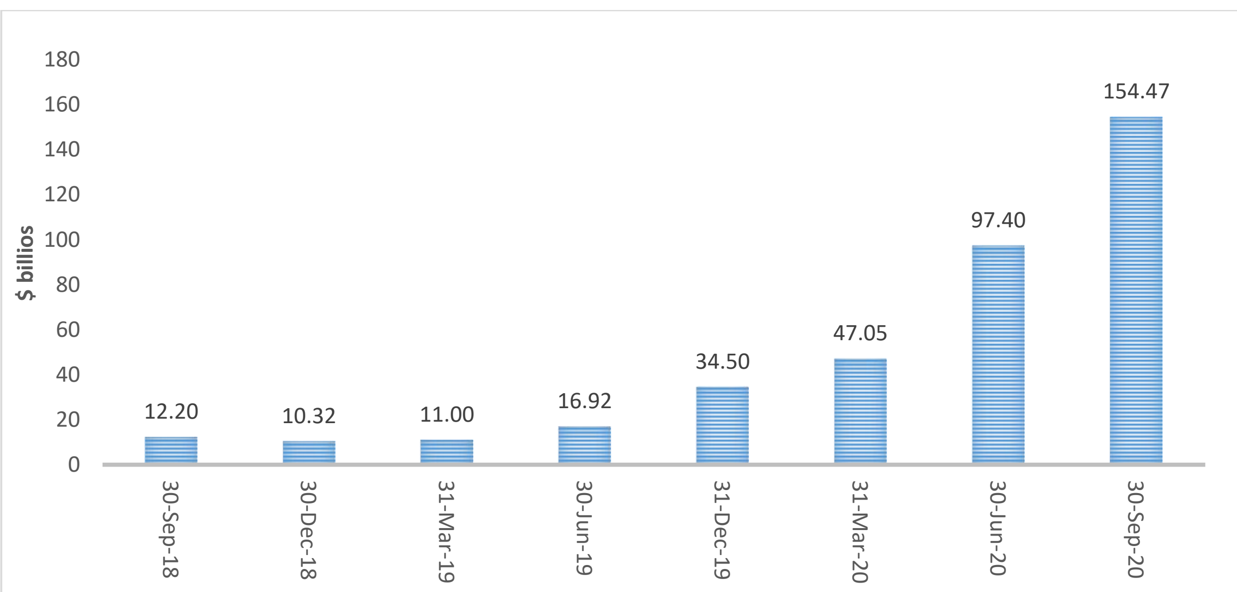
3.24. Banking sector earnings performance as measured by the return on assets and return on equity ratios improved from 7.91% and 26.85% as at 30 September 2019, to 12.50% and 39.92% as at 30 September 2020, respectively.

**Liquidity and Funds Management...**

3.25. Total banking sector deposits amounted to $154.47 billion as at 30 September 2020, a 58.59% increase from $97.40 billion reported as at 30 June 2020. The increase in total banking sector deposits is mainly attributable to revaluation of foreign currency denominated deposits.

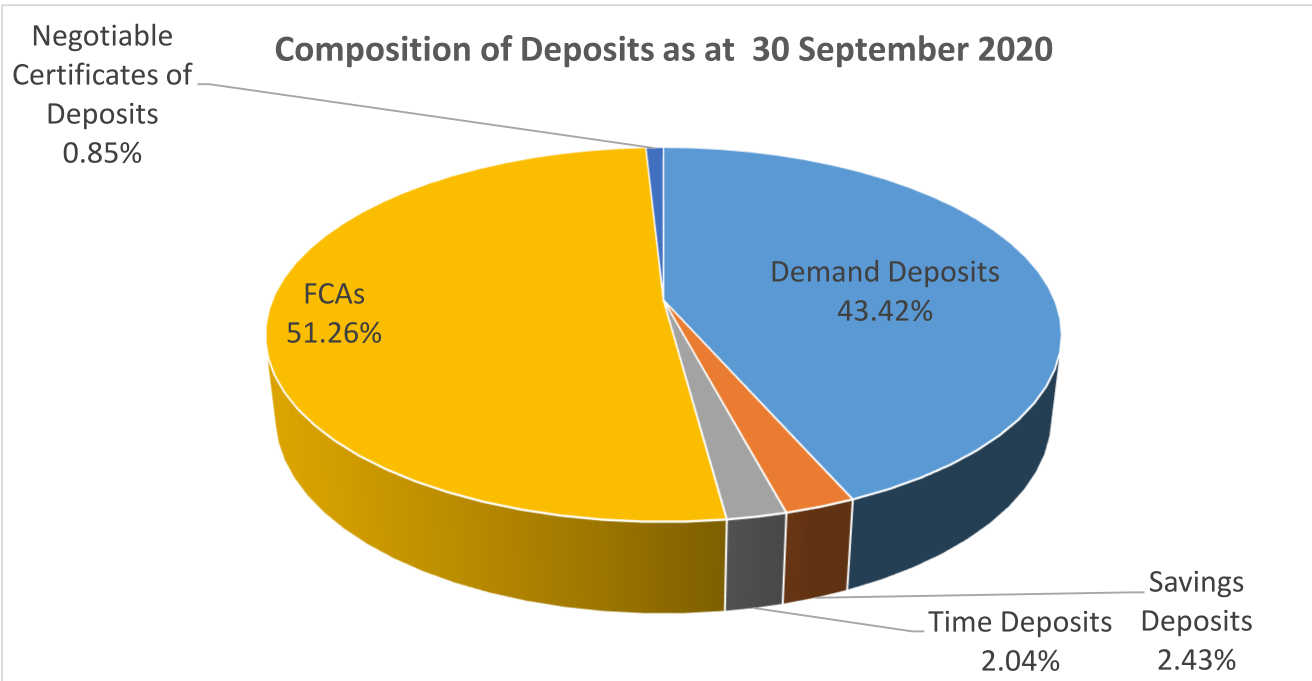
3.26. The trend of banking sector deposits over the period 30 September 2018 to 30 September 2020 is shown in Figure 8 below.

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



3.27. The deposit base for the banking sector continued to be dominated by FCA deposits and demand deposits, which accounted for 51.26% and 43.42% of the total non-bank deposits, respectively, as shown in the figure below.

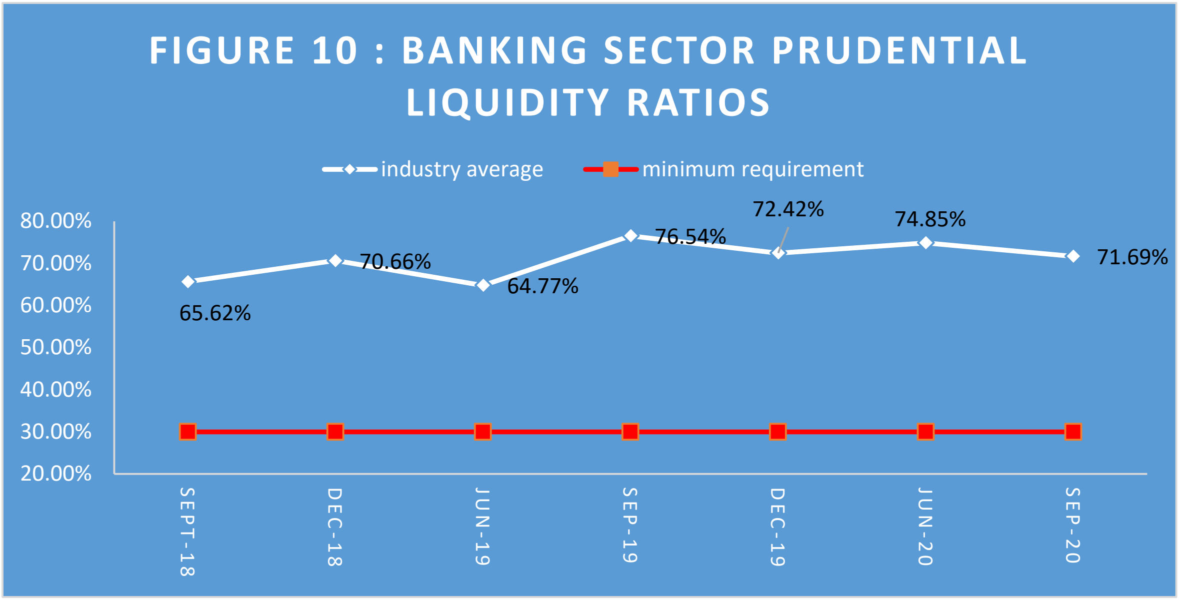
**Figure 9: Composition of Deposits as at 30 September 2020**




3.28. The average prudential liquidity ratio for the banking sector of 71.69% as at 30 September 2020 was above the minimum regulatory requirement of 30%.

3.29. The trend in the average prudential liquidity ratio since September 2018 is shown in the figure 10 below.

**Figure 10: Prudential Liquidity Ratio Trend (%)**




3.30. The high prudential liquidity ratio for the banking sector was partly a reflection of the cautious lending approach being adopted by banking institutions in light of macroeconomic vulnerabilities.

**Sensitivity to Market Risk…**

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

3.32. Banking institutions were resilient to a major shock of 45-percentage points increase in interest rates, as their capital adequacy ratios remained above the prescribed minimum of 12%.

**Outlook…**

3.33. Globally, the Covid-19 pandemic remains a key driver of vulnerabilities in the banking sector. While there has been some easing in covid-19 levels in Zimbabwe, uncertainty on the duration and intensity of the pandemic and its impact on the economy remains, and this can present vulnerabilities to the banking sector.

3.34. The monetary and fiscal responses that helped to contain the effects of adverse macro-financial feedback loops arising from the Covid-19 pandemic are expected to continue maintaining banking system soundness and sustaining economic activity.

3.35. The banking sector will play a critical role in the recovery and sustained growth of the economy.

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