QUARTERLY BANKING SECTOR REPORT

31 DECEMBER 2015

BANK SUPERVISION DIVISION

1. EXECUTIVE SUMMARY

1.1. The banking sector continued to exhibit resilience and improved performance during the quarter ended 31 December 2015 on the back of initiatives by the banks and various efforts by the Reserve Bank and Government to promote the safety and soundness of the sector and to bolster confidence.

1.2. All operating banking institutions were in compliance with the prescribed minimum capital requirements.

1.3. Asset quality continued to improve as the non-performing loans (NPLs) ratio declined from a peak of 20.45% as at 30 September 2014 and 14.27% as at 30 September 2015 to 10.82% as at 31 December 2015, largely due to improved credit risk management practices and disposal of assets to ZAMCO.

1.4. In a move that is set to further minimize loan default rates, banking institutions adjusted their lending rates in line with the July 2015 Monetary Policy pronouncement, which introduced a new interest rate regime, effective 1 October 2015.

1.5. As at 31 December 2015, total banking sector deposits and loans amounted to $5.62 billion and $3.87 billion, respectively, translating to a loans to deposits ratio of 68.86%.

1.6. Aggregate net profit for the year ended 31 December 2015, amounted to $127.47 million compared to $50.85 million recorded in the corresponding period in 2014.

1.7. Banking institutions maintained high liquidity buffers during the quarter partly reflecting a cautious approach to lending. The average prudential liquidity ratio was 45.43% as at 31 December 2015, against a minimum of 30%.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1 As at 31 December 2015, the composition of the banking sector was as shown in the table below.

Architecture of the Banking Sector

Type of Institution	Number
Commercial Banks	13
Building Societies	4
Savings Bank	1
Total Banking Institutions	**18**

2.2 The other institutions supervised by the Reserve Bank are follows:

Type of Institution	Number
Credit-only-MFIs	149
Deposit-taking MFIs	3
Development Institutions	2

2.3 In 2015 the Reserve Bank licensed National Building Society Limited (wholly owned by the National Social Security Authority) and three (3) deposit-taking microfinance institutions namely, Getbucks Financial Services (Private) Limited, African Century Limited and Collarhedge Finance (Private) Limited.

2.4 African Century Limited and Getbucks Financial Services Limited commenced operations in January 2016, following completion of the pre-opening inspection in December 2015.

2.5 As at 31 December 2015, National Building Society Limited and Collarhedge Finance (Pvt) Ltd, were still to commence operations as they were finalising the administrative and infrastructural systems, in preparation for the commencement of operations.

3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1 As at 31 December 2015, the banking sector's overall financial condition was satisfactory as reflected by the financial soundness indicators in the table below

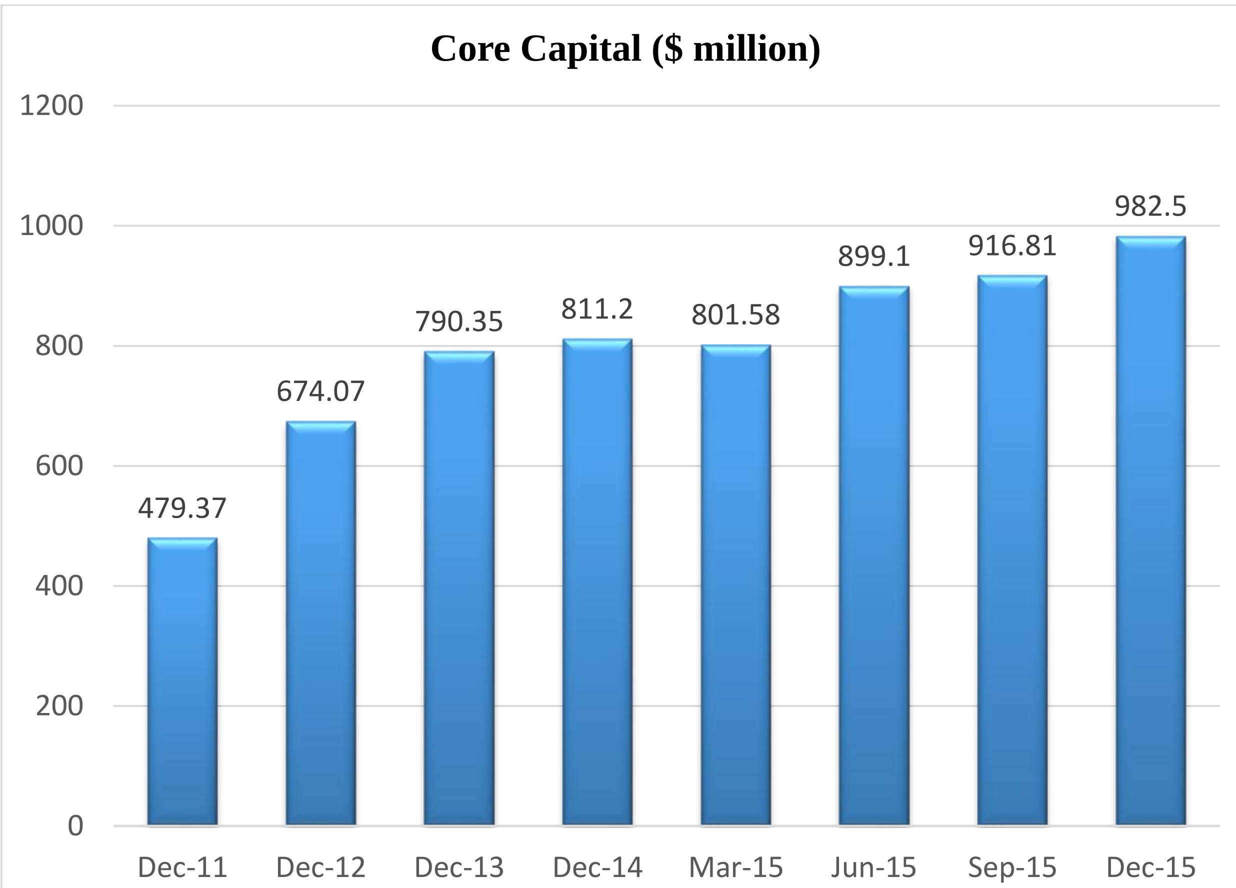
Financial Soundness Indicators: Dec 2011 - Dec 2015

Key Indicators	Dec -11	Dec - 12	Dec – 13	Dec -14	Sept-15	Dec-15
Total Assets	$4.74bn	$6.12bn	$6.74bn	$7.12bn	$7.73bn	**$7.83bn**
Total Loans	$2.76bn	$3.56bn	$3.08bn	$4.01bn	$4.00bn	**$3.87bn**
Net Capital Base	$512m	$644m	$706m	$926.6m	$1.07bn	**$1.14bn**
Total Deposits	$ 3.04bn	$4.41bn	$ 4.73bn	$5.08bn	$5.5bn	**$5.62bn**
Net Profit	$86.00m	$69.20m	$4.46m	$50.84m	$87.02m	**$127.47m**
Return on Assets	2.43%	1.64%	0.06%	0.92%	1.37%	**2.11%**
Return on Equity	15.13%	9.17%	0.51%	5.37%	7.91%	**10.96%**
Capital Adequacy Ratio	13.51%	13.07%	14.01%	17.33%	21.50%	**21.31%**
Loans to Deposits	90.59%	93.27%	102.36%	78.94%	72.70%	**68.86%**
Non-Performing Loans Ratio	7.55%	13.46%	15.92%	15.91%	14.27%	**10.82%**
Provisions to Adversely Classified Loans	57.53%	207.45%	70.88%	54.72%	61.04%	**69.22%**
Net Interest Margin	8.21%	14.81%	15.26%	4.24%	4.76%	**8.62%**
Liquidity Ratio	56.80%	55.70%	40.57%	39.34%	43.13%	**45.35%**
Cost to Income Ratio	82.17%	86.41%	96.60%	93.72%	86.65%	**84.40%**

Capital Adequacy…

3.2 The banking sector's capitalization levels continued to improve as reflected by the increase in the aggregate core capital base from $916.81 million to $982.50 million during the quarter under review. The increase was largely on the back of improved retention of earnings.

3.3 The graph below shows banking sector core capital trends from December 2011 to 31 December 2015:



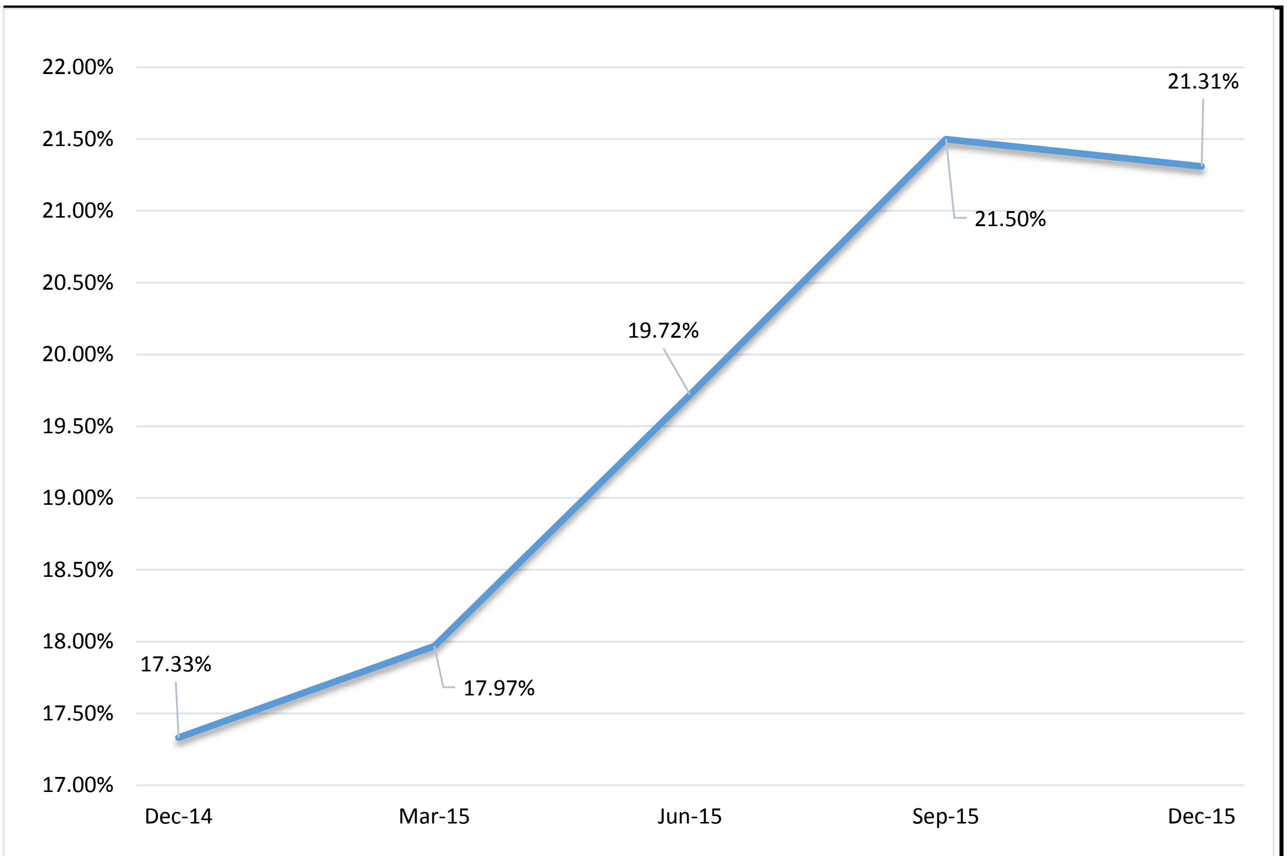
3.4 The banking sector's net capital base also increased from $1.07 billion to $1.14 billion during the same period.

3.5 The banking sector was adequately capitalized, with an average capital adequacy ratio of 21.31% as at 31 December 2015, marginally down from 21.50% as at 30

September 2015, against the minimum regulatory capital adequacy ratio of 12%. The general upward improvement in the capital adequacy ratio is largely attributable to banking institutions' capital build-up in line with the 2020 minimum capital requirements, coupled with a decline in risk-weighted assets.

3.6 The trend in the banking industry's average capital adequacy ratios (CARs) from December 2014 to December 2015 is indicated in the figure below.

Average Capital Adequacy Ratio (%)



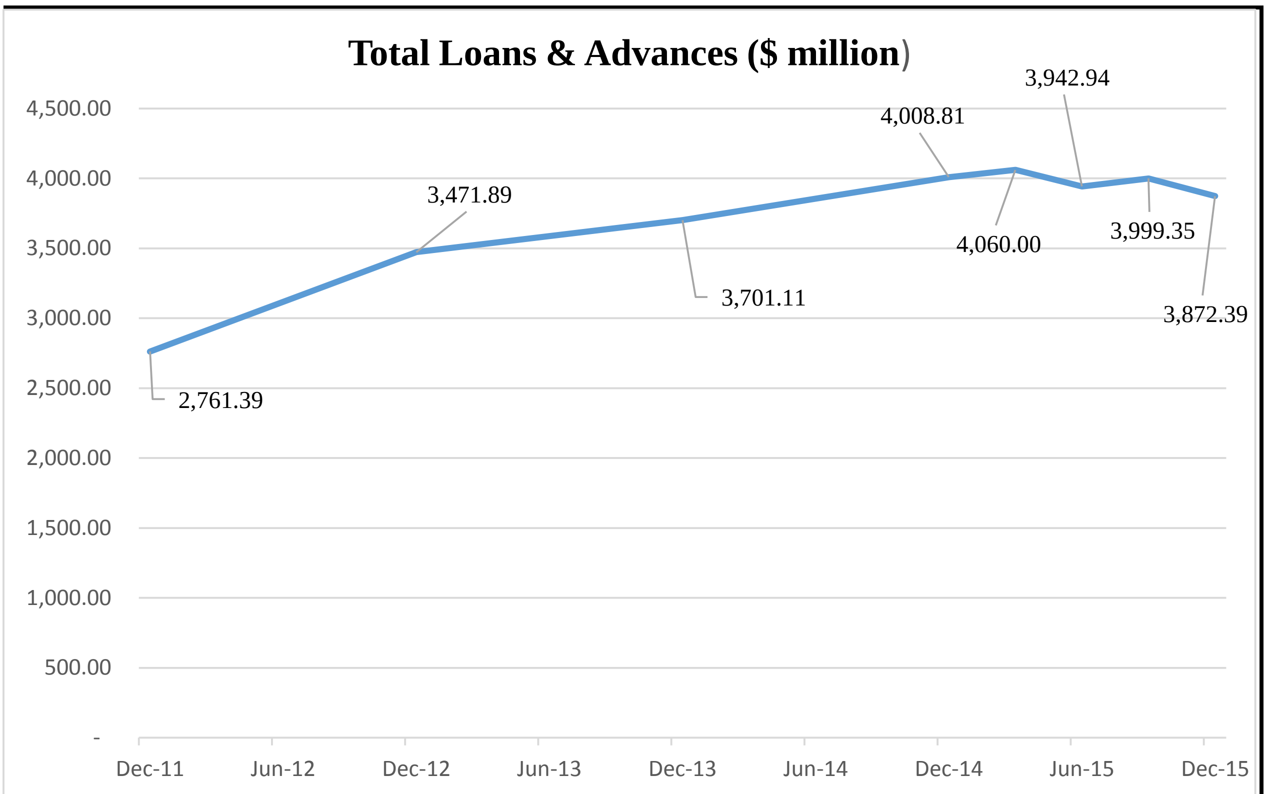
3.7 As at 31 December 2015, all operating banking institutions were in compliance with the prescribed minimum capital requirements. Two (2) banking institutions had already surpassed the $100 million minimum capital requirement for the Tier 1 strategic group, effective 2020, while three had capital levels above $50 million.

3.8 The Reserve Bank continues to monitor implementation of banking institutions' capital plans to ensure compliance with the 2020 minimum capital requirements.

Asset Quality...

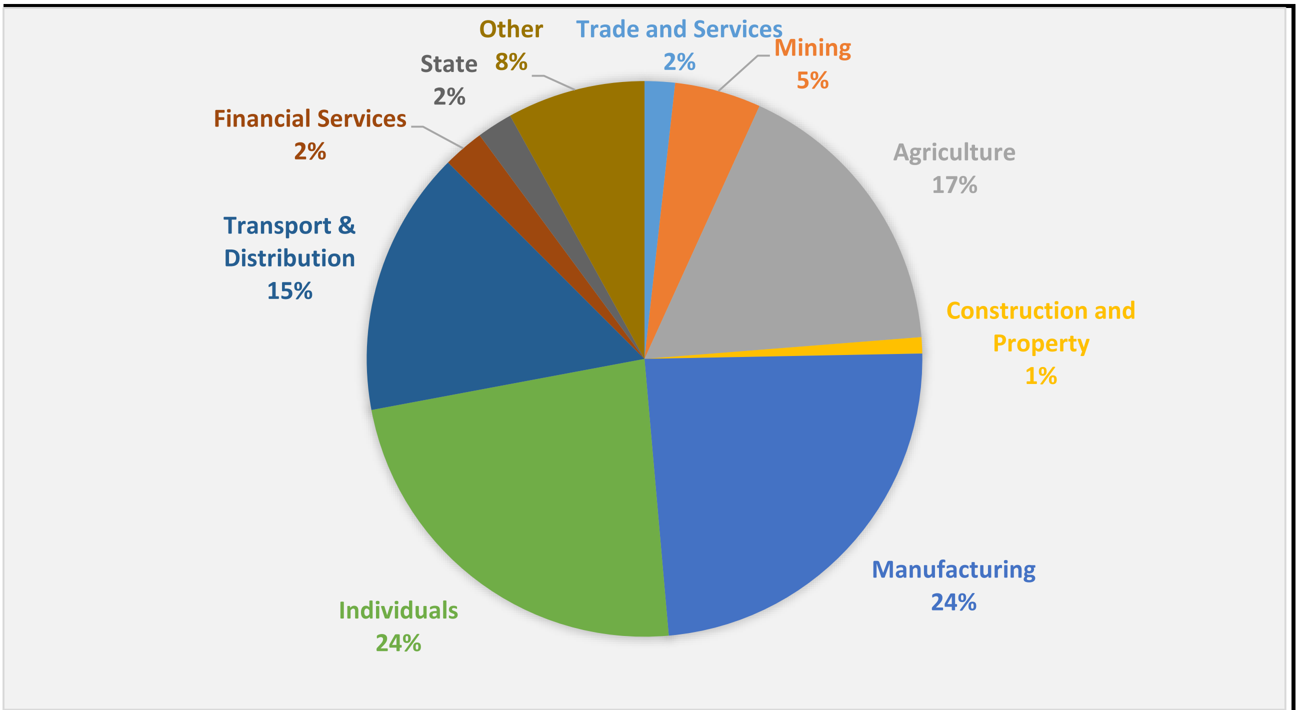
3.9 Total banking sector loans & advances amounted to $3.87 billion, a decrease of 3.62% from $4.00 billion as at 30 September 2015. The decline was a reflection of the cautious approach to lending by most banking institutions and disposal of qualifying non-performing loans to ZAMCO.

3.10 The trend in total loans and advances since December 2011 is indicated below:



3.11 On a sectoral basis, the banking sector's lending remained largely skewed towards the manufacturing, individuals , agricultural and distributive sector as indicated below.

Sectoral Distribution of Credit – 31 December 2015



3.12 Loans and advances to total banking assets accounted for 49.43% of total banking assets as at 31 December 2015 compared to 51.02% as at 31 December 2014.

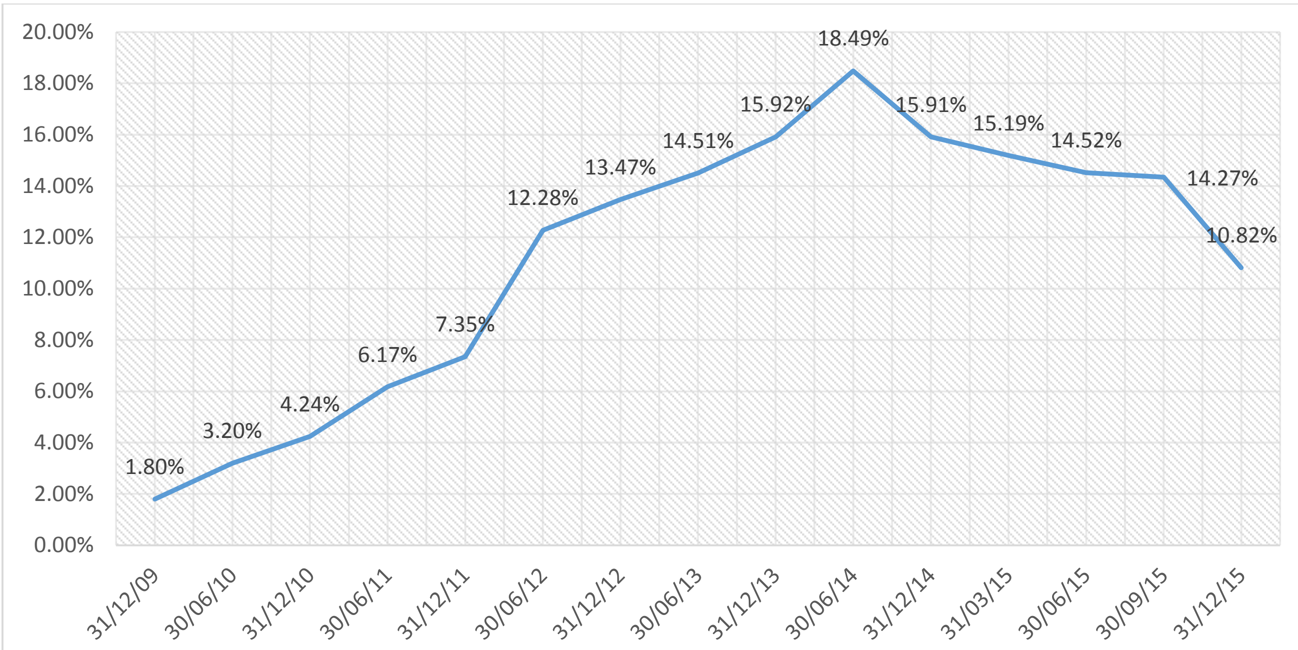
3.13 Concentration risk was moderate. The top six (6) institutions had total loans & advances amounting to $2.66 billion, accounting for 68.52% of total sector loans and advances.

3.14 Asset quality in the banking sector improved during the year ended 31 December 2015 as reflected by a decline in the non-performing loans to total loans of ratio, from 15.91% to 10.82%. The ratio peaked at 20.45% as at 30 September 2014.

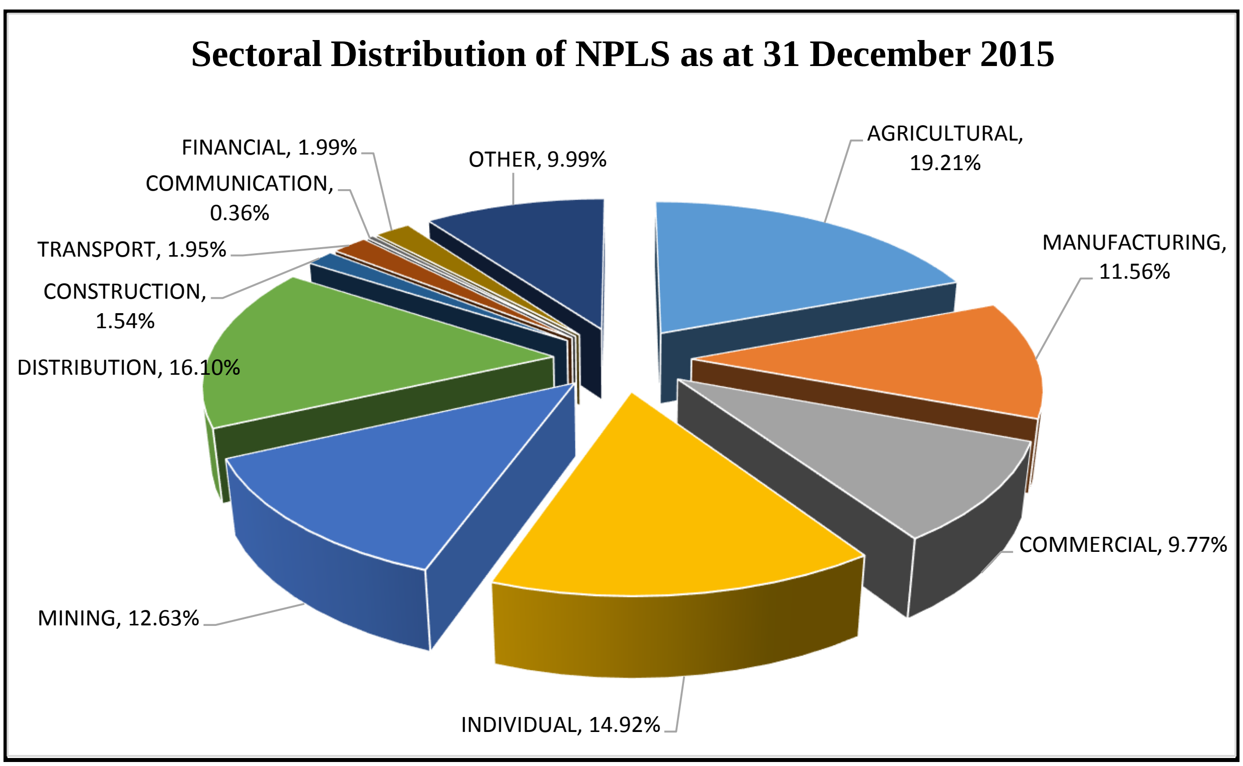
3.15 The improvement in the level of NPLs in the sector is largely attributable to improvements in credit risk management practices including intensified collections and workout plans, as well as disposal of qualifying non-performing loans to ZAMCO.

3.16 The graph below shows the trend in NPLs from 2009 to 31 December 2015.

Trend of Non-Performing Loans



3.17 The sectoral distribution of NPLs as at 31 December 2015 is shown below.



3.18 The poor 2015/16 agricultural season as well as declining commodity prices have negatively affected the performance of the agricultural sector. In addition, the wave of retrenchments experienced during the year 2015 also affected the individuals sector.

3.19 The level of NPLs is envisaged to trend downwards following a number of NPL resolution policy measures currently being undertaken, including the assumption of qualifying non-performing loans by ZAMCO, and the establishment of a credit reference bureau.

3.20 Further, banking institutions are working towards reducing their NPL ratios to below 10% and 5% by 30 June 2016 and 31 December 2016, respectively, in line with the Monetary Policy pronouncement of August 2015. The ongoing reduction of interest rates in the banking sector is also set to further improve bank asset quality as loan repayment challenges ease.

Earnings Performance...

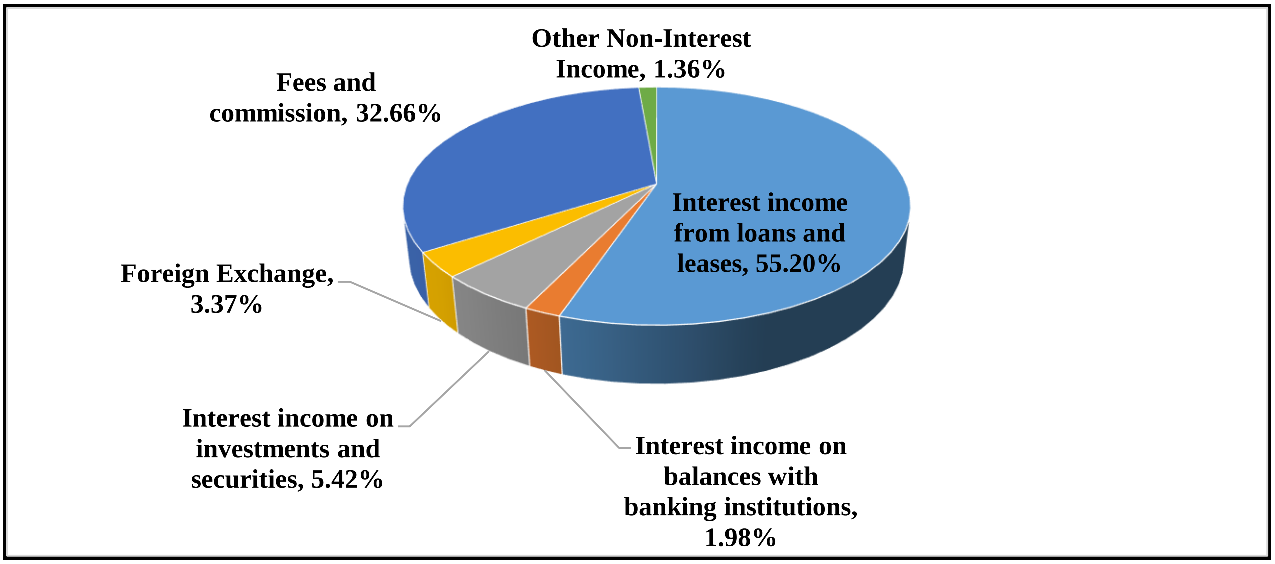
3.21 The banking sector remained profitable during the year ended 31 December 2015, with an aggregate net profit of $127.47 million, an increase of 150.73% from the $50.84 million reported for the same period in 2014. However, only two institutions recorded losses mainly related to provisioning and high operating costs.

3.22 Meanwhile, a number of banking institutions are adopting cost containment measures while concomitantly implementing revenue enhancement initiatives and this is envisaged to bolster their performance.

3.23 Profitability indicators for the banking sector over the year as measured by the average return on assets and return on equity improved from 0.92% and 5.37% for to 2.11% and 10.96% respectively for the year ended 31 December 2015.

3.24 Interest income was the major driver of total income of $1.04 billion for the year ended 31 December 2015, constituting 62.60%. Non-interest income accounted for 36.40% of total income, comprising fees & commission (87.35%), foreign exchange fees (9.02%) and other non-interest income (3.63%).

3.25 The sources of income for the banking sector are shown below.

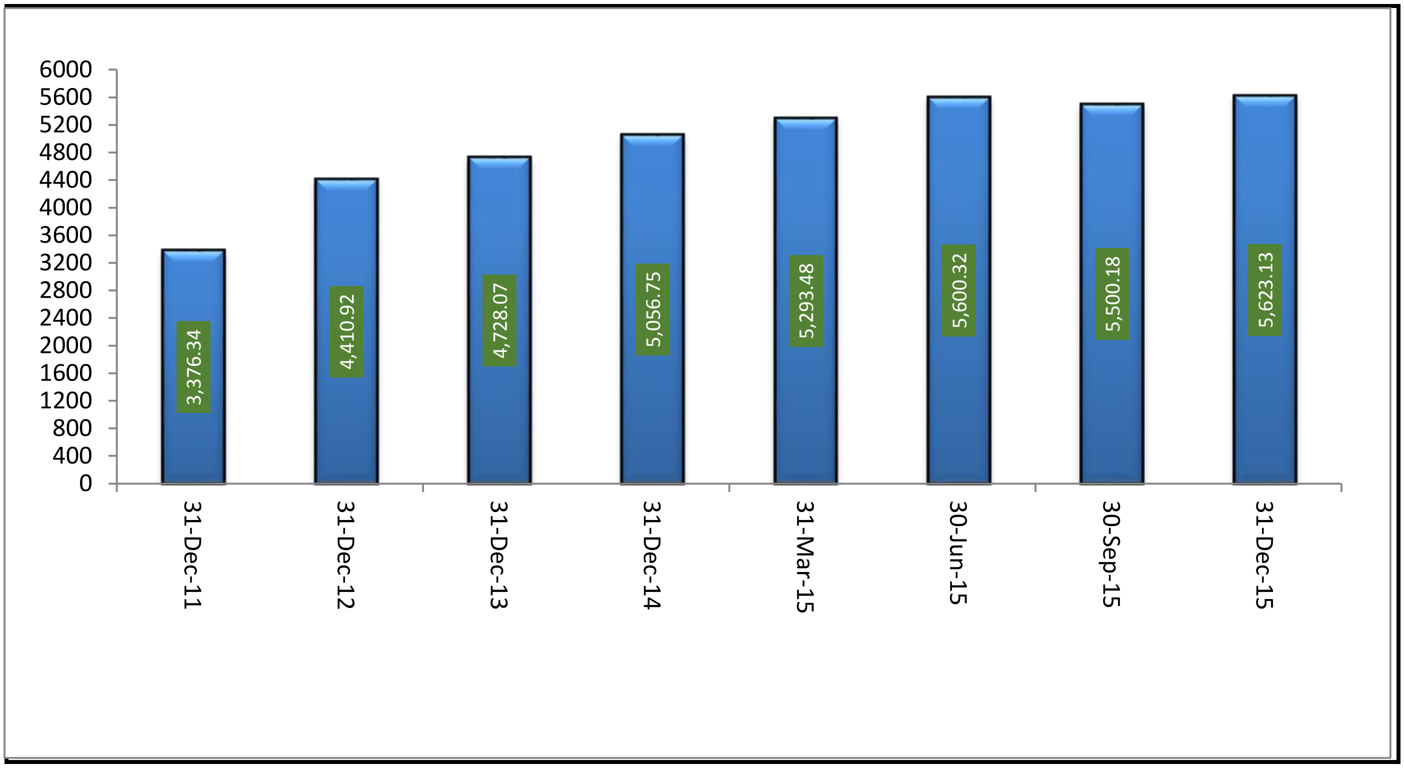


3.26 At $563.20 million, salaries and employment benefits were the single largest driver of operating costs, accounting for 45.03% of total banking sector operating costs, for the year ended 31 December 2015.

Liquidity and Funds Management...

3.27 Total banking sector deposits increased from $5.5 billion to $5.62 billion during the quarter ended 31 December 2015, representing a growth of 2.18%. Demand deposits, which are short term in nature, constituted 46.32% of total deposits.

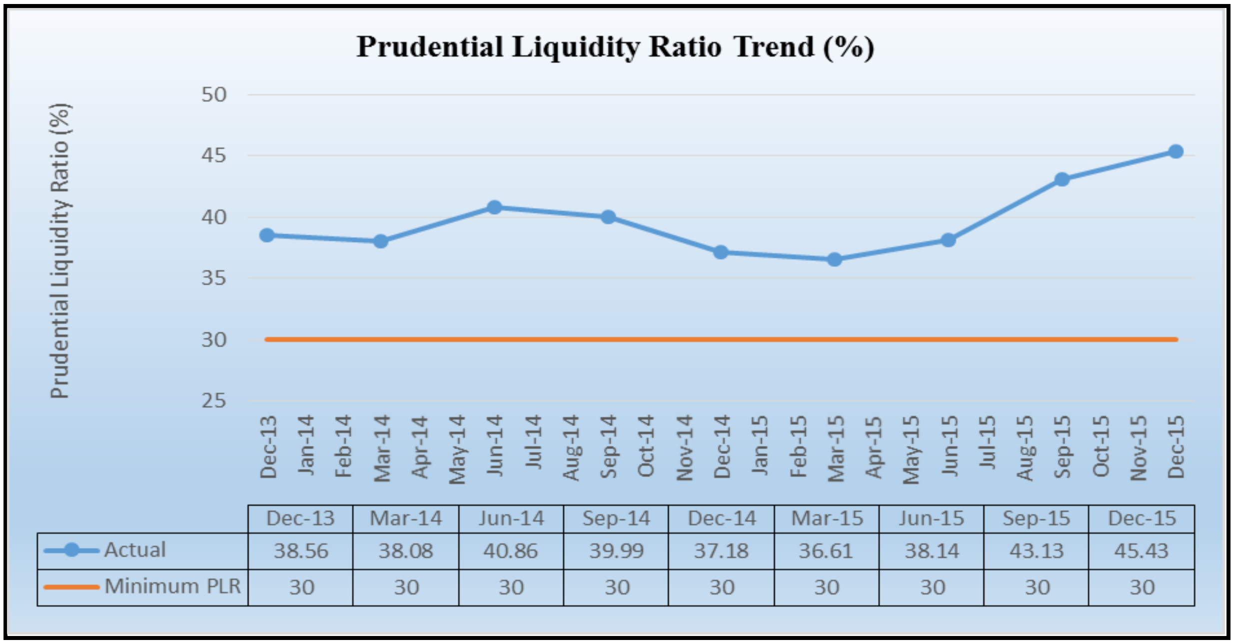
3.28 The trend in deposits from December 2011 to 31 December 2015 is shown in the graph below.



3.29 The commercial banking subsector accounted for 80.46% of the banking sector deposits as at 31 December 2015.

3.30 The banking sector recorded an average prudential liquidity ratio of 45.43% as at 31 December 2015 which was above the stipulated minimum regulatory requirement of 30%. Seventeen (17) out of the eighteen (18) operating banks were compliant with the minimum prudential liquidity ratio as at 31 December 2015.

3.31 The graph below shows the trend in the banking sector average prudential liquidity ratio since December 2013.



Sensitivity to Market Risk…

3.32 The banking sector's sensitivity to market risk was considered low, as at 31 December 2015, as the sector's exposure to interest rate risk was mainly in the banking book.

3.33 Foreign exchange rate risk continues to be low as banks are not undertaking proprietary trading positions, while client transactions are mainly currency switches. The banking sector had an overall positive net foreign exchange open position of $1.05 billion as at 31 December 2015.

3.34 All banking institutions are resilient to a major level foreign exchange rate risk shock of a 15% appreciation of the US dollar against major currencies.

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