QUARTERLY BANKING SECTOR REPORT

30 JUNE 2015

BANK SUPERVISION DIVISION

1. EXECUTIVE SUMMARY

1.1. Banking sector stability improved during the quarter under review owing to a number of policy measures implemented by Government and the Reserve Bank of Zimbabwe, including dealing decisively with troubled banking institutions.

1.2. All operating banking institutions were in compliance with the prescribed minimum capital requirements as at 30 June 2015 and Reserve Bank is monitoring compliance with the 2020 minimum capital thresholds.

1.3. Total banking sector deposits have continued on an upward trajectory, increasing by 5.86%, from $5.29 billion as at 31 March 2015 to **$5.6 billion** as at 30 June 2015.

1.4. The banking sector loans & advances decreased from **$4.06 billion** as at 31 March 2015 to **$4 billion** as at 30 June 2015.

1.5. Credit risk has remained a major risk in the banking sector. The non-performing loans to total loans ratio, however, improved from 15.19% as at 31 March 2015 to **14.52%** as at 30 June 2015.

1.6. A total of thirteen (13) out of 17 operating banks (excluding Tetrad Investment Bank) reported profits, while four (4) banks recorded losses during the period under review.

1.7. The banking sector maintained liquidity ratios above the prescribed minimum liquidity ratio of 30% with an average prudential liquidity ratio of **38.14%** as at 30 June 2015.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. As at 30 June 2015, the composition of the banking sector was as shown in the table below.

Composition of the Banking Sector

Type of Institution	**Number**
Commercial Banks	13
Merchant Banks	1*
Building Societies	3
Savings Bank	1
Total Banking Institutions	**18**

***under provisional judicial management**

2.2. The table below shows the other institutions supervised by the Reserve Bank of Zimbabwe.

Other Institutions

Credit-only-MFIs	147
Deposit-taking MFIs	2
Development Institutions - (Small & Medium Enterprises Development Corporation (SMEDCO) and the Infrastructure Development Bank of Zimbabwe (IDBZ))	2

2.3. During the quarter under review, the provisional judicial manager of Tetrad Investment Bank Limited resigned and the High Court, on the recommendation of Reserve Bank, appointed the Deposit Protection Corporation (DPC) on 2 July 2015.

3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1. As at 30 June 2015, the banking sector's financial condition was considered satisfactory.

3.2. The following table summarises the financial soundness indicators of the sector.

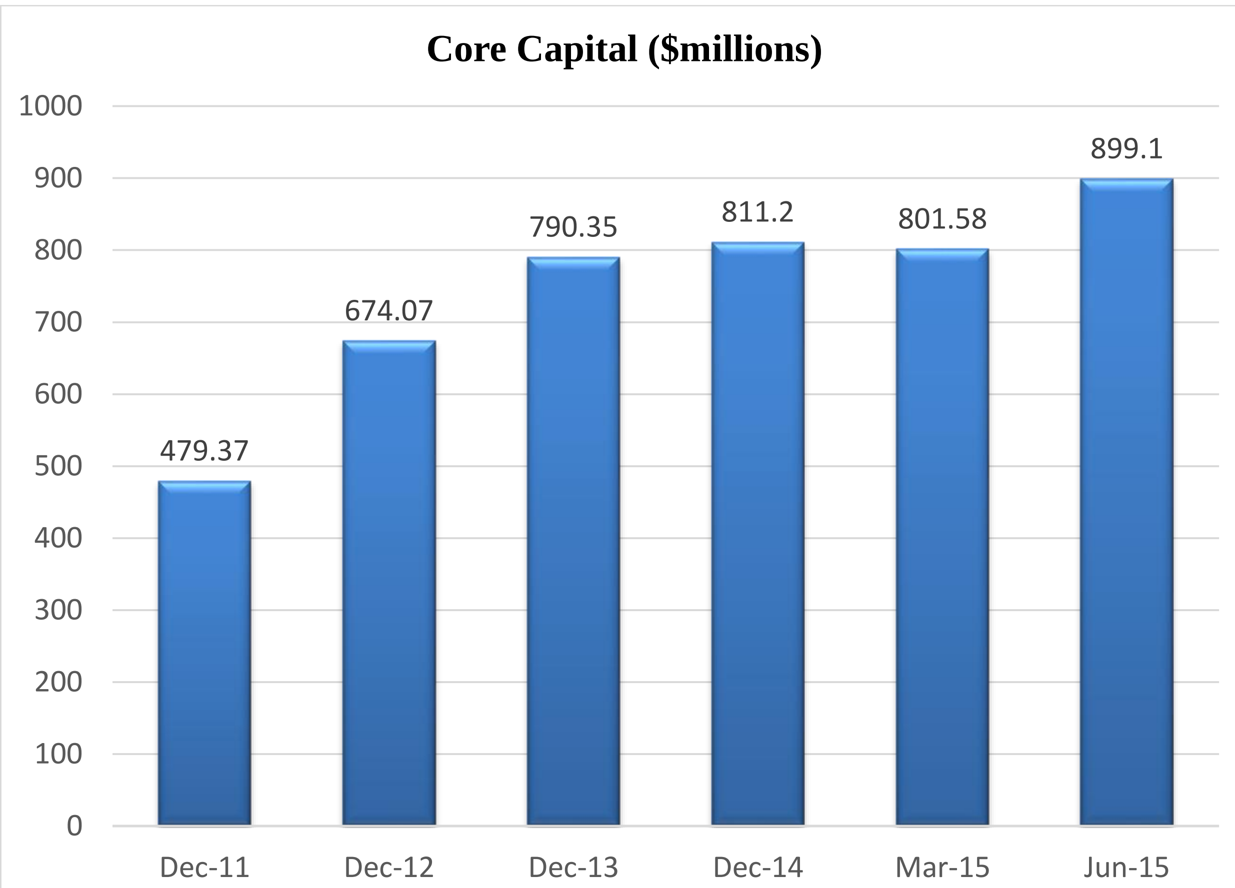
Financial Soundness Indicators

Key Indicators	Dec -11	Dec - 12	Dec – 13	June – 14	Dec -14	Mar-15	June-15
Total Assets	$4.74bn	$6.12bn	$6.74bn	$6.90bn	$7.12bn	$7.19bn	**$7.59bn**
Total Loans	$2.76bn	$3.56bn	$3.08bn	$3.81bn	$4.01bn	$4.06bn	**$3.94bn**
Net Capital Base	$512m	$644m	$706m	$893m	$926.6m	$926.3m	**$1.04bn**
Total Deposits	$ 3.04bn	$4.41bn	$ 4.73bn	$4.96bn	$5.08bn	$5.29bn	**$5.60bn**
Net Profit	$86.00m	$69.20m	$4.46m	$26.53m	$50.84m	$4.02m	**$43.01m**
Return on Assets	2.43%	1.64%	0.06%	0.49%	0.92%	0.08%	**0.63%**
Return on Equity	15.13%	9.17%	0.51%	2.72%	5.37%	0.40%	**3.26%**
Capital Adequacy Ratio	13.51%	13.07%	14.01%	18.56%	17.33%	17.97%	**19.72%**
Loans to Deposits	90.59%	93.27%	102.36%	76.82%	78.94%	76.75%	**71.40%**
Non-Performing Loans Ratio	7.55%	13.46%	15.92%	18.49%	15.91%	15.19%	**14.52%**
Provisions to Adversely Classified Loans	57.53%	207.45%	70.88%	39.29%	54.72%	61.35%	**64.29%**
Net Interest Margin	8.21%	14.81%	15.26%	2.03%	4.24%	0.45%	**2.22%**
Liquidity Ratio	56.80%	55.70%	40.57%	38.20%	39.34%	34.37%	**38.14%**
Cost to Income Ratio	82.17%	86.41%	96.60%	164.69%	93.72%	97.55%	**90.76%**

Capital Adequacy…

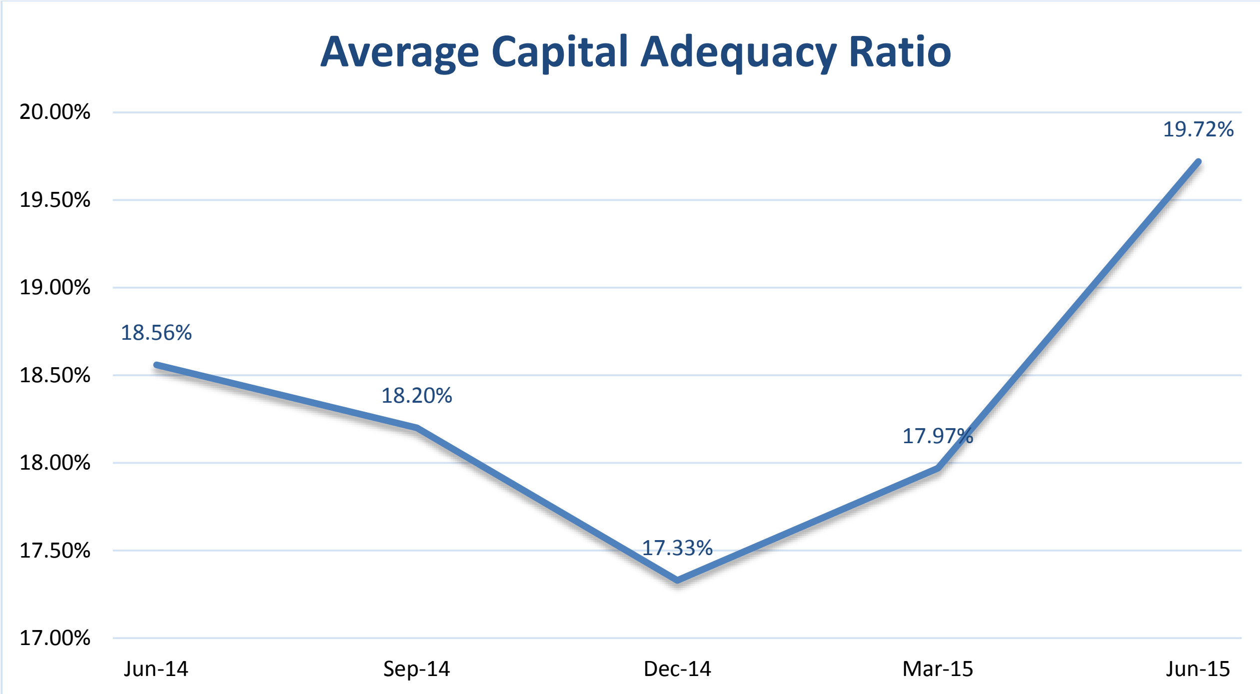
3.3. The banking sector's net capital base increased from $957.02 million as at 31 March 2015 to $1.04 billion as at 30 June 2015. The sector's aggregate core capital base increased from $801.58 million as at 31 March 2015 to **$899.10 million** as at 30 June 2015, following capitalisation of earnings and shareholder capital injections at some banking institutions.

3.4. The graph below shows banking sector core capital trends from 2011 to June 2015:



3.5. The banking sector remained adequately capitalized, with an average capital adequacy ratio of 19.72% as at 30 June 2015, against the minimum regulatory capital adequacy ratio of 12%.

3.6. The trend in the banking industry's average capital adequacy ratio (CAR) from June 2014 to June 2015 is shown in the figure below.



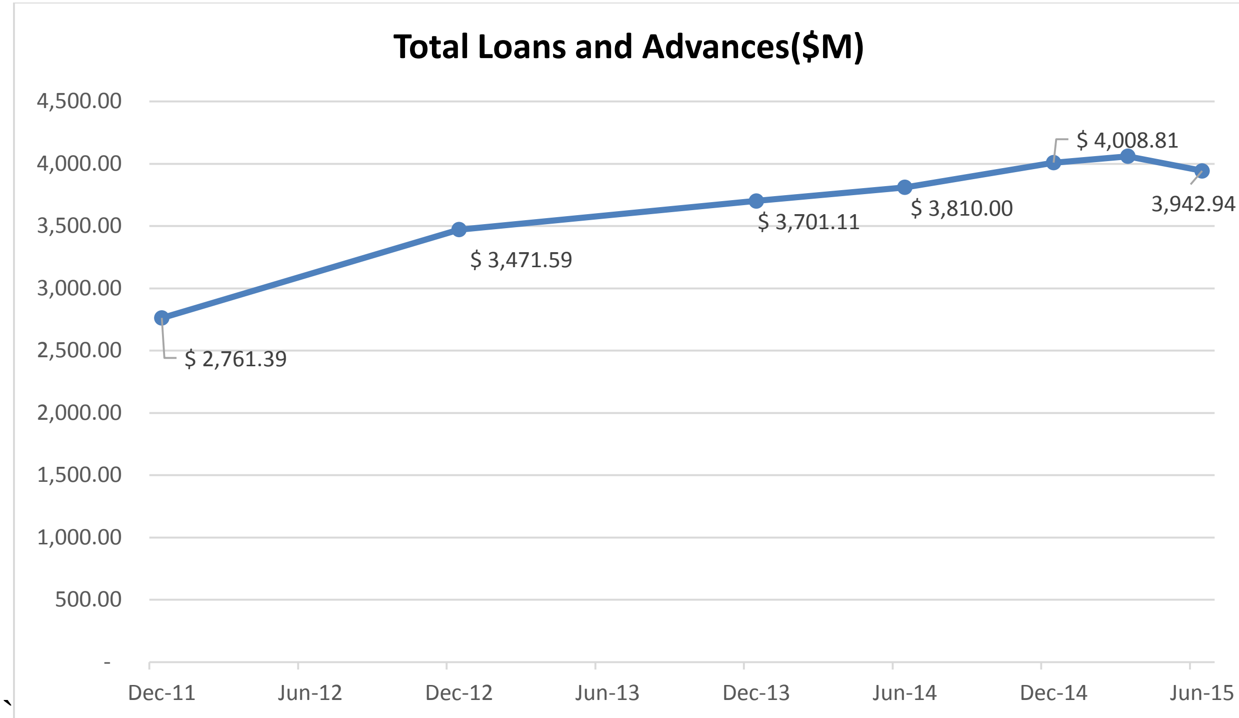
3.7. As at 30 June 2015, all banking institutions (excluding POSB which does not have a minimum capital requirement), were in compliance with the prescribed minimum capital requirements.

3.8. The Reserve Bank is monitoring implementation of capitalisation plans presented by banking institutions to comply with the 2020 minimum capital requirements.

Asset Quality...

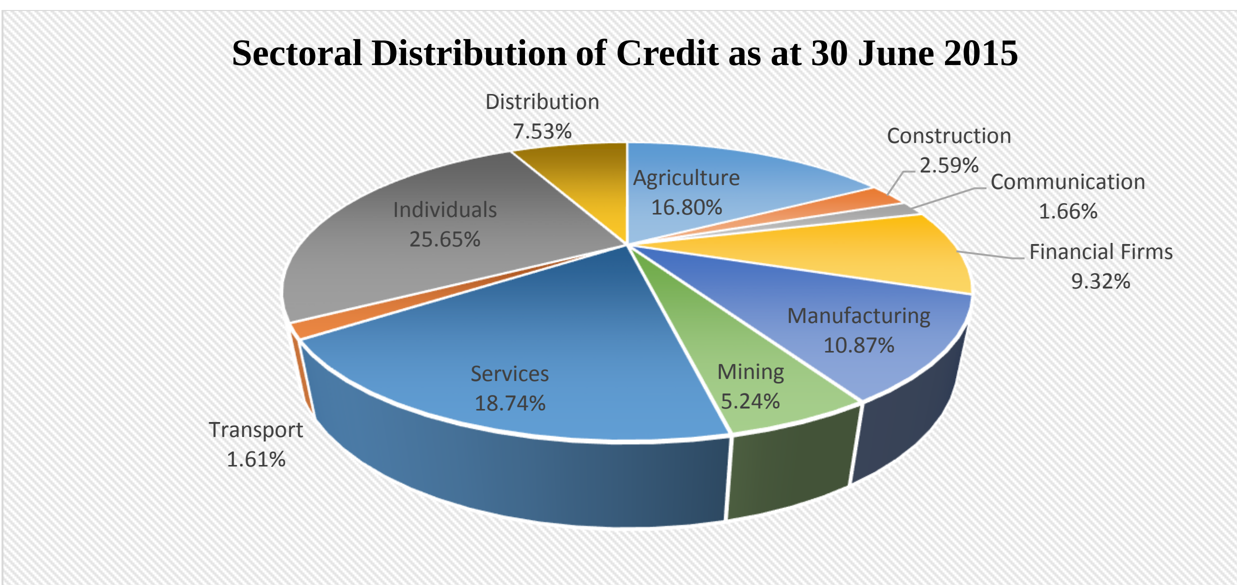
3.9. Banking sector loans & advances decreased from $4.06 billion as at 31 March 2015 to **$4 billion** as at 30 June 2015.

3.10. The graph below depicts the trend in total loans and advances since June 2011.



3.11. As at 30 June 2015, loans to individuals and agriculture accounted for 25.65% and 16.80%, respectively. Lending to capital-intensive sectors such as construction, communication, mining and manufacturing sector is relatively low reflecting the limited capacity of banking institutions to provide long-term funding.

3.12. The figure below shows the sectoral distribution of credit as at 30 June 2015.

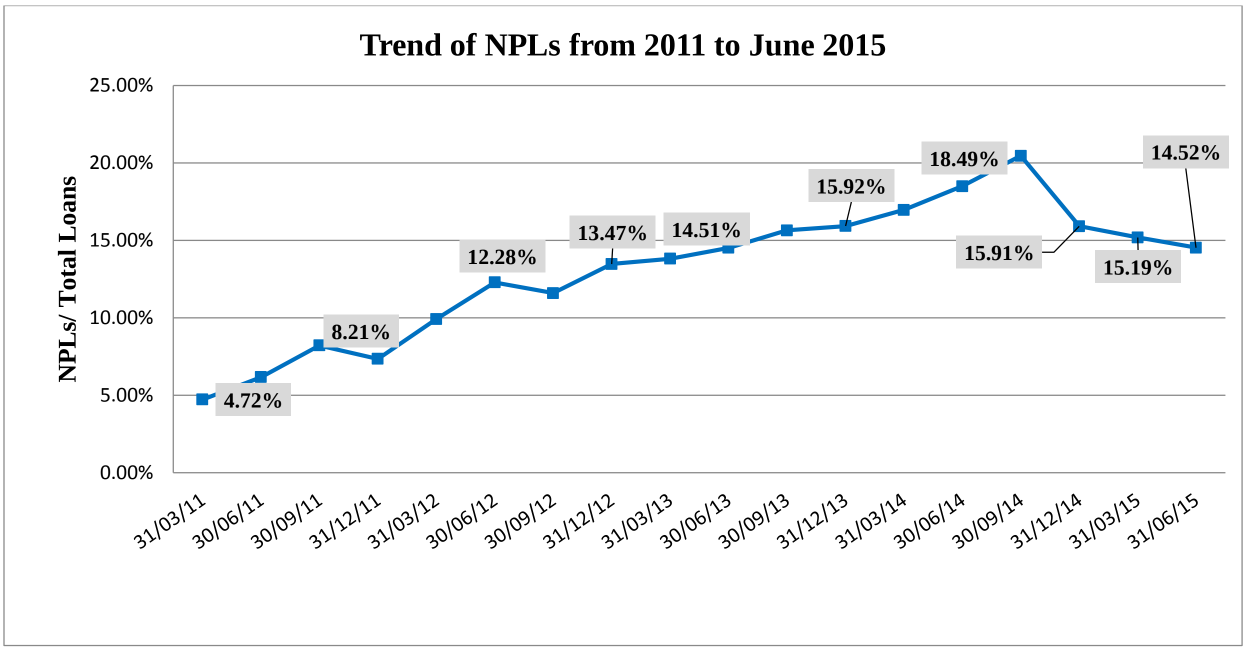


3.13. As at 30 June 2015, commercial banks accounted for **77.99%** of total banking sector loans and advances.

3.14. The top five banks had loans & advances amounting to **$2.41 billion**, which accounted for **61.07%** of total banking sector loans & advances as at 30 June 2015.

3.15. The banking sector recorded an improvement in the aggregate ratio of NPLs to total loans from 15.19% in March 2015 to **14.52%** as at 30 June 2015. The ratio further improves to 13.15% after excluding Tetrad, which is under provisional judicial management.

3.16. The graph below shows the trend in NPLs from 2011 to June 2015.



3.17. With the operationalization of Zimbabwe Asset Management Corporation (ZAMCO) and establishment of Credit Reference System (CRS), it is envisaged that the levels of non-performing loans will continue on a downward trend. As at 30 June 2015, ZAMCO had purchased qualifying NPLs from banking institutions amounting to $157 million.

3.18. The establishment of the CRS will address the challenges of information asymmetry between banks and borrowers.

3.19. The Reserve Bank is finalizing operational modalities, including the legal framework and guidelines for the accreditation of independent credit reference bureaus (CRBs), and the funding requirements for the acquisition of the CRS.

3.20. Banking institutions are also complementing the Reserve Bank's efforts by instituting measures to resolve the NPLs. These measures include the formation of dedicated loan recoveries units, refining of credit underwriting standards, as well as restructuring of some facilities.

3.21. It is envisaged that the above complementary initiatives will reduce NPLs and enable banks to underwrite more business and contribute to economic growth.

Earnings Performance...

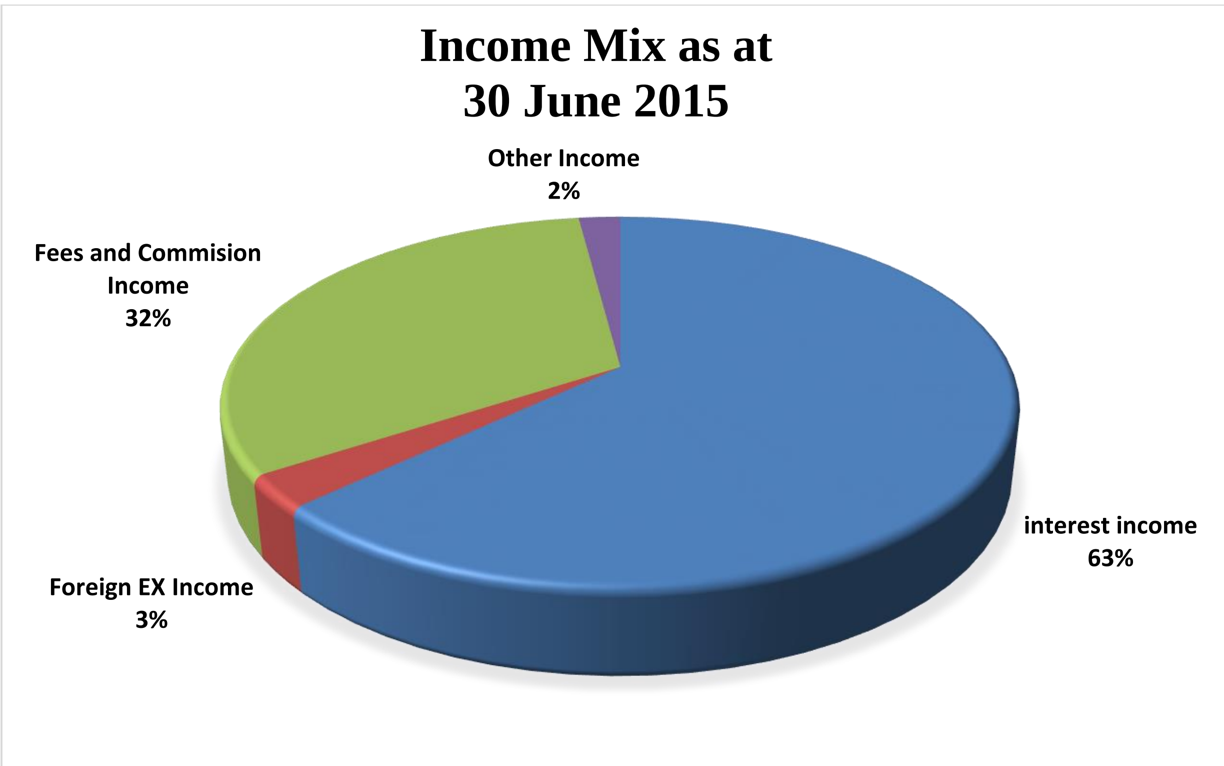
3.22. The banking sector remained generally profitable with an aggregate net profit of $43.01 million (excluding Tetrad Investment Bank) for the half year ended 30 June 2015, up from $26.53 million during the corresponding period in 2014. The growth in profitability is attributable to an increase in total income of $11.76 million and a reduction in total costs of $24.66 million during the period under review. The growth in total income is mainly attributable to interest income derived from an increase in loans and advances.

3.23. A total of 14 out of 17 banking institutions recorded profits for the half-year ended 30 June 2015. The losses recorded by the remaining institutions which were mainly attributed to increased levels of provisions, have been narrowing over the period under review.

3.24. The average banking sector return on assets (ROA) and return on equity (ROE) as at 30 June 2015 were 0.63% and 3.26% and compared favourably with 0.30% and 1.74% as at 30 June 2014, respectively. This was on the back of increased profitability for the period ended 30 June 2015.

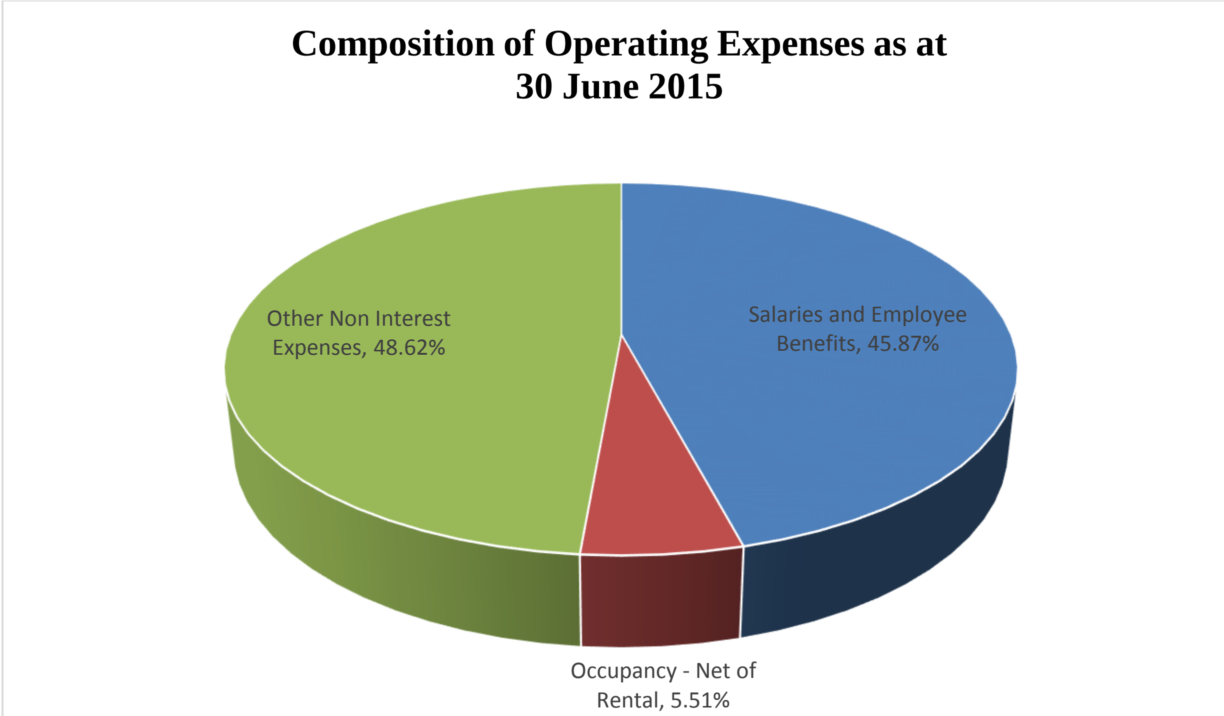
3.25. Interest income, which constituted 62.92% of total income, largely from loans & advances, was the major source of income for the banking sector in the half-year ended 30 June 2015. Non-interest income accounted for 37.08% of total income and largely comprised of fees and commissions.

3.26. The graph below shows the sources of income of the banking sector as at 30 June 2015.



3.27. The banking sector's total operating expenses amounted to $276.44 million for the half-year ended 30 June 2015 and were largely composed of salaries and employment benefits, which accounted for 45.87% of total operating costs. Other non-interest expenses, which included depreciation, deposit protection premiums and administration costs, constituted 48.62% of operating expenses

3.28. The composition of operating expenses for the banking sector is shown in the figure below.

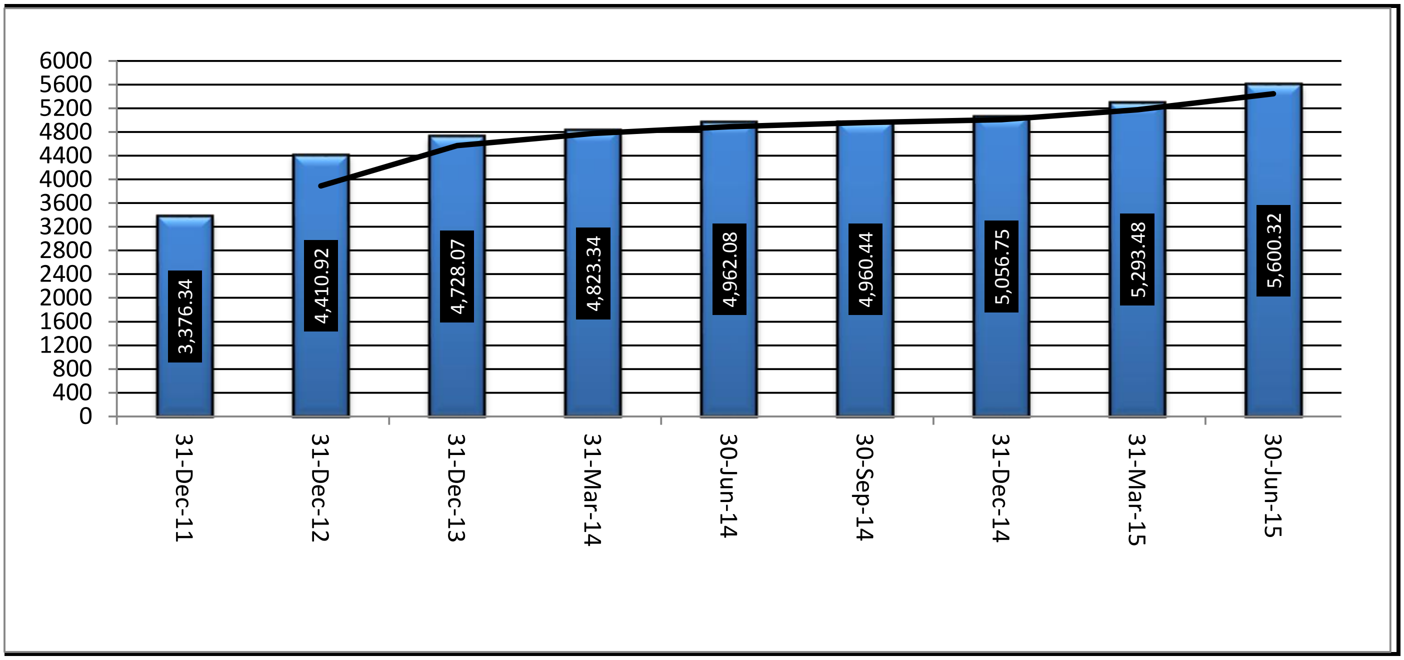


3.29. To enhance earnings performance, a number of banking institutions continue to rationalise operating costs, while simultaneously implementing revenue enhancement measures. Some of these initiative include growth of non-funded income through introduction of new technology driven products and corporate finance structures.

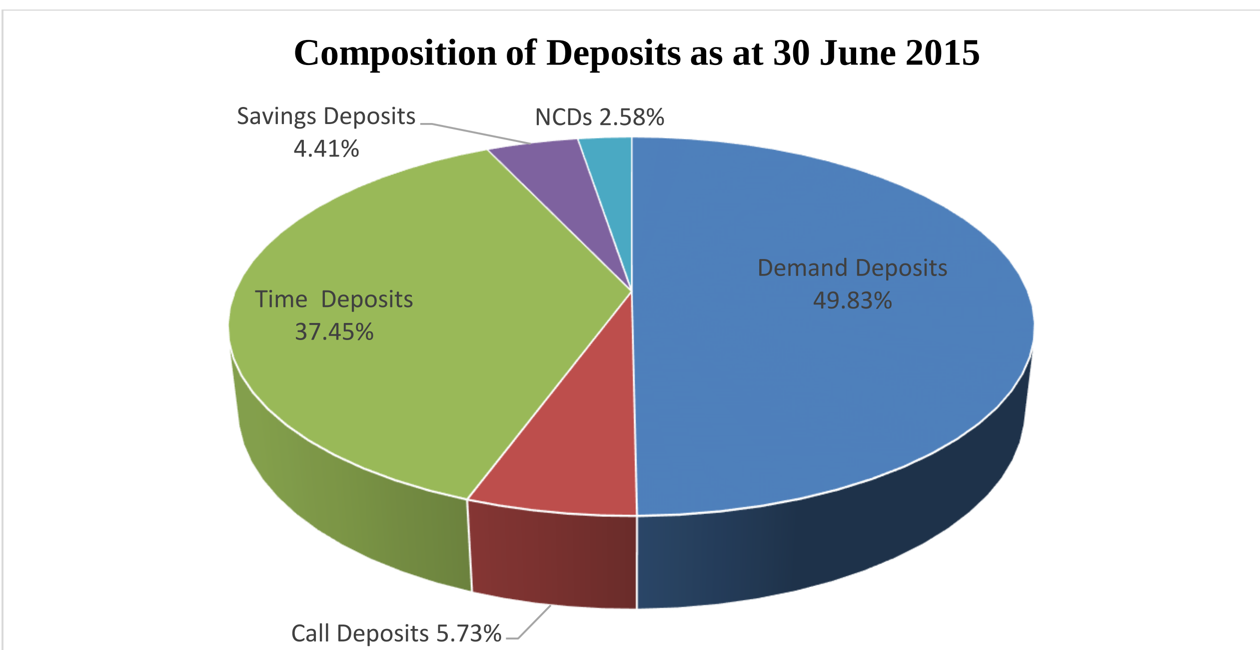
Liquidity and Funds Management...

3.30. The total banking sector deposits increased by 5.86%, from $5.29 billion as at 31 March 2015 to **$5.6 billion** as at 30 June 2015.

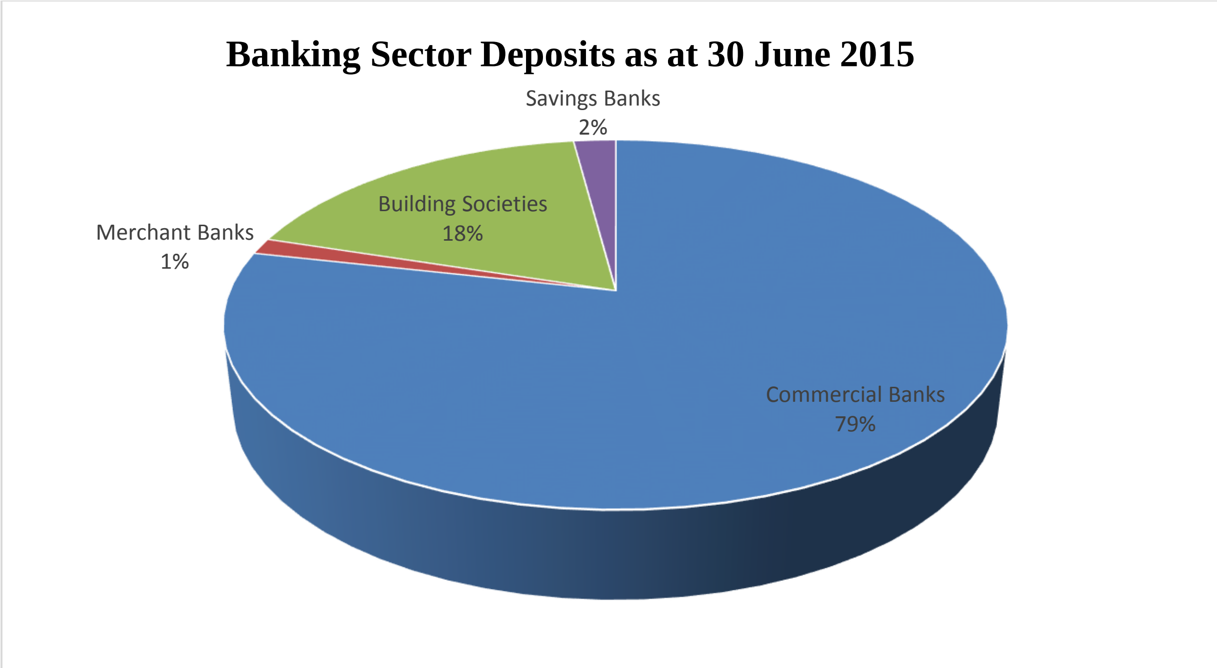
3.31. The trend in deposits from December 2011 to 30 June 2015 is shown in the graph below.



3.32. The sector deposits continued to be dominated by demand deposits, which accounted for 49.83% of total deposits as at 30 June 2015, as indicated below.



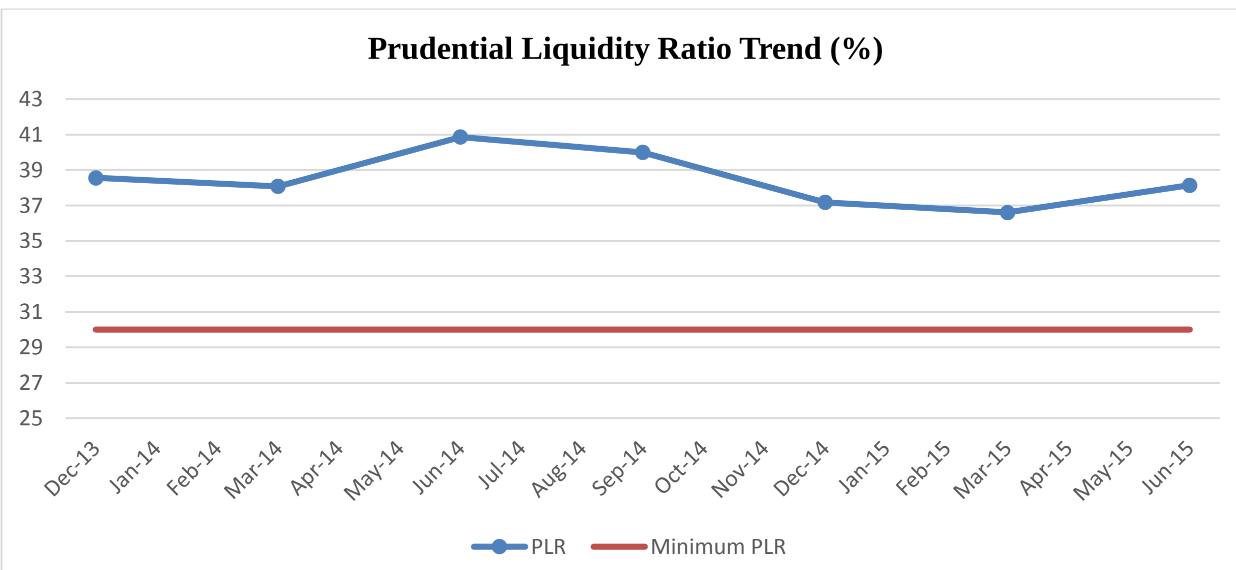
3.33. Commercial banking sub-sector held 78.49% of total banking sector deposits as at 30 June 2015.



3.34. The top five (5) banks, in terms of deposits, had deposits amounting to $2.77 billion as at 30 June 2015, representing **64.19%** of total banking sector deposits.

3.35. The banking sector average prudential liquidity ratio of 38.14% as at 30 June 2015 was above with the regulatory minimum of 30%.

3.36. The diagram shows average prudential liquidity ratios since December 2013.



3.37. Three (3) banking institutions were not compliant with the minimum regulatory requirement as at 30 June 2015, compared to five as at 31 March 2015.

Sensitivity to Market Risk…

3.38. As at 30 June 2015, the banking sector's sensitivity to market risk was considered low. The sector's exposure to interest rate risk was mainly in the banking book.

3.39. Foreign exchange rate risk continues to be low given banks' current balance sheet structures. The banking sector had an overall positive net Foreign Exchange open position of $873.22 million as at 30 June 2015. As at 30 June 2015, all banking institutions were resilient to a major level foreign exchange rate risk shock of a 15% appreciation of the US dollar against major currencies.

30 June 2015