

QUARTERLY BANKING SECTOR REPORT

30 SEPTEMBER 2017



BANK SUPERVISION DIVISION

1 EXECUTIVE SUMMARY

- 1.1 The banking sector remained stable during the period under review on the back of adequate capitalization, improved earnings and satisfactory asset quality.
- 1.2 Despite continued vulnerabilities in the operating environment, stress test results as at 30 September 2017 indicate enhanced resilience to various risk factors such as credit, market and liquidity risks.
- 1.3 Total banking sector assets increased by 6.32% during quarter from \$9.65 billion to \$10.26 billion, largely due to increase in RTGS balances, which increased by \$433.78 million over the quarter.
- 1.4 As at 30 September 2017, all banking institutions were adequately capitalised and complied with minimum capital requirements.
- 1.5 Banking sector loans and advances increased marginally from \$3.64 billion as at 30 June 2017 to \$3.73 billion as at 30 September 2017, whilst the NPL ratio marginally deteriorated from 7.95% to 8.63% over the comparative period.
- 1.6 The banking sector remained profitable with net profit of \$160.73 million for the nine months ended 30 September 2017, with only one institution recording losses.
- 1.7 The average prudential liquidity ratio for the banking sector was at 62.49% with one institution being non-compliant with the prudential minimum of 30%.
- 1.8 Total banking sector deposits maintained an upward trajectory increasing from \$6.99 billion as at 30 June 2017 to \$7.62 billion as at 30 September 2017.
- 1.9 During the quarter under review, the Reserve Bank licensed the Zimbabwe Women's Microfinance Bank Limited (Women's Bank), a deposit-taking microfinance institution.

2 ARCHITECTURE OF THE BANKING SECTOR

2.1 As at 30 September 2017, the banking sector was configured as shown in the table below.

Architecture of the Banking Sector

Type of Institution	Number
Commercial Banks	13
Building Societies	5
Savings Bank	1
Total Banking Institutions	19
Other institutions supervised by the Reserve Bank	
Credit-only-MFIs	184
Deposit-taking MFIs	5
Development Institutions - SMEDCO and IDBZ	2

2.2 During the period under review, the Reserve Bank licensed the Women's Bank on 14 September 2017, a deposit taking microfinance bank, resulting in the number of Deposit-taking MFIs increasing to five (5) institutions.

3 CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1 The financial condition of the banking sector was considered satisfactory as at 30 September 2017. The following table summarises the sector's financial soundness indicators as at 30 September 2017:

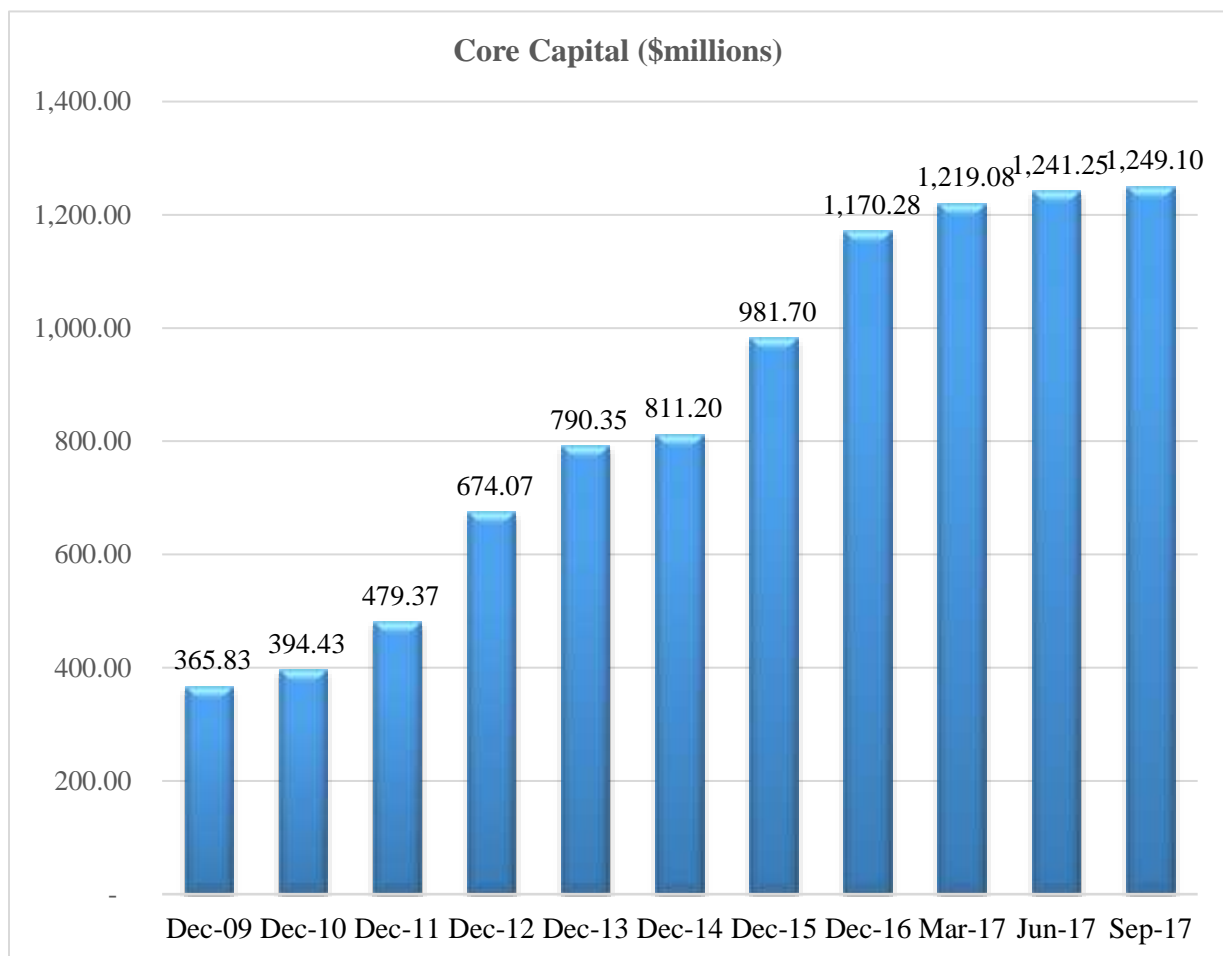
Aggregate Financial Soundness Indicators

Key Indicators	Benchmark	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Total Assets	-	\$8.25bn	\$8.73bn	\$8.88bn	\$9.65bn	\$10.26bn
Total Loans	-	\$3.65bn	\$3.69bn	\$3.59bn	\$3.64bn	\$3.73bn
Net Capital Base	-	\$1.24bn	\$1.34bn	\$1.37bn	\$1.38bn	\$1.43bn
Total Deposits	-	\$6.14bn	\$6.51bn	\$6.55bn	\$6.99bn	\$7.62bn
Net Profit	-	\$111.78m	\$181.06m	\$50.34m	\$100.59m	\$160.73m
Return on Assets	-	1.57%	2.26%	0.69%	1.26%	1.89%
Return on Equity	-	8.94%	12.64%	3.65%	6.80%	11.15%
Capital Adequacy Ratio	12%	23.71%	23.70%	26.66%	26.89%	27.37%
Loans to Deposits	70%	59.45%	56.64%	54.82%	52.11%	49.01%
Non-Performing Loans Ratio	5%	10.74%	7.87%	8.39%	7.95%	8.63%
Provisions to Adversely Classified Loans	-	68.05%	68.51%	65.86%	126.29%	83.37%
Liquidity Ratio	30%	54.15%	61.91%	60.20%	66.87%	62.49%
Cost to Income Ratio		82.75%	79.20%	76.58%	72.50%	77.02%

Capital Adequacy...

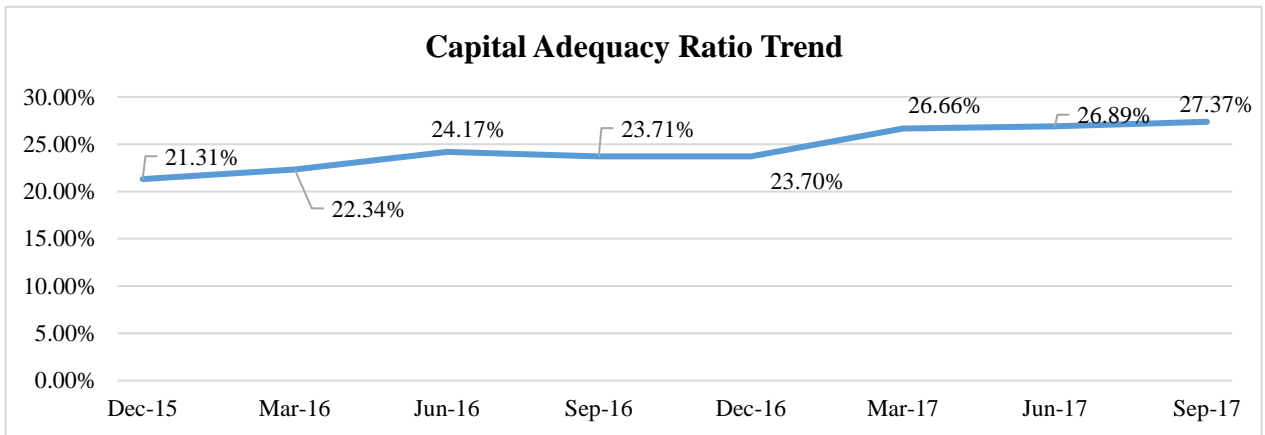
3.2 The aggregate core capital increased by 0.63%, from \$1.24 billion as at 30 June 2017 to US\$1.25 billion as at 30 September 2017, on the back of improved earnings performance. All banking institutions were adequately capitalised and complied with minimum capital requirements.

3.3 The graph below shows banking sector core capital trends from 2009 to September 2017:



3.4 The average capital adequacy and tier 1 ratios of 27.37% and 23.55% as at 30 September 2017, respectively, were above the required minima of 12% and 8%, respectively. All banking institutions complied with the minimum required capital adequacy and tier 1 ratios.

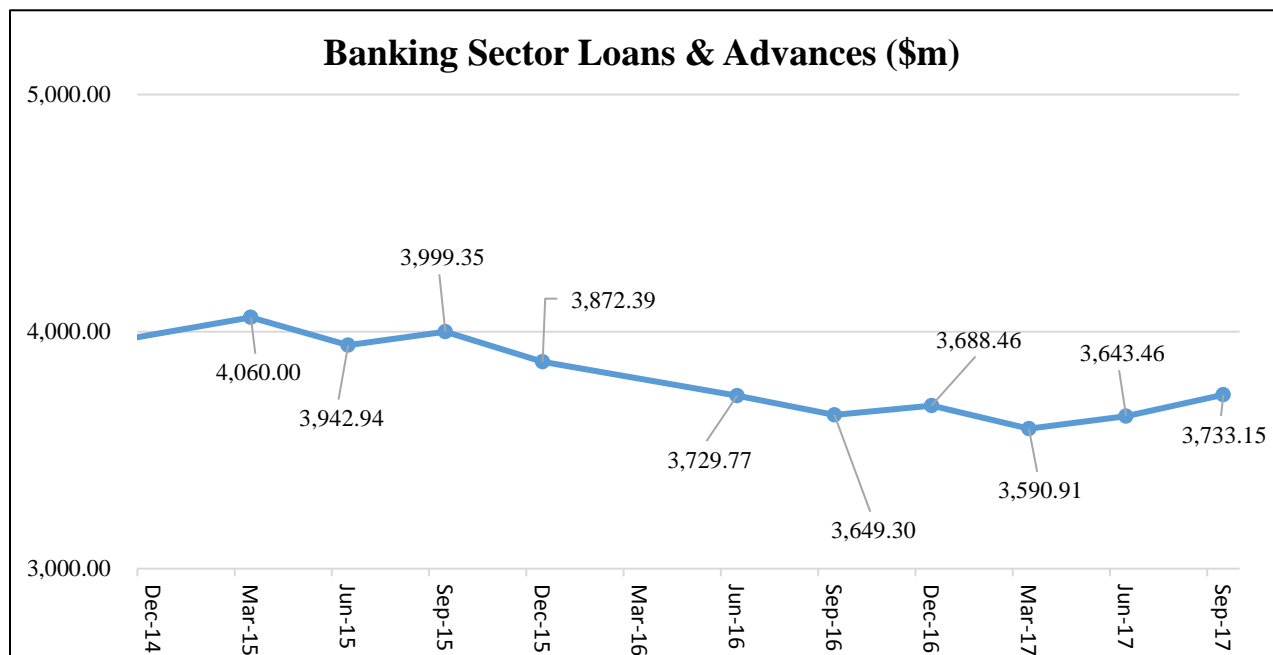
3.5 The trend in the banking industry’s average capital adequacy ratios (CARs) from December 2015 to September 2017 is shown in the figure below.



3.6 The Reserve Bank is monitoring implementation of the banking institutions’ capital plans and progress towards compliance with the 2020 minimum capital requirements, on an on-going basis.

Asset Quality...

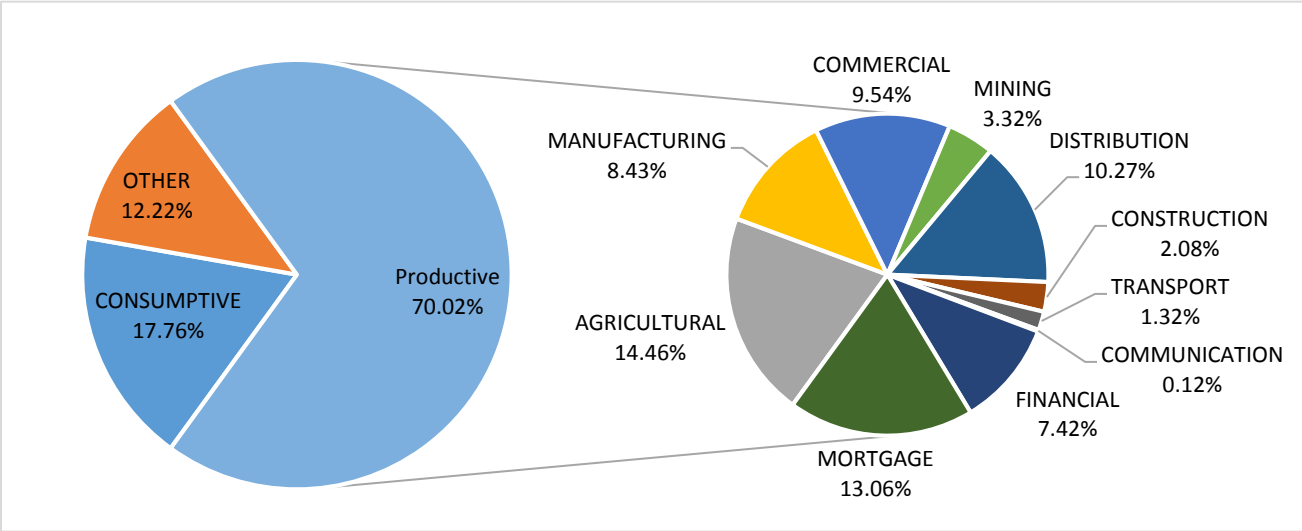
3.7 Banking sector loans and advances have remained largely stable at **\$3.73 billion** as at 30 September 2017 as indicated below:



3.8 The banking sector loans and advances remained subdued largely due to the challenging operating environment.

Distribution of Loans and Advances...

3.9 Lending to the productive sectors of the economy constituted 70.02% of total sector loans as at 30 September 2017 as shown in the diagram below.



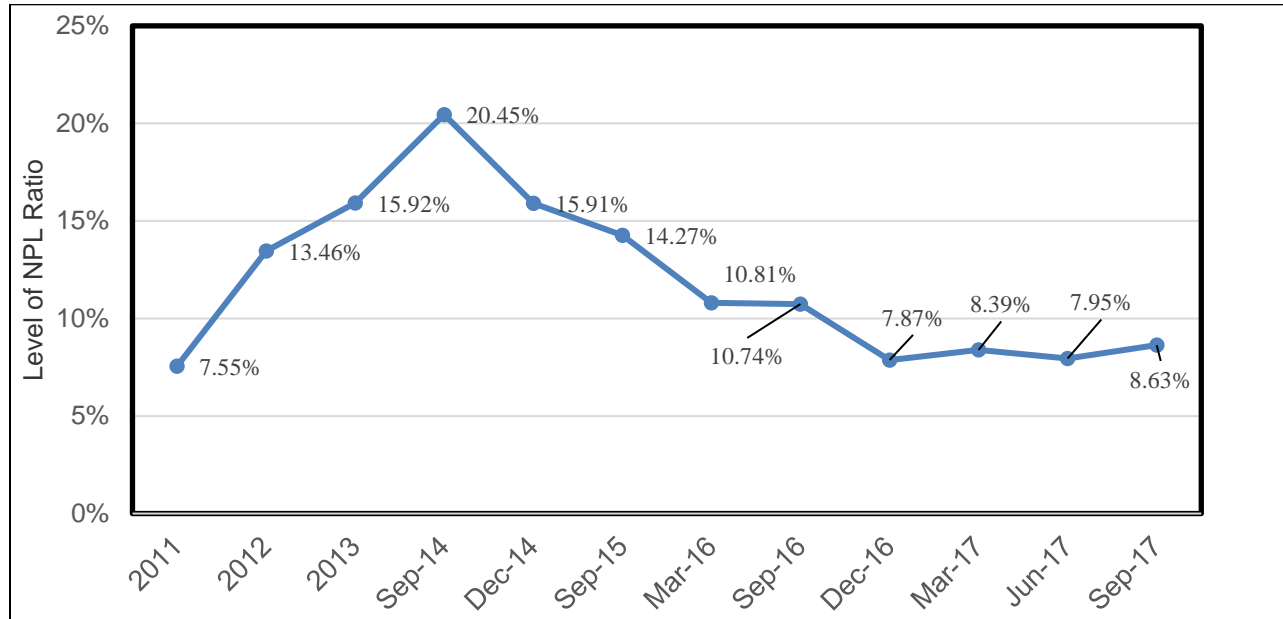
3.10 As at 30 September 2017, the average banking sector interest rates spread was 10.38%. The average maximum effective lending rate was 12.52%, against an average deposit rate of 2.14%.

3.11 The relatively high interest rate spreads are reflective of a combination of factors, including high credit risk premiums, operational inefficiencies at some banks, and lack of critical mass at some banks to cover high operating costs. Curtailment of lending and operational inefficiencies at some banks have forced some of the banking institutions to depress interest rates on deposits in order to maintain good margins.

Non-Performing Loans (NPLs)...

- 3.12 The ratio of non-performing loans to total loans marginally deteriorated from 7.95% to 8.63%. Banks, however, continue to strengthen their credit risk management systems.

Trend in Non-Performing Loans 2011 – September 2017



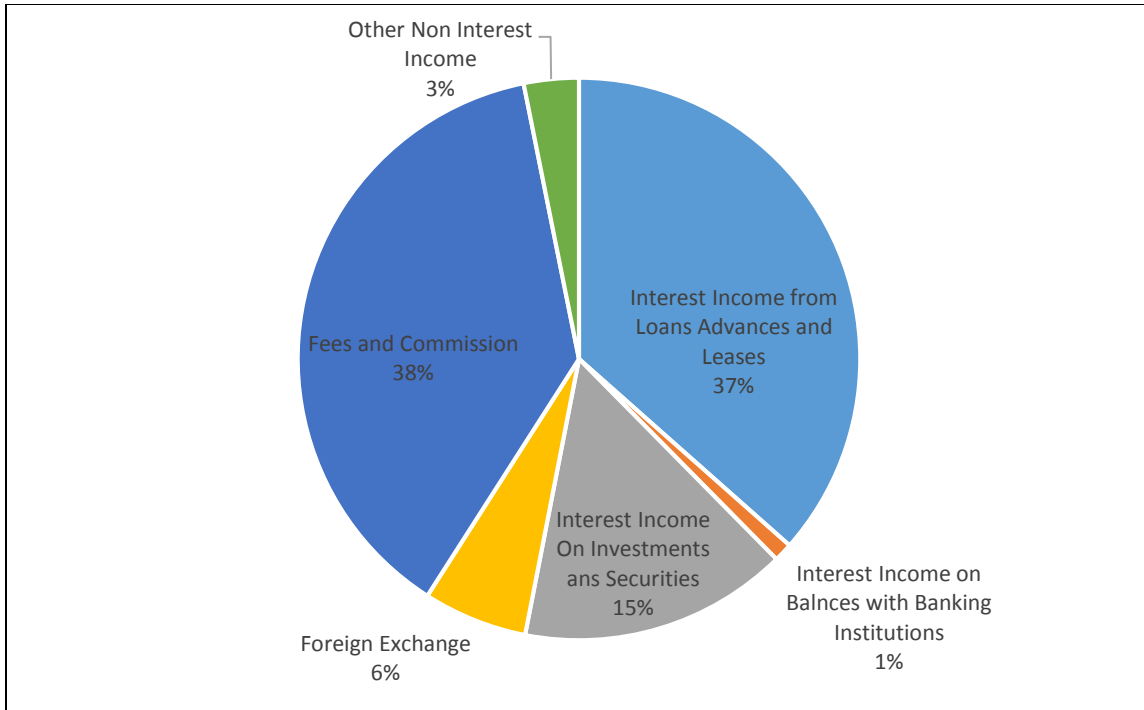
- 3.13 The Reserve Bank continues to monitor the NPLs and the effectiveness of banks' credit risk management practices to minimize NPLs.

Earnings Performance...

- 3.14 The **net profit** for the period ended 30 September 2017 amounted to **\$160.73 million**, representing an increase of 44.41 %, from \$111.30 million reported in corresponding period in 2016. Eighteen (18) out of 19 operating banking institutions recorded profits during the period ended 30 September 2017.
- 3.15 Banking sector income was largely driven by fees & commission arising from an increase in RTGS, mobile banking and POS transactional volumes. The sources of income for the banking sector for the quarter ending 30 September 2017 are shown

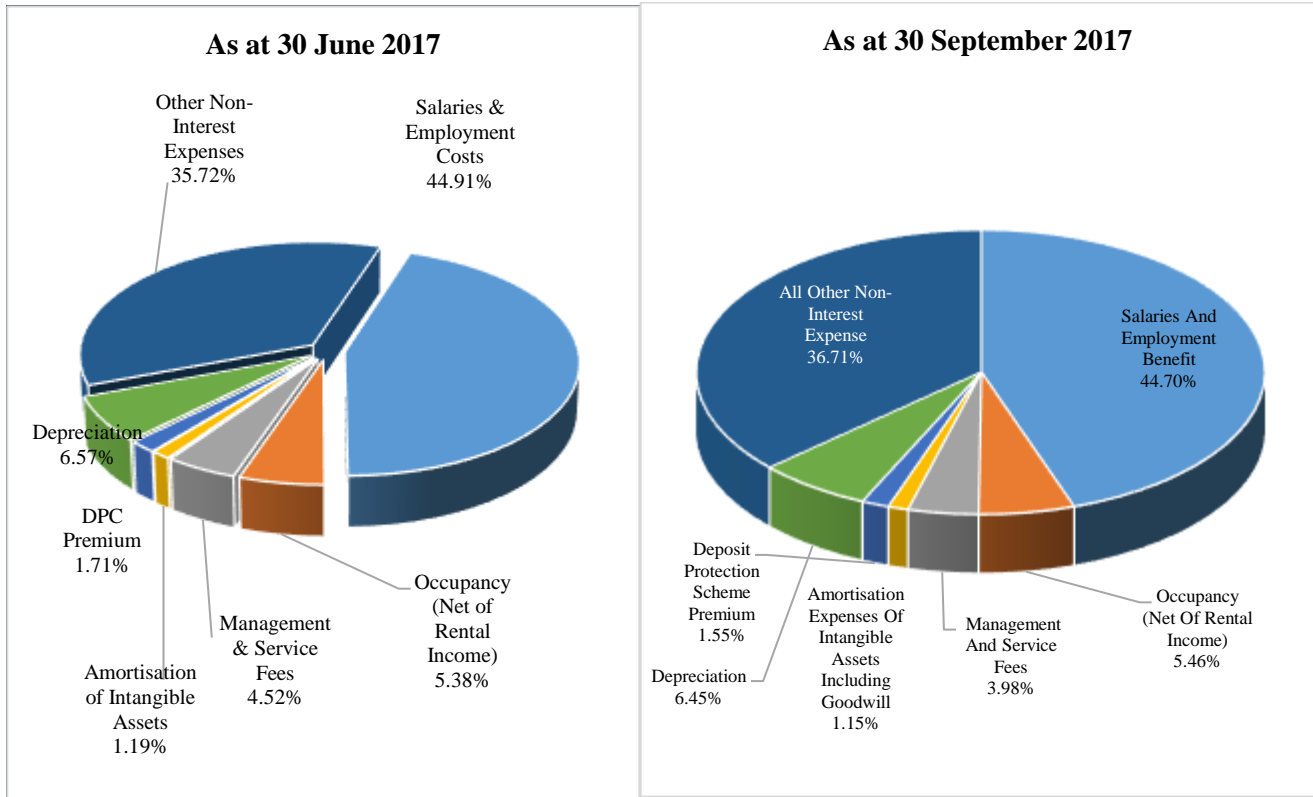
in the chart below.

Banking Sector Income Mix as at 30 September 2017



3.16 As at 30 September 2017, salaries & employment benefits continued to dominate total non-interest costs for banking institutions as they accounted for 44.70% of total banking sector costs as shown in the figure below.

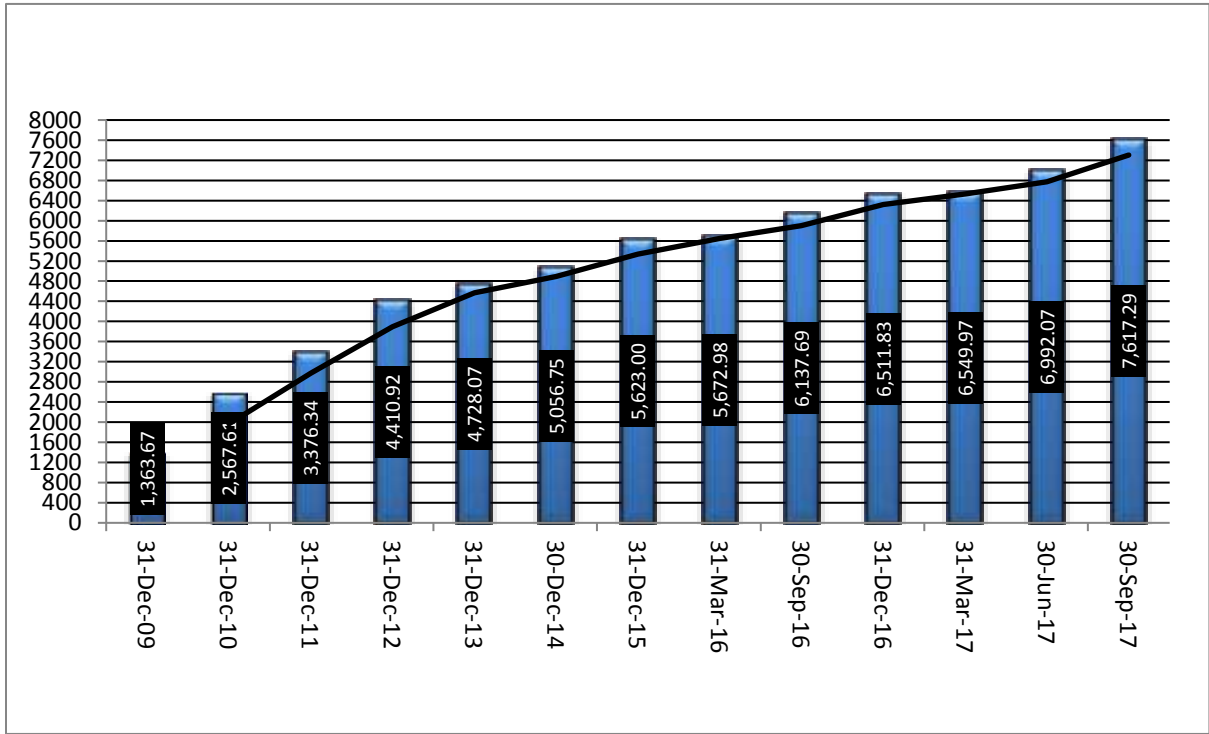
Banking Sector's Operating Expenses



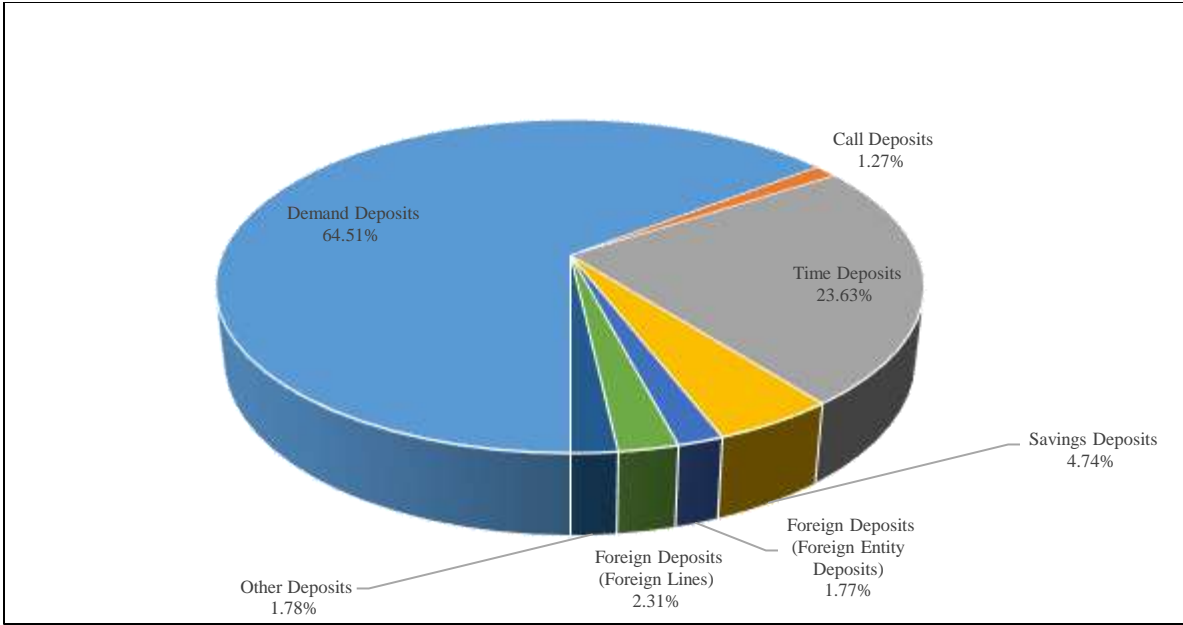
Liquidity and Funds Management...

3.17 Banking sector deposits increased by 9.01%, from \$6.99 billion as at 30 June 2017 to \$7.62 billion as at 30 September 2017. The figure below shows the trend of banking sector deposits over the period 30 June 2009 to 30 September 2017.

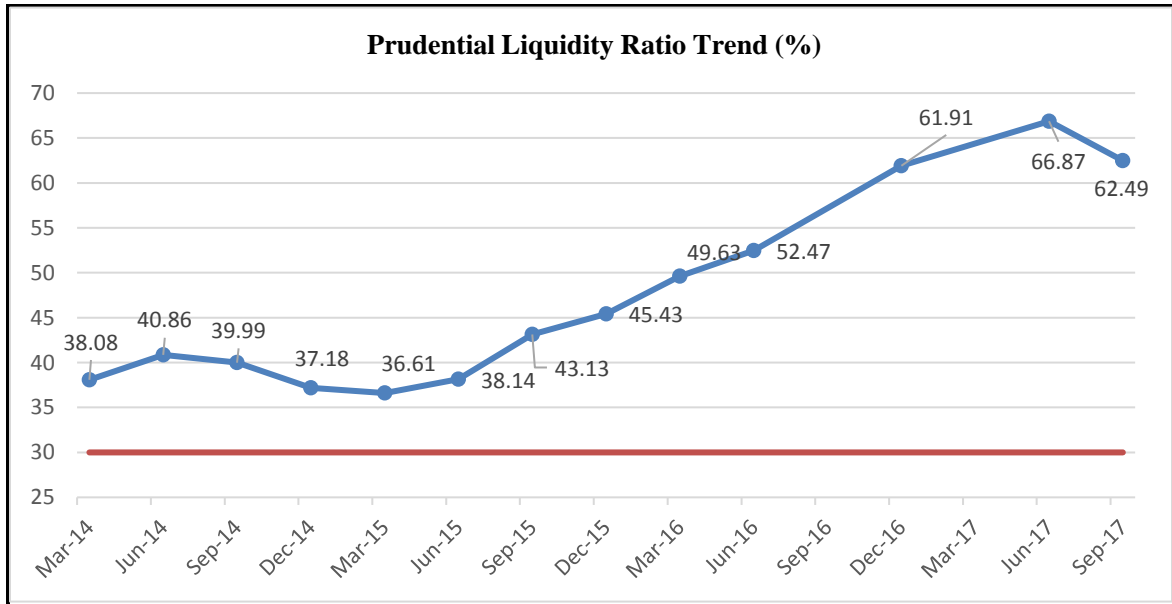
Trend of Banking Sector Deposits



3.18 Banking sector deposits were dominated by demand and time deposits, which accounted for 64.51% and 23.63% of total deposits, respectively, as at 30 September 2017. The composition of total banking sector deposits as at 30 September 2017 is depicted below.



3.19 The average prudential liquidity ratio for the banking sector of 62.49% as at 30 September 2017, was above the regulatory requirement of 30%. The trend in the banking sector average prudential liquidity ratio since March 2014 is shown below:



3.20 The high average prudential liquidity ratio is largely attributed to high levels of treasury bills held by banking institutions.

3.21 Notwithstanding the high average prudential liquidity ratios recorded across the

sector, the banking industry continued to experience underlying shortages of foreign currency on the back of structural challenges in the economy.

- 3.22 The Reserve Bank will continue to work towards a cash-lite society by encouraging increased usage of plastic money.

Sensitivity to Market Risk...

- 3.23 Aggregate stress test results reflect strong resilience to market risk shocks for the banking system as a whole.
- 3.24 All banking institutions are resilient to a major level interest rate risk shock of 10% increase or decrease in interest rates as their CARs would remain above the prescribed minimum of 12%. Fifteen banking institutions had liability sensitive books, implying that the banks would benefit from a decrease in market interest rates.
- 3.25 The banking sector had an overall positive net foreign exchange open position of \$2.75 billion as at 30 September 2017. Only one institution, is vulnerable to a minor and major foreign exchange risk shock of an appreciation of the USD against major currencies by 10% and 15%, respectively.

30 September 2017