BANK SUPERVISION DIVISION

BANKING SECTOR REPORT

FOR

QUARTER ENDED 30 JUNE 2019

1. EXECUTIVE SUMMARY

1.1. During the quarter ended 30 June 2019, the banking sector continued to exhibit resilience as reflected by adequate capitalization, satisfactory asset quality and liquidity. A combination of foreign currency and investment property revaluation gains contributed to overall sector profitability.

1.2. Stress tests conducted by the Reserve Bank, however, revealed banking sector vulnerabilities in respect of foreign exchange rate risk.

1.3. During the period under review, all banking institutions were adequately capitalised with average tier 1 and capital adequacy ratios of 27.24% and 32.64%, respectively. Aggregate core capital increased by 47.47% from $1.58 billion as at 31 March 2019 to $2.33 billion as at 30 June 2019. The increase was largely driven by organic capital growth as well as revaluation of foreign currency and properties by some banking institutions.

1.4. Total banking sector assets increased from $15.40 billion as at 31 March 2019 to $23.54 billion as at 30 June 2019. The increase was largely attributable to revaluation of investment properties and foreign currency denominated loans due to exchange rate movement of the Zimbabwe dollar against the United States dollar.

1.5. Total banking sector loans and advances increased by 38.96%, from $4.44 billion as at 31 March 2019 to $6.17 billion as at 30 June 2019, largely attributable to revaluation of foreign currency denominated loans.

1.6. Total banking sector deposits grew by 53.82%, from $11 billion as at 31 March 2019 to $16.92 billion as at 30 June 2019, mainly attributable to revaluation of foreign currency denominated balances. The growth in total deposits translated to an average loans to deposits ratio of 36.49% as at 30

June 2019, compared to 40.43% as at 31 March 2019.

1.7. Banking sector aggregate net profit amounted to $929.95 million for the half year ended 30 June 2019, compared to $176.09 million reported for the corresponding period in 2018. The growth in net profit was mainly attributed to foreign exchange and property revaluation gains.

1.8. Asset quality improved during the period under review as reflected by the ratio of non-performing loans (NPLs) to total loans of 3.95% as at 30 June 2019, down from 5.58% as at 31 March 2019.

1.9. The improvement in the NPLs ratio was largely a result of an increase in total loans and advances and a decrease in non-performing loans.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. As at 30 June 2019, there were 19 banking institutions and 212 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	204

Deposit-taking MFIs	6
Development Financial Institutions	2
Total Other Institutions	**212**

3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1. The banking sector remained generally stable and continued to exhibit resilience, buoyed by adequate capitalisation, sustained earnings performance, satisfactory asset quality and improved liquidity position for the period ended 30 June 2019.

3.2. The trend in key financial soundness indicators since June 2018 are provided in Table 2 below.

Table 2: Financial Soundness Indicators

Key Indicators	Benchmark	June-18	Dec-18	Mar-19	June-19
Total Assets	-	$12.35bn	$13.98bn	$15.40bn	$23.54bn
Total Loans & Advances	-	$4.08bn	$4.09bn	$4.44bn	$6.17bn
Net Capital Base	-	$1.61bn	$1.83bn	$2.09bn	$3.31bn
Core Capital		$1.38bn	$1.58bn	$1.69bn	$2.33bn
Total Deposits	-	$9.53bn	$10.32bn	$11.00bn	$16.92bn
Net Profit	-	$176.09m	$425.26m	$78.05m	$929.95m
Return on Assets	-	1.75%	4.56%	1.37%	5.11%
Return on Equity	-	11.16%	20.61%	4.92%	20.95%
Capital Adequacy Ratio	12%	26.32%	30.23%	30.74%	32.64%
Tier 1 Ratio	8%	43.53%	23.84%	27.67%	27.24%

Key Indicators	Benchmark	June-18	Dec-18	Mar-19	June-19
Loans to Deposits	70%	6.22%	39.62%	40.43%	36.49%
Non-Performing Loans Ratio	5%	24.16%	6.92%	5.58%	3.95%
Liquidity Ratio	30%	68.45%	67.82%	66.82%	64.77%

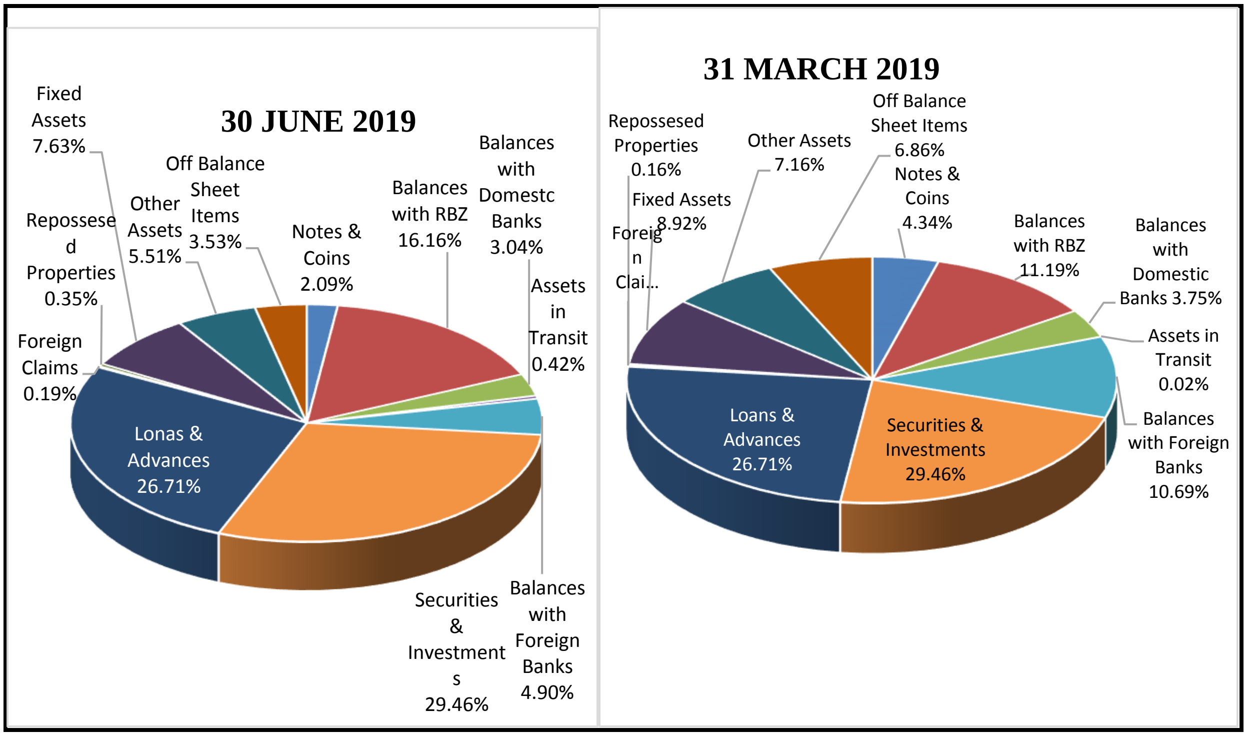
Composition of Banking Sector Assets…

3.3. Total banking sector assets increased by 52.86%, from $15.40 billion as at 31 March 2019 to $23.54 billion as at 30 June 2019. The significant growth in total assets was mainly attributable to revaluations of properties and translation of foreign currency denominated loans.

3.4. As at 30 June 2019, banking sector assets were largely comprised of investment & securities, loans and advances and balances with central bank, which constituted 29.46%, 26.71% and 11.19%, respectively.

3.5. Asset composition as at 30 June 2019, is shown in the figure below:

Figure 1: Asset Mix as at 30 June 2019

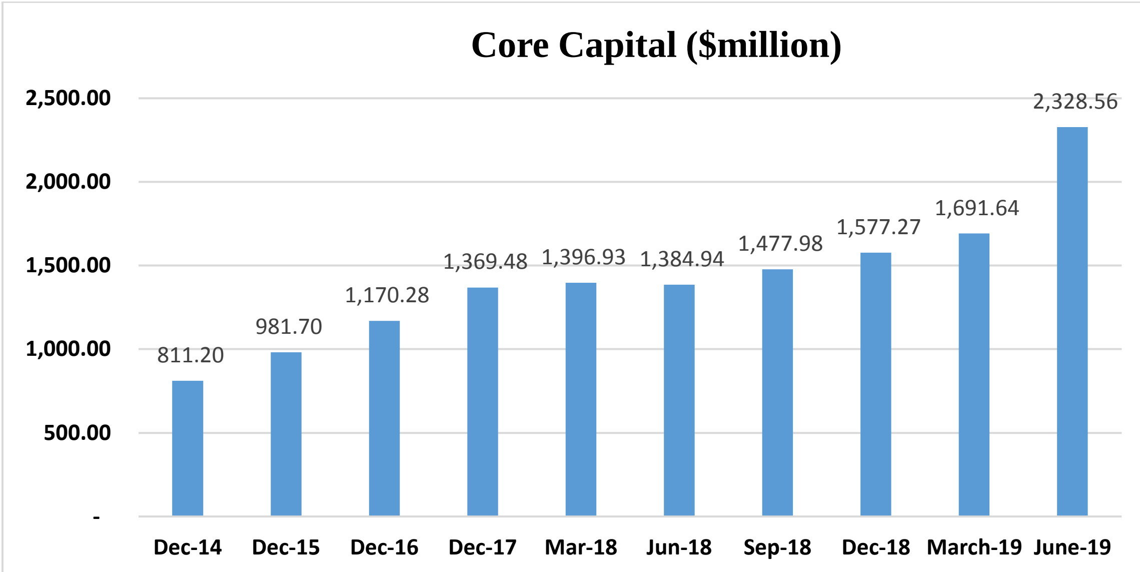


Capitalisation…

3.6. The banking sector was adequately capitalised with average capital adequacy and tier 1 ratios of 32.64% and 27.24% as at 30 June 2019, respectively, which were above the regulatory minima of 12% and 8%, respectively. All banking institutions complied with the minimum regulatory capital adequacy and tier 1 ratios.

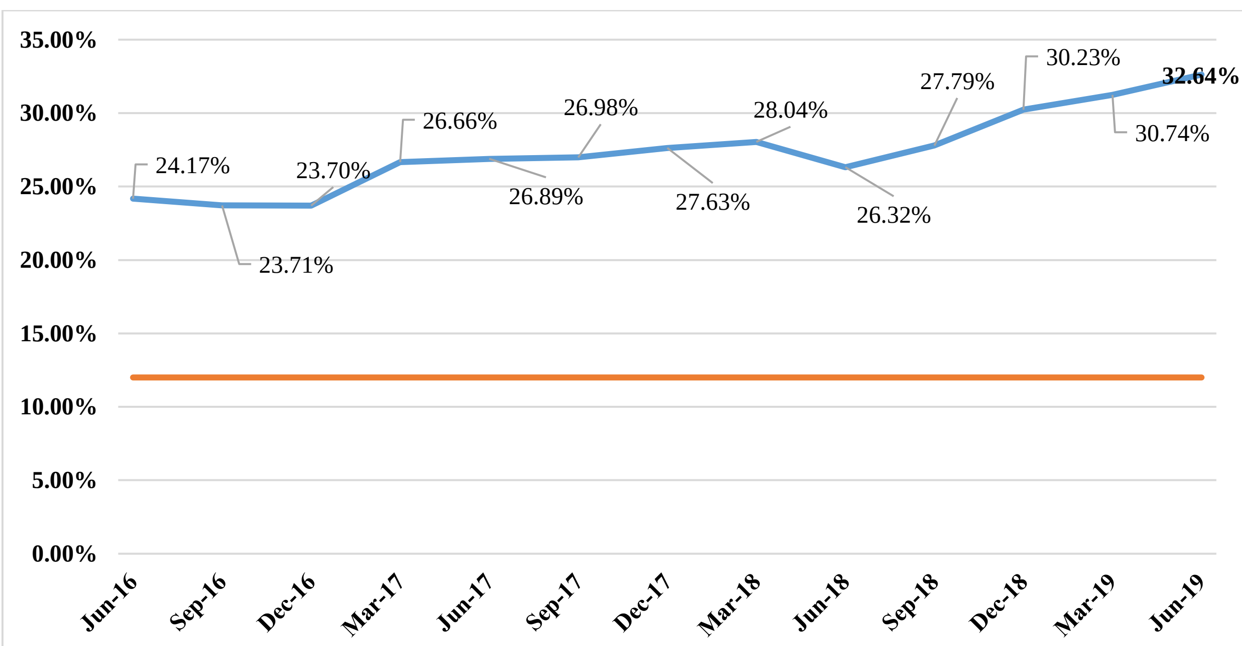
3.7. The graph below shows the trend in the banking sector core capital levels for the period December 2014 to June 2019:

Figure 2: Core Capital Trends 2014 to June 2019



3.8. The banking industry's average capital adequacy ratios (CARs) from June 2016 to June 2019 are shown in the figure below:

Figure 3: Capital Adequacy Ratios Trend



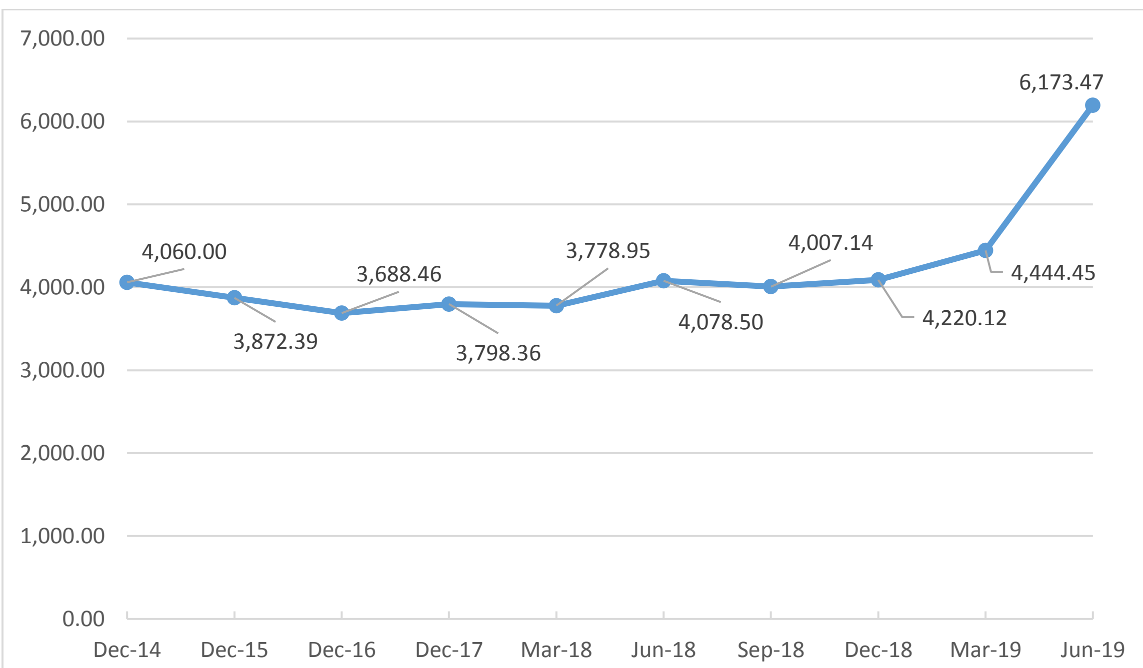
Asset Quality...

3.9. Total banking sector loans and advances increased by 38.96%, from $4.44 billion as at 31 March 2019 to $6.17 billion as at 30 June 2019. The growth in loans was partly attributed to translation of foreign currency denominated loans.

3.10. The loans to deposits ratio has remained low at 36.49%, reflective of subdued financial intermediation, on the back of cautious lending approach adopted by some banking institutions, challenging macroeconomic environment and foreign currency shortages.

3.11. The figure below shows the trend of banking sector loans and advances from 31 December 2014 to 30 June 2019:

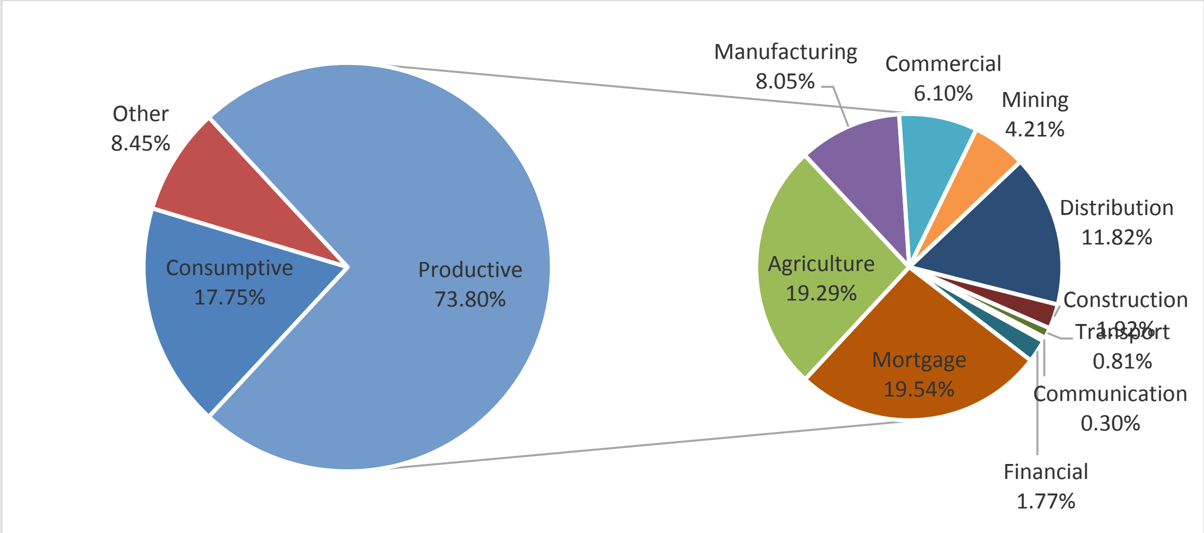
Figure 4: Banking Sector Loans & Advances ($ millions)



Distribution of Loans and Advances…

3.12. Productive sector loans constituted 73.80% of total sector loans as shown in the diagram below.

Figure 5: Sectoral Distribution of loans as at 30 June 2019



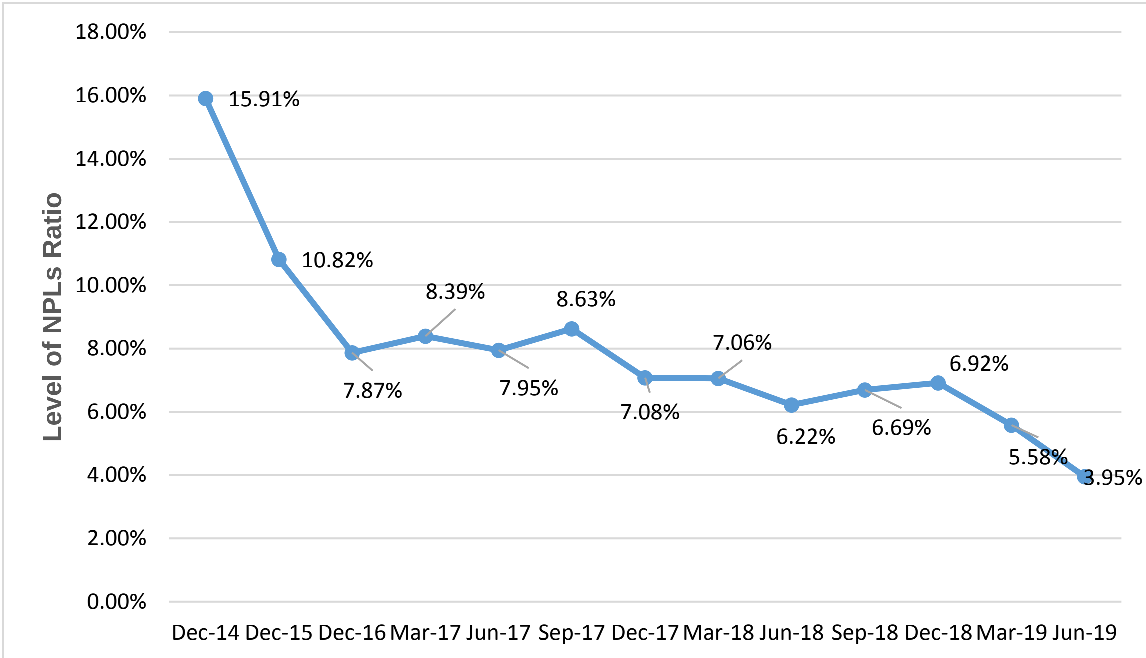
Non-Performing Loans

3.13. The quality of the banking sector loan portfolio continued to improve as reflected by the ratio of non-performing loans (NPLs) to total loans, which declined from 5.58% as at 31 March 2019 to 3.95% as at 30 June 2019.

3.14. The improvement in the NPLs ratio was largely a result of an increase in total loans and advances and a decrease in non-performing loans.

3.15. Figure 6 below shows the trend in the level of non-performing loans to total loans ratio (NPLs ratio) from December 2014 to June 2019.

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



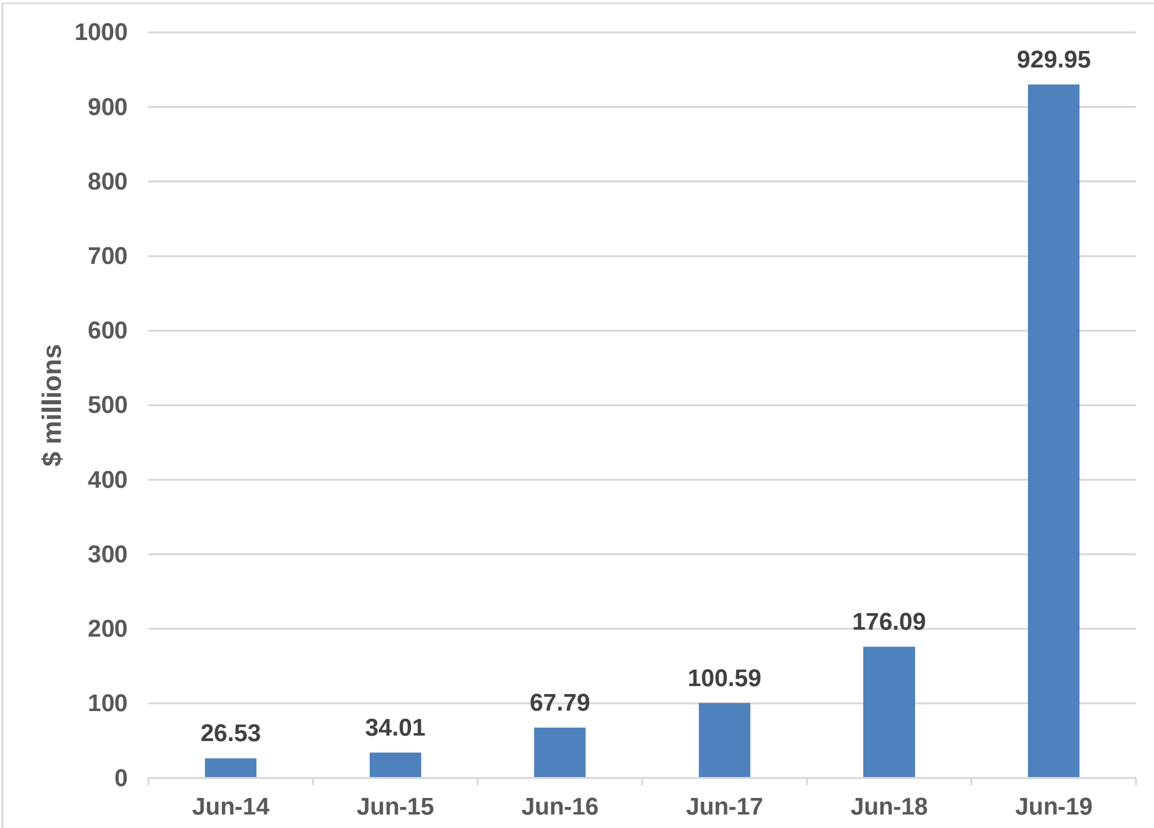
Earnings Performance...

3.16. Aggregate banking sector profits for the half-year ended 30 June 2019 amounted to $929.95 million, representing a 4-fold increase from $176.09 reported for the corresponding period in 2018. The growth was largely driven by revaluation of foreign currency denominated assets and investment properties.

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

3.18. The figure below shows the trend in net income from June 2014 to June 2019.

Figure 7: Net Income Trend from June 2014 to June 2019.

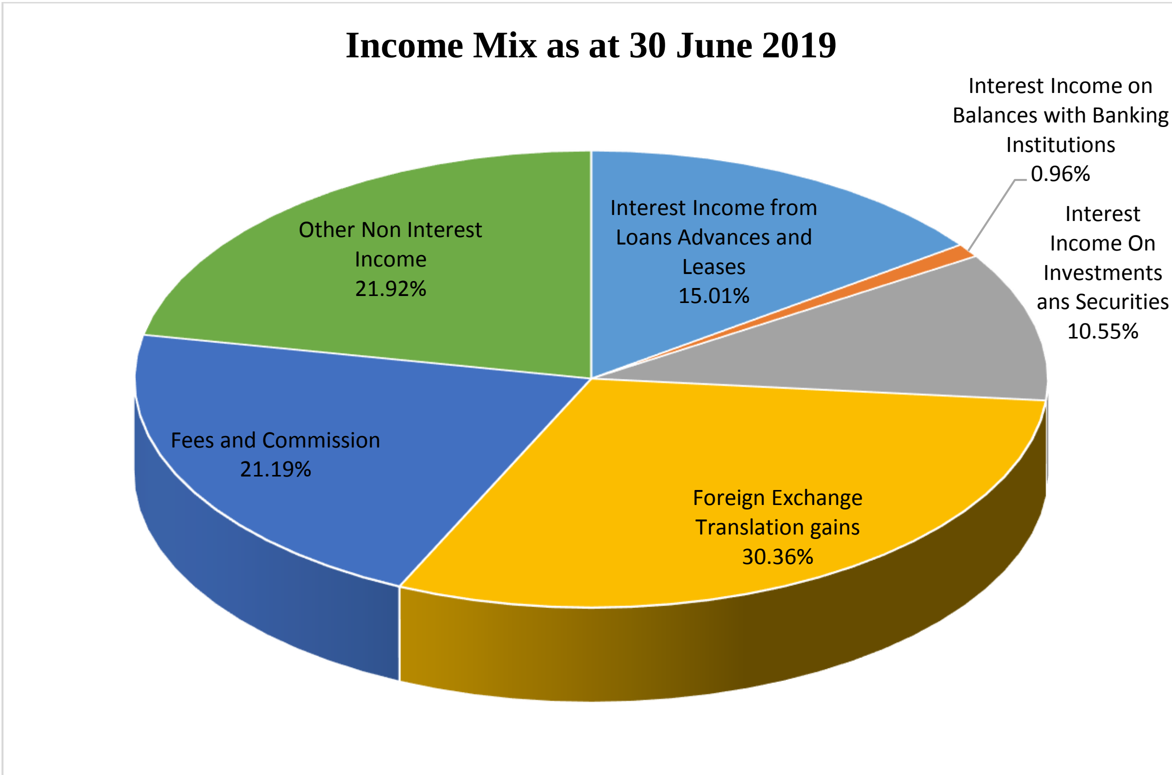


3.19. Fees and commissions, increased by 57.43% from $250.19 million for the half-year ended 30 June 2018 to $393.88 million for the period ended 30 June 2019. Income from foreign exchange translation gains constituted 30.36% of total banking sector income.

3.20. Interest income from loans and advances accounted for 15.01% of total income in 2019, compared to 31.24% in 2018, whilst interest on investments and securities accounted for 10.55% of total income in 2019, compared to 19.33% in 2018.

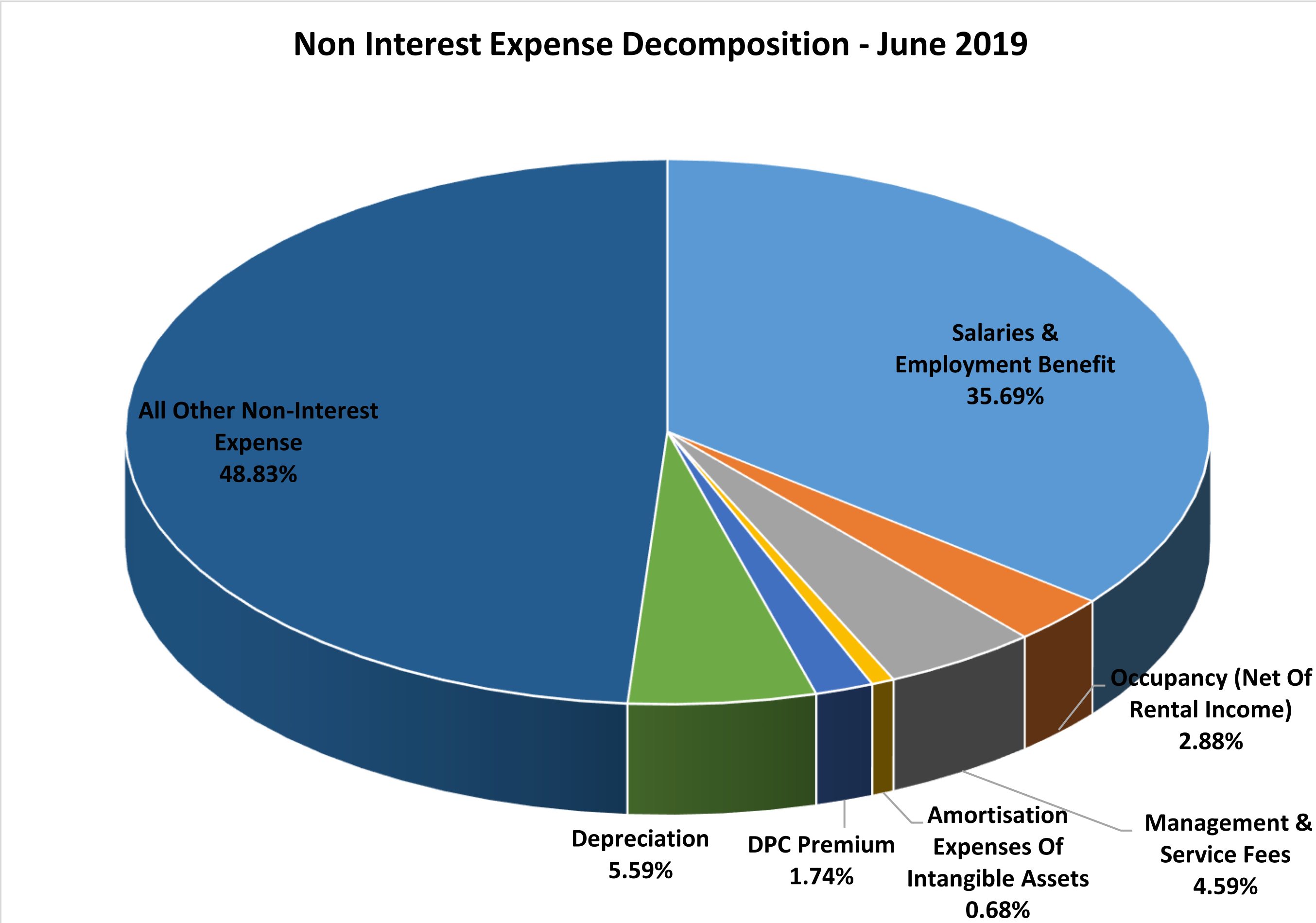
3.21. The banking sector income mix is shown in the pie chart below.

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



3.22. During the period under review, salaries & employment benefits and all other non-interest expense contributed 36.69% and 48.83%, respectively, of total banking sector costs as shown in the figure below.

Figure 9: Banking Sector Operating Expenses



3.23. The average banking sector earnings performance as measured by the return on assets and return on equity ratios improved from 1.75% and 11.16% as at 30 June 2018 to 5.13% and 21.01% as at 30 June 2019, respectively.

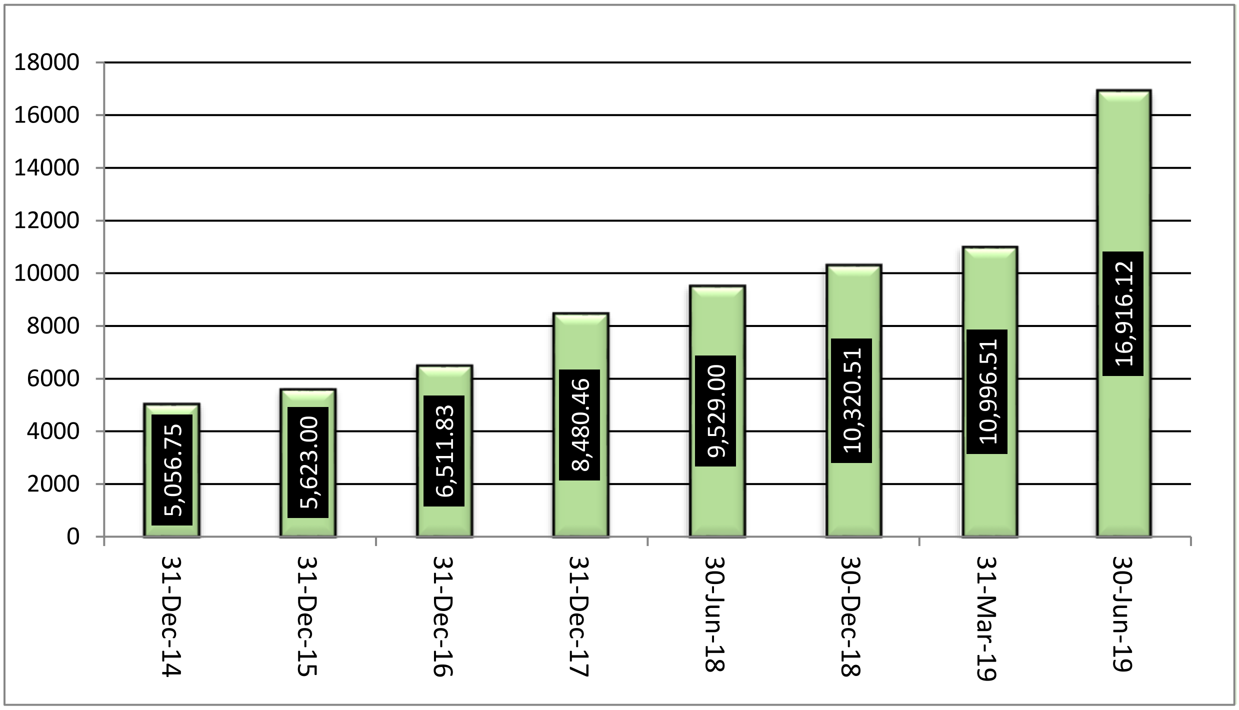
Liquidity and Funds Management...

3.24. Total banking sector deposits grew by 77.54%, from $9.53 billion as at 30 June 2019, to $16.92 billion as at 30 June 2019. The growth was largely attributable to translation of foreign currency denominated deposits.

3.25. The figure below shows the trend of banking sector deposits over the period

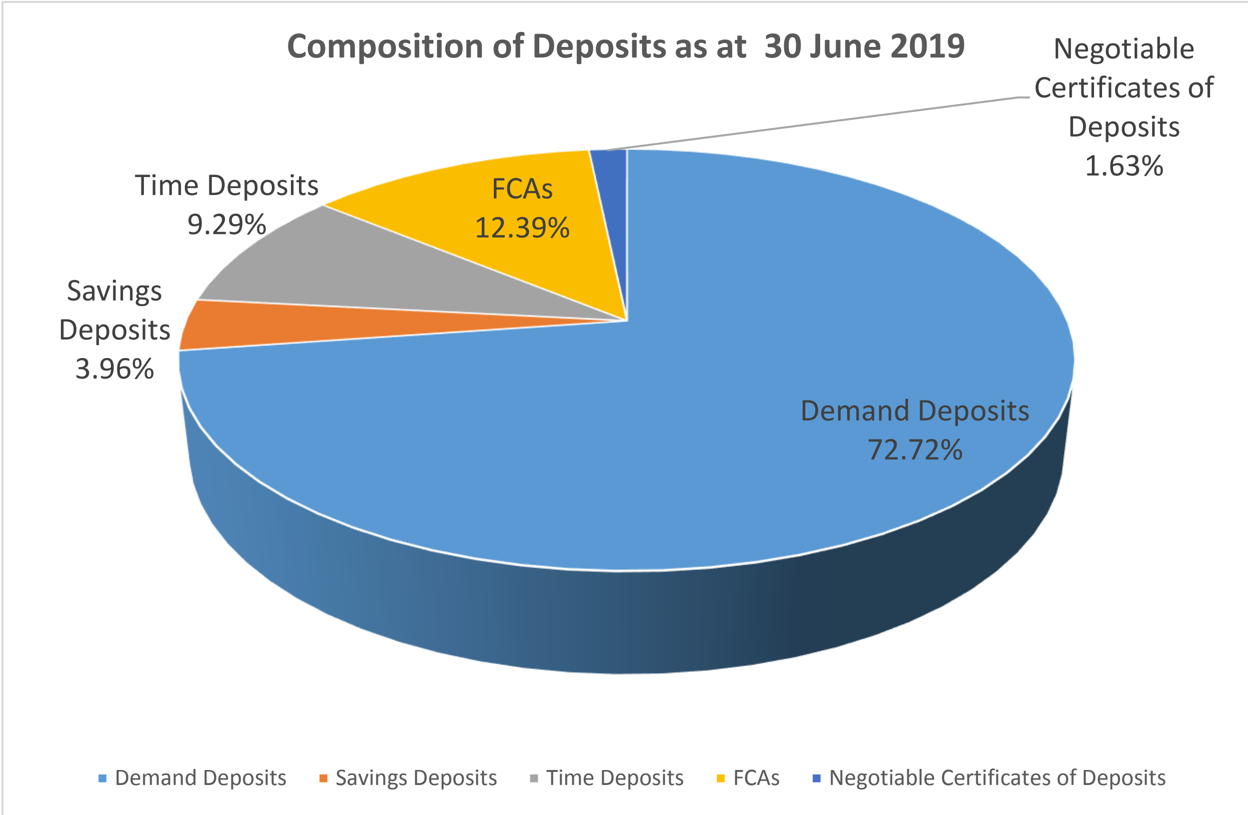
31 December 2014 to 30 June 2019.

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



3.26. The deposits largely comprised demand, foreign currency accounts and time deposits, which accounted for 72.72%, 12.39% and 9.29%, respectively.

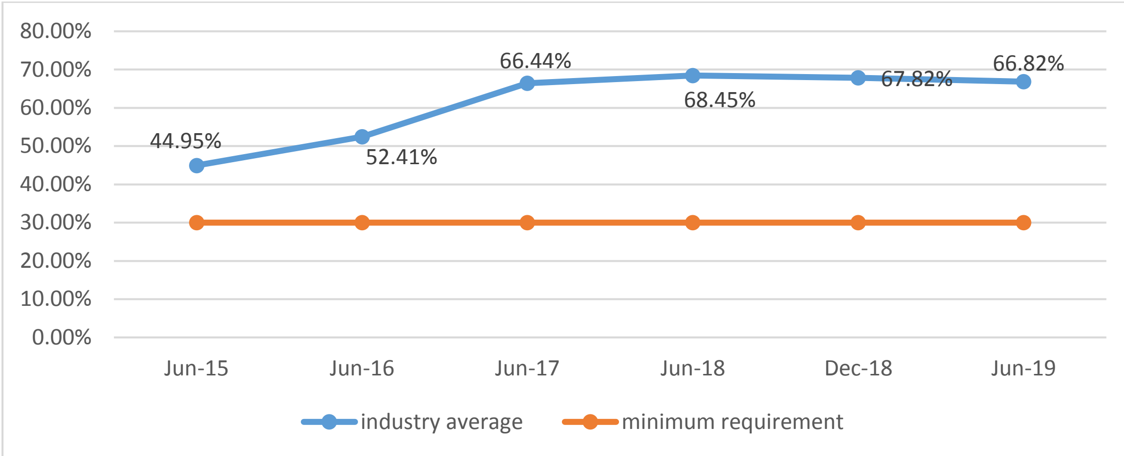
Figure 11: Composition of Deposits as at 30 June 2019



3.27. The average prudential liquidity ratio as at 30 June 2019 was 64.77%, a decrease from 66.82% as at 31 March 2019. Two (2) banking institutions, were non-compliant with the minimum prudential liquidity ratio of 30%. Reserve Bank is closely monitoring the institutions to ensure compliance with the minimum prudential liquidity ratio.

3.28. The figure below shows the trend in the banking sector average prudential liquidity ratio since June 2015.

Figure 12: Prudential Liquidity Ratio Trend (%)



3.29. The high prudential liquidity ratio is reflective of a cautious approach to lending by banking institutions with increased investments in securities.

Sensitivity to Market Risk...

3.30. As at 30 June 2019, the banking sector had overall liability sensitive book, with a cumulative re-pricing gap of $2.36 billion up to one (1) year. The sector was considered vulnerable to a major shock of 40 percentage point increase in interest rates, as the capital adequacy ratios of seven banking institutions would fall below the prescribed minimum of 12%.

3.31. The aggregate banking sector net open position of negative $1.61 billion constituted 48.64% of aggregate net capital base, against a regulatory maximum of 20%. A major foreign exchange risk shock of either an appreciation or depreciation of the ZWL against USD indicated vulnerability for ten banking institutions.

30 June 2019