BANK SUPERVISION DIVISION

BANKING SECTOR REPORT FOR THE QUARTER ENDED 31 MARCH 2022

1. EXECUTIVE SUMMARY

1.1. The banking sector continues to demonstrate resilience to various shocks, notwithstanding the combined effects of COVID-19 and the economic impact of the geopolitical conflict in Eastern Europe on the different facets of the economy.

1.2. The sector registered satisfactory performance during the quarter ended 31 March 2021, as reflected by improvement in most key financial soundness indicators.

1.3. As at 31 March 2021, the banking sector was adequately capitalised with average capital adequacy and tier 1 ratios of 26.97% and 35.16%, which were above the regulatory minima of 12% and 8%, respectively.

1.4. The aggregate core capital increased by 37.07% from $100.83 billion as at 31 December 2021 to $138.21 billion as at 31 March 2022, primarily driven by the capitalisation of earnings.

1.5. The sectoral profits for the three months ended 31 March 2022, amounted to $27.05 billion compared to $6.58 billion for the corresponding period in 2021. The growth in income was largely attributable to interest income from loans, advances as well as fees & commission which constituted 34.36% and 30.32% of total income respectively.

1.6. Total banking sector deposits amounted to $582.26 billion as at 31 March 2022, representing an increase of 22.23%, from ZW$476.35 billion reported as at 31 December 2021.

1.7. The average prudential liquidity ratio for the banking sector of 61.38% as at 31 March 2022, was above the minimum regulatory requirement of 30%, reflecting high stock of liquid assets in the sector.

1.8. Total banking sector loans and advances grew by 39.75% from $229.24 billion as at 31 December 2021 to $320.36 billion as at 31 March 2022. The increase was partly attributed to the translation of foreign currency denominated loans amounting $142.27 billion and constituting 44.41% of total banking sector loans, up from 36.87% as at 31 December 2021.

1.9. Banking sector loan portfolio quality remained strong, as reflected by the non-performing loans (NPLs) to total loans ratio of 1.57% as at 31 March 2022, against the international benchmark of 5%.

1.10. In line with efforts to engender sustainability in the banking sector, banking institutions are expected to integrate sustainability principles into their corporate governance and risk management systems and practices.

1.11. As part of measures to bolster the stability of the banking sector, the Bank is implementing a number of measures to enhance confidence in the economy, deal with market indiscipline, stabilise inflation and exchange rates and creating a conducive environment to support envisaged economic growth rate for 2022.

1.12. In addition, the Bank is also implementing additional measures which include implementation of Basel III Liquidity Standards, enhancement and operationalization of the Contingency Planning and Systemic Crisis Management Framework, development of a Macro-Prudential Policy Framework, and recalibration of the early warning models.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. As at 31 March 2022, there were nineteen operating institutions, comprising thirteen commercial banks, 5 building societies, and 1 savings bank. In addition, there were 179 credit-only microfinance institutions, 8 licensed deposit-taking microfinance institutions and 4 development financial institutions under the purview of the Bank.

2.2. 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	**179**
Deposit-taking MFIs	8
Development Financial Institutions (SMEDCO, IDBZ, IDCZ and AFC Land & Development Bank)	4
Total Other Institutions	**191**
Total Number of Institutions	**210**

IDBZ – Infrastructure Development Bank of Zimbabwe, IDCZ – Industrial Development Corporation of Zimbabwe and SMEDCO - Small and Medium Enterprise Development Corporation.

3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1. During the quarter ended 31 March 2022, the sector's condition and performance was satisfactory as reflected by the financial soundness indicators in the table 2 below:

Table 2: Financial Soundness Indicators

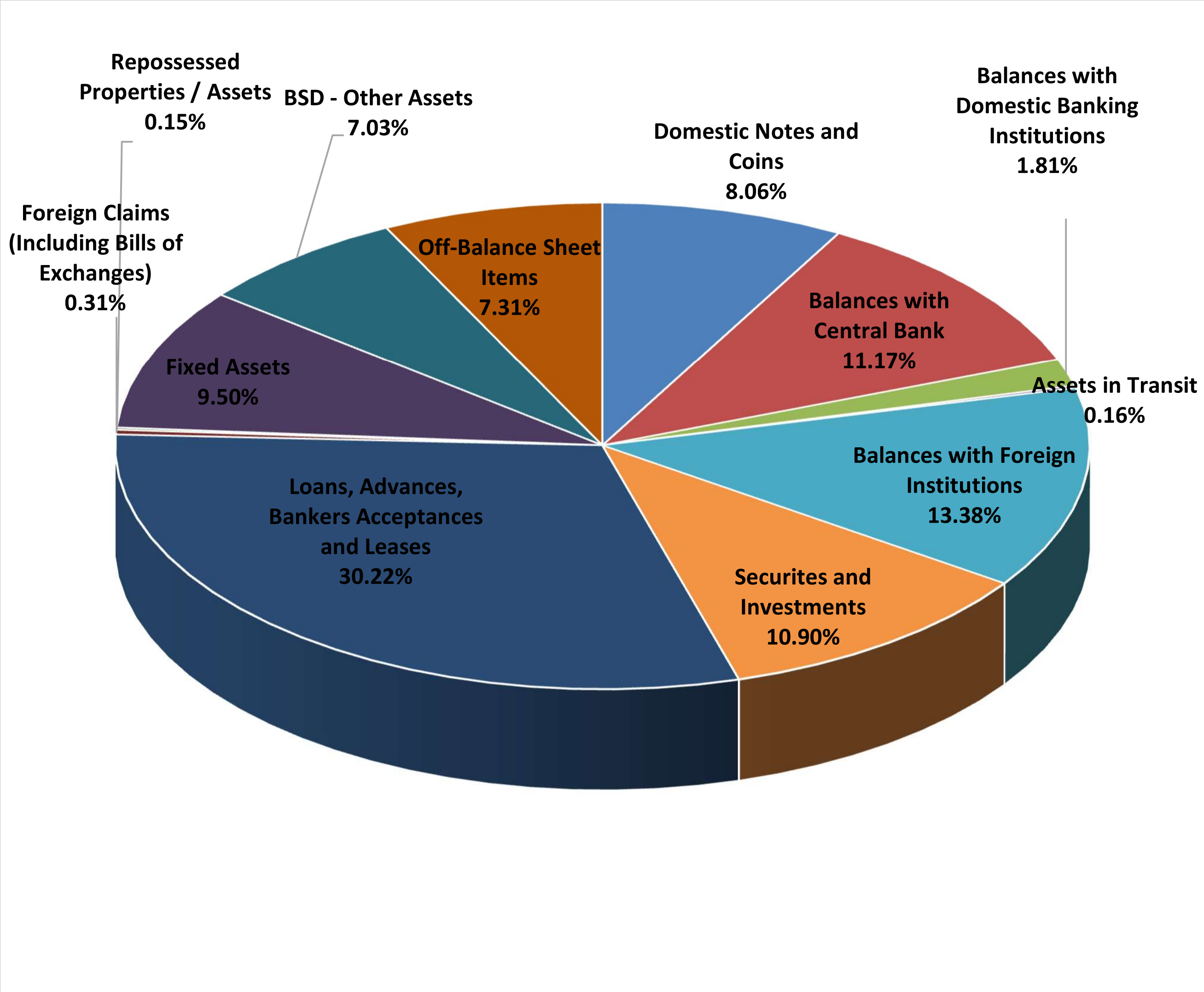
Key Indicators	Benchmark	Mar - 21	Sep -21	Dec-21	Mar-22
Total Assets	-	$402.78bn	$569.99bn	$762.96bn	$969.24bn
Total Loans & Advances	-	$106.70bn	$175.60bn	$229.94bn	$320.36bn
Net Capital Base	-	64.21bn	$84.58bn	$122.85bn	$170.00bn
Core Capital	-	$50.62bn	$63.39bn	$100.83bn	$138.21bn
Total Deposits	-	$241.73bn	$367.02bn	$476.35bn	$582.26bn
Net Profit	-	$6.57bn	$25.39bn	$59.29bn	$27.05bn
Return on Assets	-	0.97%	8.23%	12.04%	3.39%
Return on Equity	-	5.90%	31.87%	43.16%	12.43%
Capital Adequacy Ratio	12%	30.04%	35.34%	32.86%	35.16%
Tier 1 Ratio	8%	19.37%	26.78%	26.54%	26.97%
Loans to Deposits Ratio	70%	44.16%	46.87%	48.27%	55.02%
NPLs Ratio	5%	0.36%	0.61%	0.94%	1.57%
Liquidity Ratio	30%	68.56%	62.87%	64.37%	61.38%

Composition of Banking Sector Assets

3.2. As at 31 March 2022 banking sector assets amounted to $969.24 billion, a position representing 27.04% increase from $762.96 billion recorded as at 31 December 2021.

3.3. The assets were largely comprised of loans and advances (30.22%), balances with foreign institutions (13.38%) and securities and investments (10.90%) as shown in figure 1.

Figure 1: Asset Mix as at 31 March 2022

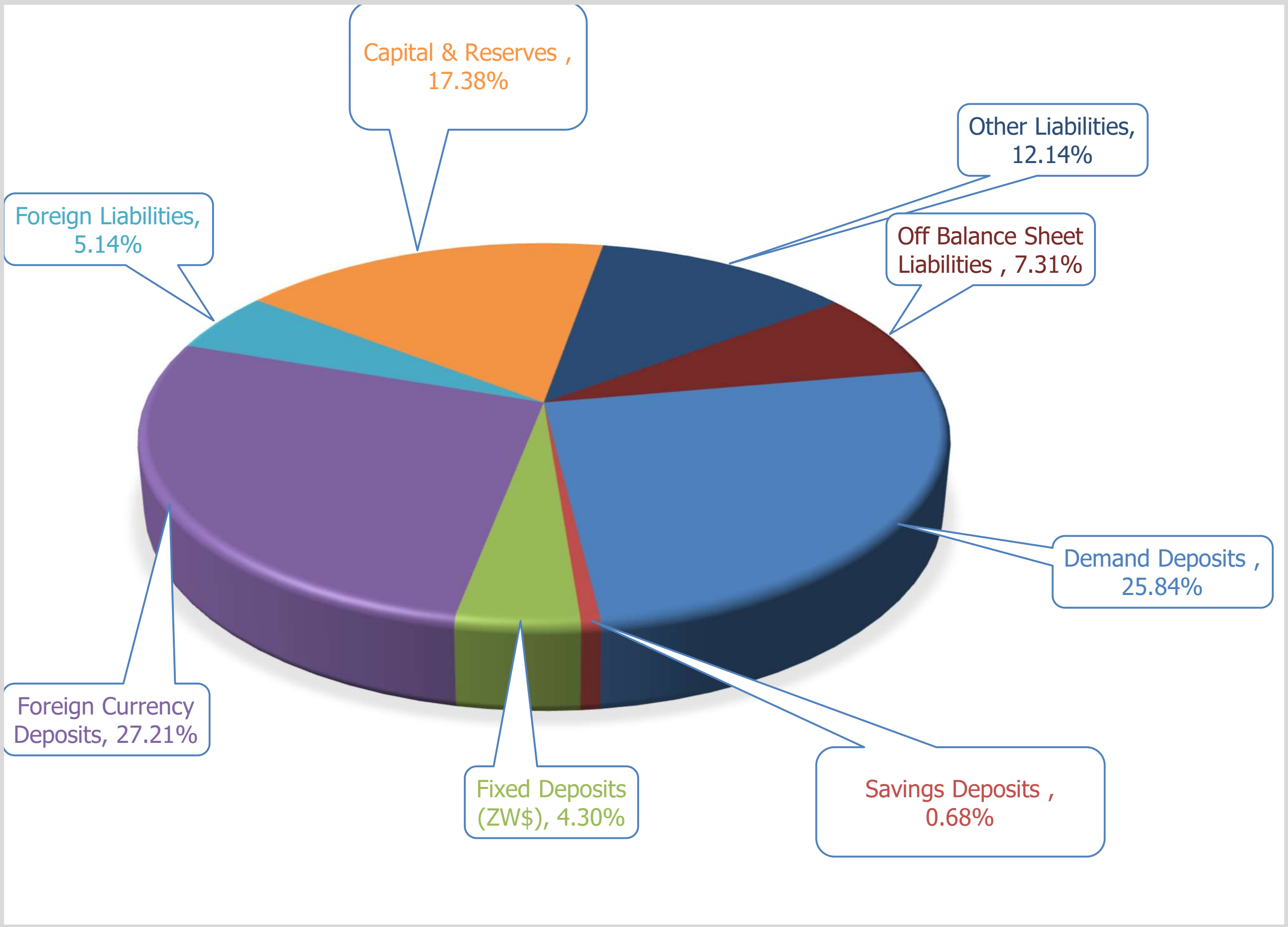


Liabilities Structure

3.4. Banking sector liabilities were largely comprised of foreign currency deposits (27.21%), demand deposits (25.84%), and capital and reserves (17.38%).

3.5. Figure 2 shows the composition of banking sector liabilities as at 31 March 2022.

Figure 2: Decomposition of Liabilities as at 31 March 2022



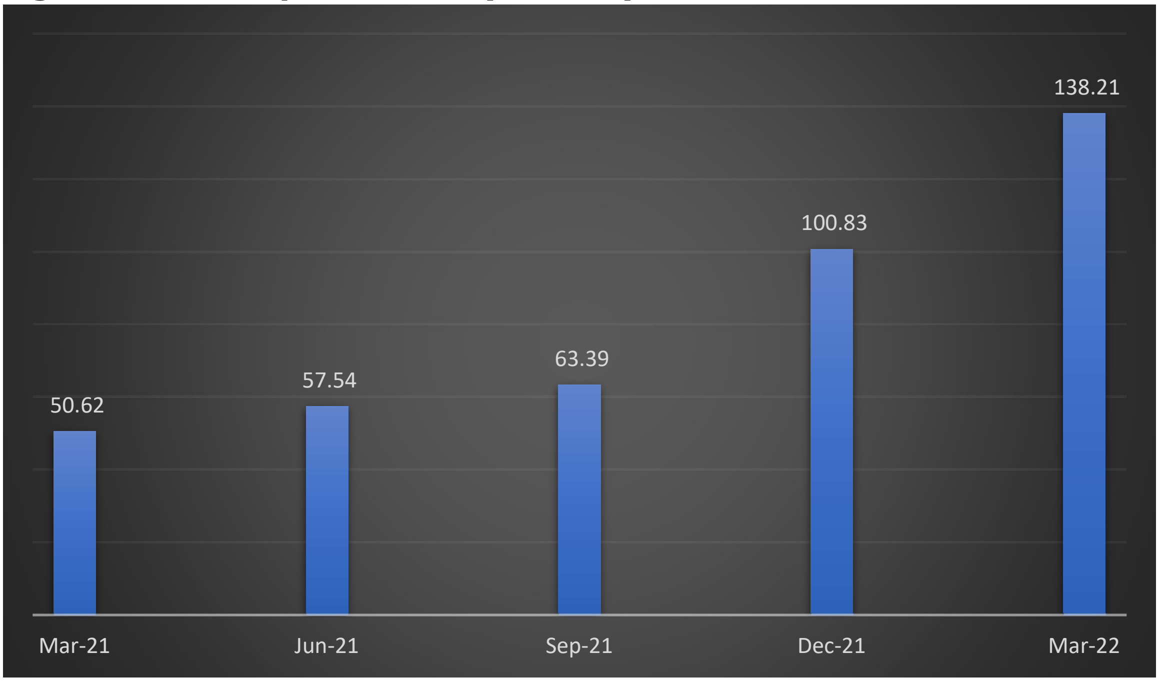
Capitalisation

3.6. The banking sector was adequately capitalised, with average capital adequacy and tier 1 ratios of 26.97% and 35.16%, respectively, which complied with the regulatory minima of 12% and 8%.

3.7. The aggregate core capital increased by 37.07% from $100.83 billion as at 31 December 2021 to $138.21 billion as at 31 March 2022, driven by capitalisation of retained earnings.

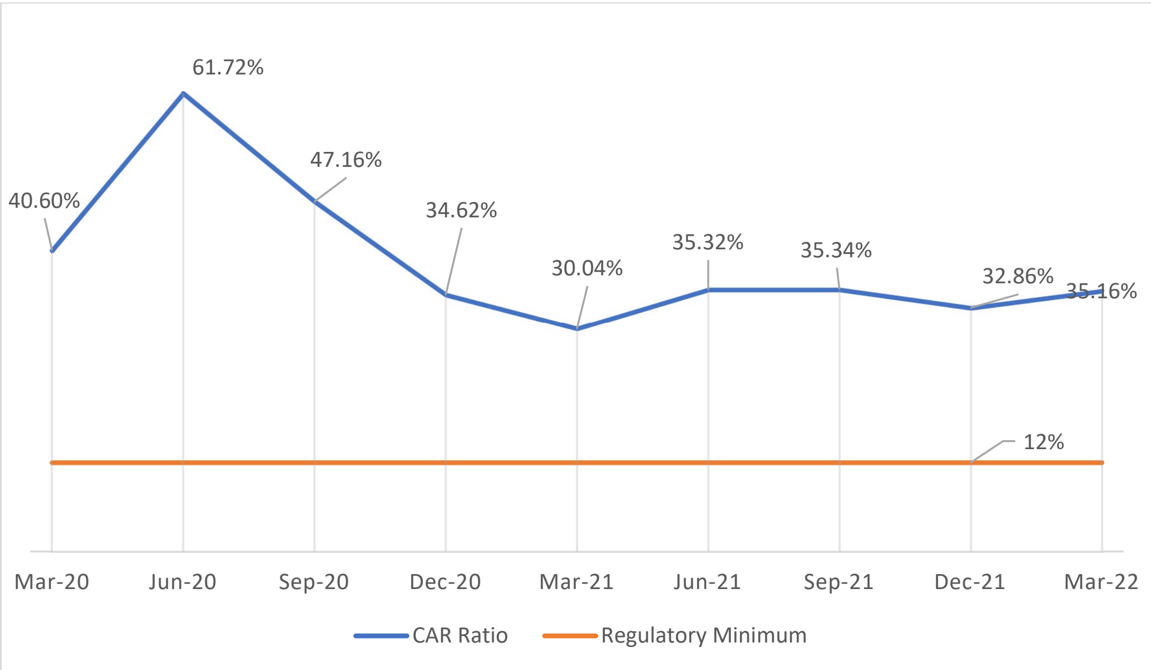
3.8. Figure 3 below shows a trend of core capital trends from March 2021 to March 2022.

Figure 3: Core Capital Trends ($ billion)



3.9. The average capital adequacy ratios have largely remained stable over the year as shown in figure 4.

Figure 4: Capital Adequacy Ratios Trend



3.10. Stress test results for the period under review show varying degrees of resilience in the banking sector with majority of banking institutions having sufficient capital buffers to provide loss absorption capacity and enable institutions to continue with their financial intermediation role through times of stress such as the current Covid-19 pandemic.

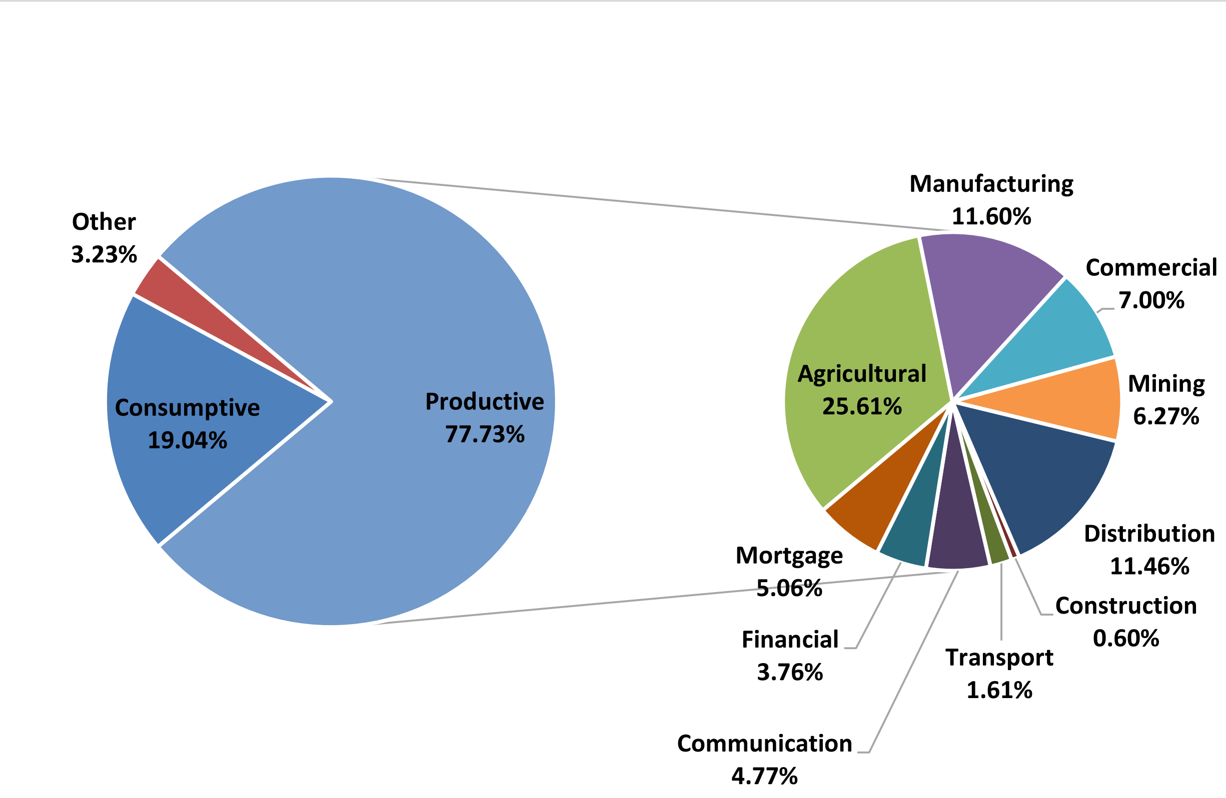
3.11. Stress test results of moderate and major credit shocks of 25% and 40% of performing loans becoming nonperforming, indicated resilience of the majority of banking institutions with capital adequacy ratios (CAR) above the regulatory minimum of 12%.

Asset Quality

3.12. Total banking sector loans and advances amounted to $969.24 billion as at 31 March 2022, a 27.04% increase from $762.96 billion recorded as at 31 December 2021, largely attributed to the translation of foreign currency denominated loans which amounting to $142.27 billion and constituting 44.41% of total banking sector loans, up from 36.87% as at 31 December 2021.

3.13. Sectoral distribution of loans & advances was skewed towards the productive sector as shown in Figure 5 below;

Figure 5: Sectoral Distribution of Loans as at 31 March 2022 (lower case is much better for naming the pie chart segments).

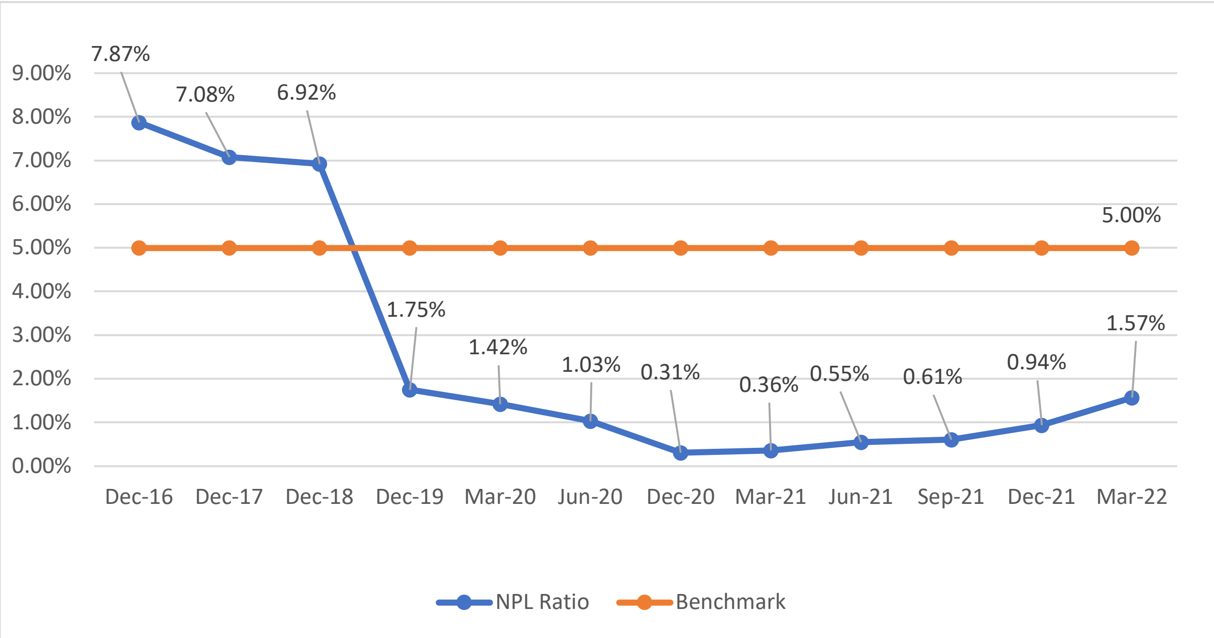


Loan Portfolio Quality

3.14. Banking sector loan portfolio quality remained strong, as reflected by the non-performing loans (NPLs) to total loans ratio of 1.57% as at 31 March 2022, against the international benchmark of 5%.

3.15. The trend in the level of non-performing loans to total loans ratio (NPLs ratio) from December 2016 to March 2022 is shown in Figure 6 below.

Figure 6: Trend in Non- Performing Loans



3.16. The low credit risk in the sector is supported by adequate loan loss provisioning.

3.17. The Reserve Bank continues to closely monitor developments in the banking sector's credit risk exposures on an ongoing basis.

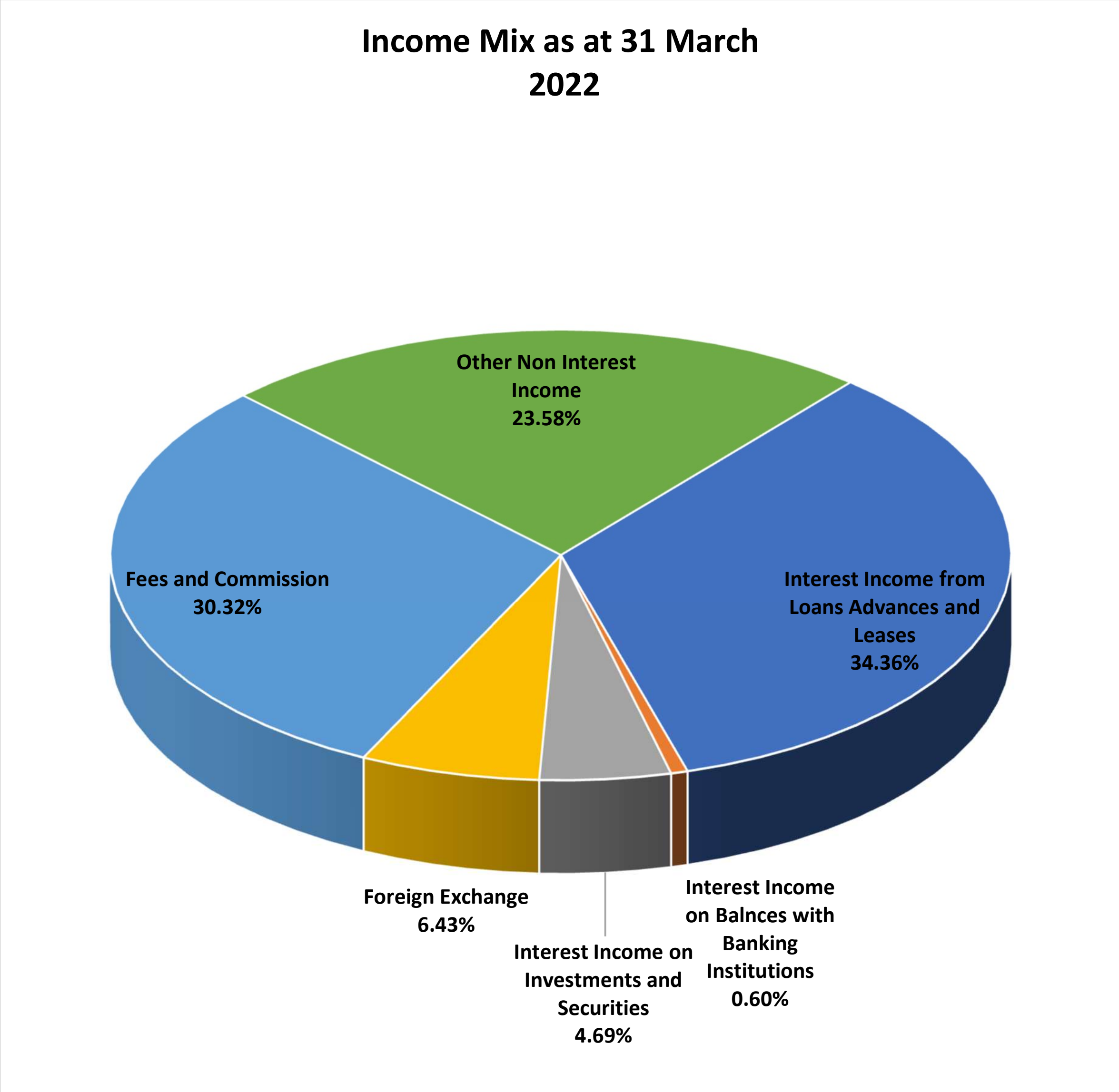
Earnings Performance...

3.18. During the period under review, eighteen (18) out of 19 banking institutions reported profits, with aggregate profit of $27.05 billion for the three (3) months ended 31 March 2022, compared to $6.58 billion for the corresponding period in 2021.

3.19. The growth in income was largely attributable to interest income from loans, advances & leases and fees & commission which constituted 34.36% and 30.32% of total income respectively, as shown on the table below;

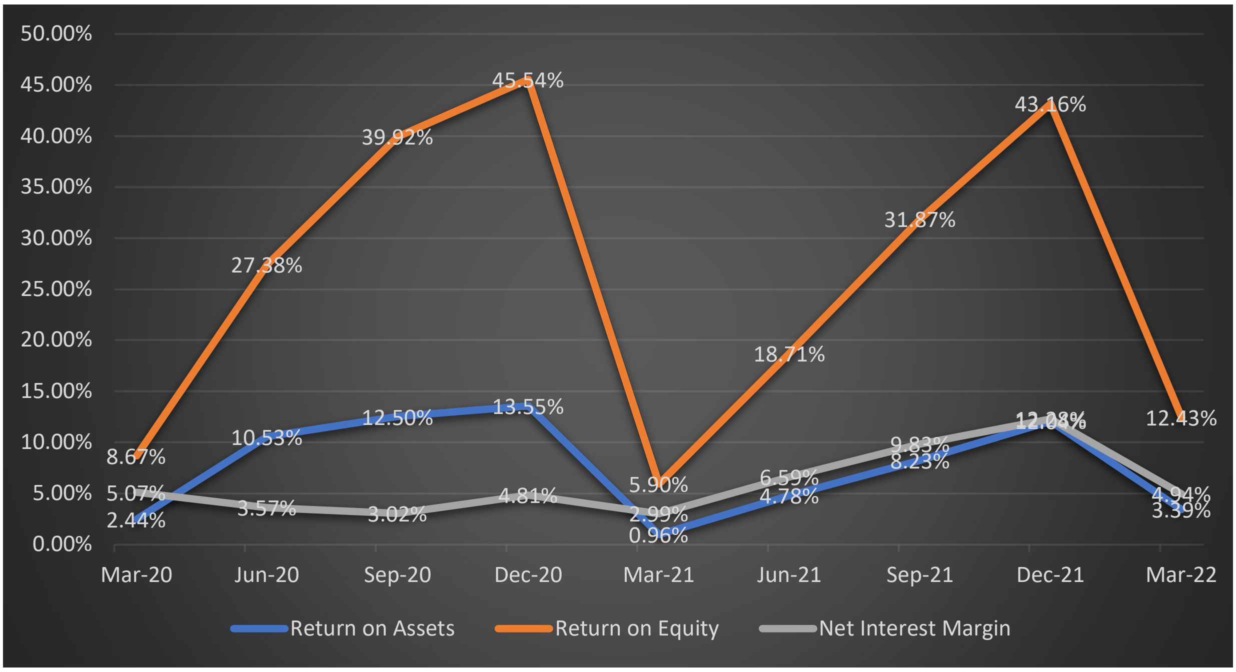
3.20. The figure 7 below shows the income mix as at 31 March 2022;

Figure 7: Banking Sector Income Mix as at 31 March 2022



3.21. The return on assets and return on equity ratios were 2.15% and 9.20% as at 31 March 2021, compared to 3.39% and 12.43% as at 31 March 2022, respectively.

3.22. The trend of banking sector performance over the period 31 March 2020 to 31 March 2022 is shown in the below;



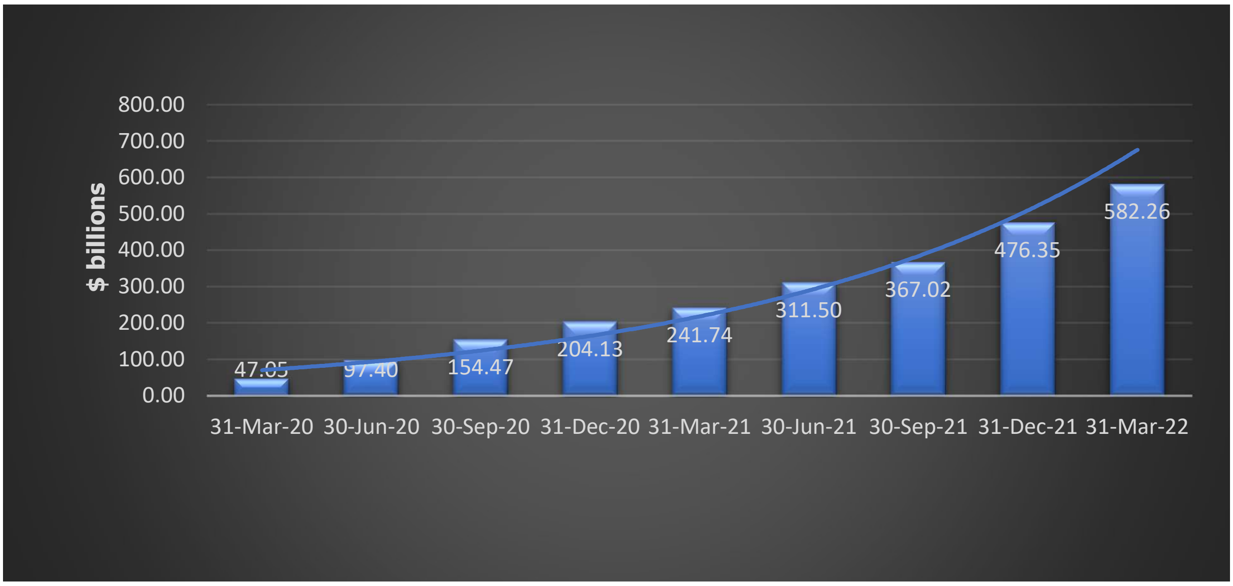
3.23. The cost to income ratio improved to 72.20% as at 31 March 2022 from 89.74% as at 31 March 2021.

3.24. Salaries and employee benefits were the major cost drivers constituting 42.55% of the total banking sector operating costs of $9.26 billion.

Liquidity and Funds Management...

3.25. Total banking sector deposits amounted to $582.26 billion as at 31 March 2022, representing an increase of 158.57%, from $241.74 billion reported as at 31 March 2021.

3.26. The trend of banking sector deposits over the period 31 March 2020 to 31 March 2022 is shown in the Figure 8 below;

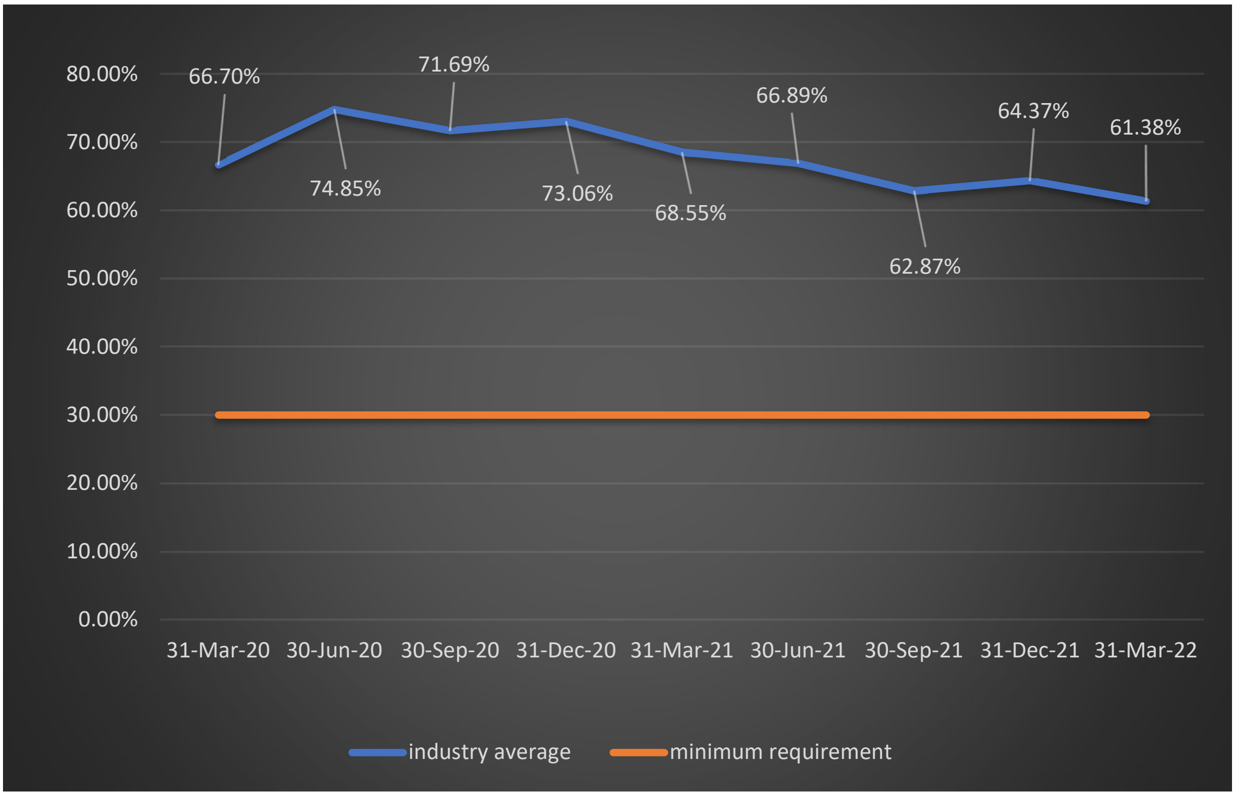


3.27. The average prudential liquidity ratio for the banking sector of 61.38% as at 31 March 2022, was above the minimum regulatory requirement of 30%.

3.28. Seventeen (17) out of nineteen (19) banking institutions were compliant with the minimum prudential liquidity ratio of 30%. The Bank continues to monitor closely two institutions below the minimum requirement to promote compliance.

3.29. The average prudential liquidity ratio has remained largely stable since March 2020 is shown in figure 9 below.

Figure 9: Prudential Liquidity Ratio Trend (%)



3.30. The marginal decline in the liquidity ratio from 64.37% as at 31 December 2021 to 61.38% as at 31 March 2022 partly reflects increased lending as evidenced by the gradual increase in the loans to deposits ratio from 44.16% in March 2021 to 55.02% in March 2022.

Sensitivity to Market Risk…

3.31. The banking sector had an overall asset sensitive book as at 31 March 2022, 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…

3.32. In the outlook, the banking sector is expected to remain safe and sound with banking institutions adapting to the dynamic operating environment.

3.33. The various measures that the Bank is implementing are expected to maintain financial stability to ensure that banking institutions continue to offer adequate financial support to all sectors of the economy, which is a catalyst for economic growth and development.