



## BANK LICENSING, SUPERVISION & SURVEILLANCE

# 2006 ANNUAL REPORT





Copies of the Annual Report are available from:

**Senior Division Chief**

**Reserve Bank of Zimbabwe**

**Bank Licensing, Supervision & Surveillance Division**

**80 Samora Machel Avenue**

**Harare**

**Zimbabwe**

**Fax: +263-4-705928**

**Tel: +263-4-703000**

Also available on the Reserve Bank website ([www.rbz.co.zw](http://www.rbz.co.zw))



## C O N T E N T S

PURPOSE OF THIS REPORT .....	2
GOVERNOR'S FOREWORD .....	3
DEPUTY GOVERNOR'S REMARKS .....	6
SENIOR DIVISION CHIEF'S PREVIEW .....	8
CHAPTER 1: BLS OPERATIONS AND ACTIVITIES .....	10
1.1 Overview .....	10
1.2 Licensing of Financial Institutions .....	10
1.3 Off-site Surveillance .....	11
1.4 On-site Examinations .....	11
1.5 Organisation of the Division .....	11
1.6 Supervision of Banks & Market Stabilisation Dept .....	12
1.7 Supervision of Non-bank Financial Institutions Dept .....	13
1.8 Bank Licensing, Policy Research, Compliance & Risk Management Dept .....	13
1.9 Legal Counsel .....	14
CHAPTER 2: DOMESTIC MACROECONOMIC DEVELOPMENTS .....	15
2.1 Overview .....	15
2.2 Gross Domestic Product .....	15
2.3 Inflation .....	16
2.4 Fiscal Developments .....	17
2.5 Exchange Rate Developments .....	17
2.6 Balance of Payments Developments .....	17
2.7 Stock Market .....	17
CHAPTER 3: CONDITION & PERFORMANCE OF THE BANKING SECTOR .....	18
3.1 Overview .....	18
3.2 Consolidated Balance Sheet Structure .....	18
3.3 Performance of the Banking Sector .....	21
3.4 Sectoral Analysis .....	23
3.5 Asset Management Companies Sector .....	30
CHAPTER 4: MAJOR DEVELOPMENTS IN THE BANKING SECTOR .....	32
4.1 Introduction .....	32
4.2 Banking Sector Consolidation .....	32
4.3 Major On-Site Examination Findings .....	32
4.4 Supervisory Responses .....	36
4.5 Issuance of Prudential Guidelines .....	37
CHAPTER 5: BASEL II IMPLEMENTATION .....	39
5.1 Overview .....	39
5.2 Evolution of the Basel II Framework .....	39
5.3 Pillar I: Minimum Capital Requirements .....	41
5.4 Pillar II: Supervisory Review Process .....	42
5.5 Pillar III: Market Disclosure .....	45
5.6 Benefits of Implementing Basel II .....	45
5.7 Progress on Basel II Implementation .....	46
5.8 Way Forward .....	47
CHAPTER 6: BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION .....	49
6.1 Overview .....	49
6.2 Core Principles for Effective Banking Supervision .....	49
6.3 Preconditions for Effective Banking Supervision .....	52
6.4 Compliance Status in Zimbabwe .....	54
CHAPTER 7: FINANCIAL INCLUSION .....	56
7.1 Introduction .....	56
7.2 Factors Contributing to Financial Exclusion .....	56
7.3 Cost of Financial Exclusion .....	56
7.4 Financial Inclusion Framework .....	56
7.5 National Micro finance Policy .....	57
7.6 \$32 Billion SME Revolving Fund .....	57
CHAPTER 8: TROUBLED BANK RESOLUTION .....	59
8.1 Introduction .....	59
8.2 Market Solutions .....	60
8.3 Cancellation of Licences .....	61
8.4 Liquidations .....	63
8.5 Appeals to the Administrative Court .....	65
8.6 Proposed Changes to the Legal Framework .....	66
CHAPTER 9: OUTLOOK .....	68
9.1 Overview .....	68
9.2 Consolidations .....	68
9.3 Basel II .....	68
9.4 Capitalisation and Economic Capital .....	69
9.5 Corporate Governance .....	69
9.6 Risk Management .....	69
9.7 Robust IT Accounting Systems .....	70
9.8 International Financial Reporting Standards .....	70
9.9 Know Your Customer .....	70
9.10 Financial Inclusion .....	71
9.11 Capacity Building .....	71
Appendices 1-4 .....	72-94



#### **PURPOSE OF THIS REPORT**

The purpose of this Annual Report is to provide an analysis of the condition and performance of the banking sector in Zimbabwe for the year ended 31 December 2006. The report also provides an overview of the supervisory operations and activities during the period under review. Readers should note that this report has been prepared solely for information purposes for the benefit of the Bank's various stakeholders and is not a statutory requirement.



## GOVERNOR'S FOREWORD



Dr. G. Gono  
The Governor

- 1.1 The Zimbabwean economy and the financial system continued to face a myriad of challenges arising from both domestic and global forces of change during 2006. However, the financial sector has shown significant resilience to these changes and the associated risks. The strength and stability of our banking system continued to improve. The Reserve Bank's supervisory and regulatory regime continued to be underpinned by risk-based supervision, consolidated supervision, promotion of sound risk management and corporate governance systems and adoption of international best practice to foster financial stability.
- 1.2 During the year the financial sector witnessed a number of significant developments arising from the local and international arena.
- 1.3 In August 2006, the Reserve Bank embarked on a currency reform project, which saw the introduction of a new set of bearer cheques following the re-basing of the currency. The currency reform addressed the information technology system challenges which the banking sector and the corporate world were already facing due to the high number of digits on transactions. Further, it offered convenience in the handling of cash by the public which had become a problem due to the inflationary environment.
- 1.4 Drawing from the lessons learnt during the currency reforms, the Reserve Bank initiated a Financial Inclusion program to address the unacceptably uneven spatial distribution of financial services in some areas of the economy, particularly in rural communities. The program is meant to promote access to basic financial services by most Zimbabweans in a sustainable, economically viable manner, through appropriate institutions, products, services and technology. The program is premised on the expansion of the outreach of established developmental financial institutions, commercial banks and building societies as well as enhancing provision of microfinance services through establishment of microfinance banks.



## GOVERNOR'S FOREWORD

CONTINUED

- 1.5 On the international arena, preparations to implement the revised capital adequacy framework gathered momentum in a number of jurisdictions, especially in the G-10 countries which were expected to start parallel running of their systems by the end of 2006. In line with these international developments, the Reserve Bank also began its Basel II preparations. The objective is to gradually implement Basel II provisions that will enhance our supervisory framework in line with the Basel Committee on Banking Supervision's recommendation that supervisory authorities should appropriately prioritise supervisory matters in their jurisdictions.
- 1.6 Another important development on the international arena relates to the publication of the revised Core Principles for Effective Banking Supervision in October 2006. The Core Principles are globally agreed minimum standards for effective banking regulation and supervision, covering a wide range of aspects including licensing, ownership of banks, bank capital adequacy, risk management and the supervision of banking groups on a consolidated basis.
- 1.7 The Reserve Bank has embraced the revised principles. Compliance with the Core Principles will not only improve our overall supervisory framework, but will also benchmark our supervisory approaches and tools to international best practices and norms.
- 1.8 With increasingly integrated financial markets, banking institutions are expected to deal with developments and potential vulnerabilities emanating from the domestic and external fronts. Against this background, the Reserve Bank will continue to closely monitor global developments and react appropriately to promote macroeconomic and financial stability. Concurrently, banking institutions cannot remain complacent but must be prepared to adopt forward-looking strategies and practical solutions to counter any vulnerabilities. Importantly, banking institutions must continue to strengthen their risk management capacities by periodically stress testing their resilience against extreme but plausible shocks.
- 1.9 The alignment of bank capital to the underlying risks is one of the critical factors that will enable banking institutions to dynamically adjust to and better meet future challenges arising from increased economic uncertainty, intensifying competition, more demanding international standards, and more complex risk profiles. At the same time, banking institutions must also satisfy the increasing demand on their directors and senior executives to uphold accountability to the public at large in addition to their responsibility to the shareholders.
- 1.10 In addition, banking institutions are expected to be the frontiers of preventing fraud, externalisation of funds and money laundering through the application of strict know-your-customer principles. This will not only ensure that Zimbabwe is not a haven for sponsoring terrorists and other illegal activities but will also guarantee the continued survival of banking institutions and stability of the payment systems.



## GOVERNOR'S FOREWORD

CONTINUED

1.11 Banking institutions that fail to adapt to the changes and become a destabilising element to financial stability will be allowed to exit the market in an orderly manner in line with the Troubled Bank Resolution Framework.

1.12 Looking ahead, the financial sector will continue to face new challenges. These dynamic forces will require further strengthening of risk management, not just at the individual institution level, but also at the macro level through further enhancement of the supervisory framework supported by appropriate amendments of the Banking Laws.

1.13 The Reserve Bank shall continue to discharge its regulatory mandate with commitment and objectivity in safeguarding the soundness of the financial system and the interests of all stakeholders.

1.14 I take this opportunity to thank all our stakeholders for their relentless support throughout the year in our efforts of maintaining financial stability as enshrined in the Reserve Bank of Zimbabwe Act [*Chapter 22:15*].

A handwritten signature in black ink, appearing to be "G. Gono".

Dr. G. Gono

Governor



## DEPUTY GOVERNOR'S REMARKS



Dr. C. L. Dhlwayo  
Deputy Governor

- 1.1 Over the year, the financial sector remained stable. The stability of the sector was underpinned by the Reserve Bank's continued refinement of its regulatory and supervisory processes. However, one banking institution and one asset management company were closed in the first half of 2006 due to insolvency.
- 1.2 As part of efforts to further strengthen the regulatory and supervisory framework for the banking sector in Zimbabwe, the Reserve Bank continued to work on proposals to amend provisions of the Banking Act [Chapter 24:20]. The proposed amendments seek to create a regulatory and supervisory environment that encourages innovation, efficiency and discipline in the financial sector.
- 1.3 To further consolidate the implementation of Risk-
- Based Supervision, the Reserve Bank designed and issued a Risk-Based Supervision Policy Framework and Risk Management Guidelines in the third quarter of 2006. The Reserve Bank will continue to place emphasis on strengthening risk management practices of financial institutions in safeguarding the soundness of the financial system.
- 1.4 During the last quarter of 2006, the Reserve Bank carried out a capital verification exercise in order to establish financial institutions' compliance with the new minimum capital levels which became effective on 30 September 2006. The Reserve Bank established that all financial institutions had complied with the required minimum capital levels as at 31 December 2006.
- 1.5 The year 2006 also saw the Reserve Bank embarking on



## DEPUTY GOVERNOR'S REMARKS

CONTINUED

the development of a comprehensive Financial Inclusion Framework whose objective is to facilitate the expansion of banking and microfinance services to the rural areas of Zimbabwe.

1.6 The Reserve Bank is pleased to note that the banking industry has responded positively to regulatory calls for financial inclusion through actively pursuing plans aimed at opening new branches and/or agencies, and re-opening previously closed branches in marginalized areas.

1.7 With respect to capacity building, the Reserve Bank has continued to attract and retain highly skilled staff in order to maintain the quality of supervision at high levels and stay abreast with international best practice. As a result, the Reserve Bank hosted bank supervisors from a number of central banks in the region who were attached to Bank Licensing, Supervision & Surveillance (BLSS) for exposure in supervisory methodologies, including the risk-based supervision approach.

1.8 In conclusion, I call upon all stakeholders in the financial sector to maintain the cordial working relationship that was displayed during the period under review. I trust and hope that this spirit of oneness and cooperation among the stakeholders will continue to prevail in the future as we work towards an inclusive financial system that will adequately address the needs of all stakeholders.

A handwritten signature in black ink, appearing to read "C. L. Dhliwayo".

Dr. C. L. Dhliwayo

Deputy Governor



## SENIOR DIVISION CHIEF'S PREVIEW



Mr. N. Mataruka  
Senior Division Chief, Bank Licensing, Supervision & Surveillance

- 1.1 Pursuant to our mission *"of promoting and maintaining the safety and soundness of the financial system through proactive and rigorous regulation and supervision in line with international best practice"*, the Reserve Bank's Bank Licensing, Supervision & Surveillance Division has consolidated the gains made in previous years by working towards continuous improvement of bank supervision systems and processes.
- 1.2 During the year, the Reserve Bank issued a Risk-Based Supervision Policy Framework. The framework provides a dynamic, efficient, structured and risk-oriented prudential supervision process. The full adoption of risk-based supervision has positively influenced risk management practices in the banking sector.
- 1.3 BLSS conducted a risk management survey between August 2005 and April 2006 to establish the risk management practices and processes in the banking sector. The survey revealed that there were deficiencies in the risk management systems of some financial institutions. Subsequently, a Risk Management Guideline espousing minimum requirements on sound risk management practices was issued in July 2006 to provide guidance to financial institutions.
- 1.4 With respect to the financial condition and performance of the banking sector, earnings, asset quality and liquidity management improved during the year as most banking institutions recovered from the challenges encountered in the preceding years.
- 1.5 Two banking institutions which were under curatorship since 2004 had their licences cancelled.



## SENIOR DIVISION CHIEF'S PREVIEW

continued

1.6 The year also saw some financial institutions consolidating their operations by merging some of their subsidiaries in response to the upward review of minimum capital requirements which were announced in January 2006.

1.7 A capital verification exercise was carried out in the fourth quarter to assess banks compliance with the new minimum capital levels, and all financial institutions were found to be in compliance.

1.8 Capacity building has been a key element in a bid to align the Division's operations to international best practices. The Division will continue to invest in staff training and development programs in order to equip them with the requisite skills to enhance their efficiency and effectiveness.

1.9 The Reserve Bank has been participating in and monitoring regional and international activities relating to the implementation of Basel II. Considerable effort

has been made in laying the groundwork for the successful implementation of the New Accord. BLSS will engage banking institutions in order to facilitate the drafting of an implementation plan.

1.10 Finally, I acknowledge and express appreciation for the support and the contributions that various stakeholders have continued to give to the Division in our quest to maintain the safety and soundness of the financial system in Zimbabwe.

A handwritten signature in black ink, appearing to read "N. Mataruka".

N. Mataruka

Senior Division Chief



## CHAPTER ONE - BLSS OPERATIONS AND ACTIVITIES

### 1.1 OVERVIEW

- 1.1.1 The Reserve Bank of Zimbabwe, through its BLSS division, is both the licensing and supervisory authority for banking institutions, asset management companies, microfinance and moneylending institutions. In this respect, the Reserve Bank's mandate is to promote the safety and soundness of the financial sector through proactive and rigorous regulation and supervision.
- 1.1.2 In fulfilling this responsibility, the Reserve Bank has enhanced its supervisory methodologies in line with international best practice. These methodologies include risk-based supervision, consolidated supervision, macroprudential analysis, early warning systems and stress testing.
- 1.1.3 The risk-based supervision approach places strong emphasis on the understanding of an institution and assessing the adequacy of risk management systems to identify, measure, monitor and control risks. The approach also enables the Reserve Bank to focus more on institutions requiring greater supervisory attention.
- 1.1.4 Consolidated supervision entails a review of both banking and non-banking activities conducted by a financial conglomerate with a view to determining the extent to which the conglomerate and its subsidiaries or affiliates comply with prudential regulatory requirements. Consolidated supervision also involves an evaluation of the activities of a bank holding company on both domestic and international arenas.

- 1.1.5 Early warning systems enable the Reserve Bank to detect economic weaknesses and vulnerabilities and to take pre-emptive steps to reduce the risk of bank failures and financial crisis. BLSS stress tests on the stability of the banking sector and, in particular, the overall vulnerability of the financial system to exogenous and endogenous shocks.
- 1.1.6 Macroprudential surveillance provides a more holistic view of structural imbalances, interactions and vulnerabilities within a financial system. Macroprudential surveillance also facilitates monitoring of the financial system, not only at a national but at the global level where indicators are comparable across countries.
- 1.1.7 The above approaches lay a firm foundation for the implementation of Basel II in addition to promoting the safety and soundness of the banking sector and efficiency in supervision.
- 1.1.8 In discharging its responsibilities of safeguarding financial stability, BLSS undertakes various activities which include licensing of financial institutions, off-site surveillance and on-site supervision.

### 1.2 LICENSING OF FINANCIAL INSTITUTIONS

- 1.2.1 BLSS is responsible for evaluating and licensing applications for banks, asset management companies, microfinance and moneylending institutions. BLSS also handles special licensing transactions relating to mergers and acquisitions as well as cross-border investments.



## CHAPTER ONE - BLSS OPERATIONS AND ACTIVITIES

continued

1.2.2 The vesting of both the licensing and supervisory activities with the Reserve Bank has strengthened the regulation of the financial sector.

1.2.3 The division is also responsible for de-registration of financial institutions under its purview.

### 1.3 OFF-SITE SURVEILLANCE

1.3.1 This entails periodic analysis of the financial condition and performance of individual financial institutions and the banking sector at large. This periodic analysis is based on the quantitative and qualitative information furnished by reporting institutions in the form of standardised statutory returns.

1.3.2 Apart from prudential returns, other sources of information include the financial institutions' management reports, published financial information, market intelligence and prudential meetings between the financial institutions, external auditors and the Reserve Bank.

1.3.3 The off-site function provides an important complement to on-site examinations by facilitating ongoing assessment of the institutions.

### 1.4 ON-SITE EXAMINATIONS

1.4.1 As part of on-going supervision, BLSS conducts on-site examinations of financial institutions under its purview.

1.4.2 The on-site examinations vary in scope and coverage from an investigation of specific areas to a

comprehensive review of an institution's operations.

1.4.3 BLSS uses on-site examinations as a means of validating supervisory information received through off-site surveillance.

1.4.4 On-site examinations are structured to provide a comprehensive evaluation and assessment of a range of supervisory issues including:

- compliance with laws, regulations and the institution's own internal policies and procedures;
- corporate governance and competence of management;
- adequacy of the institution's risk management systems and internal control procedures;
- adequacy of accounting and management information systems; and
- maintenance of proper books of accounts and other records.

### 1.5 ORGANISATION OF THE DIVISION

1.5.1 In its endeavour to effectively execute its mandate of licensing and de-licensing financial institutions and monitoring and supervision of financial institutions, BLSS has three departments supported by Legal Counsel. The departments are:

- a) Supervision of Banks & Market Stabilisation;
- b) Supervision of Non-Bank Financial Institutions; and
- c) Bank Licensing, Policy Research, Compliance & Risk Management.



# CHAPTER ONE - BLSS OPERATIONS AND ACTIVITIES

continued

1.5.2 The operational departments of the division are illustrated in the following organogram.

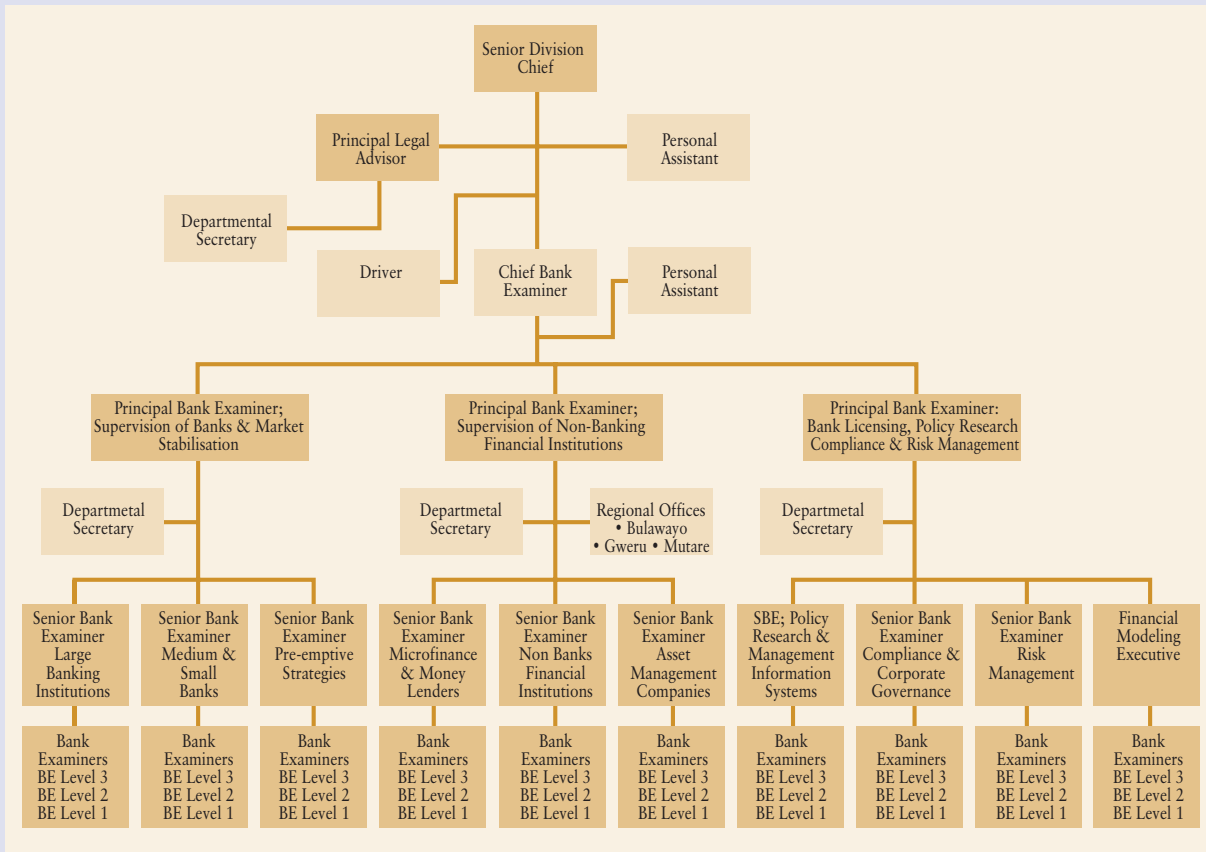


Figure 1.1: BLSS Organisational Structure

## 1.6 SUPERVISION OF BANKS & MARKET STABILISATION DEPARTMENT

1.6.1 There are three units under this department as follows:-

### Supervision of Large Banks...

1.6.2 The unit is responsible for both on-site supervision and off-site surveillance of large banks.

1.6.3 Banking institutions that are part of financial groups are subjected to consolidated supervision, in addition

to solo supervision, to enable a holistic view of the risks to which the entire group is exposed.

### Supervision of Medium & Small Banks...

1.6.4 The unit is responsible for the on-site supervision and off-site surveillance of medium to small banking institutions on a solo and consolidated basis.

### Pre-emptive Strategies & Market Stabilization Unit...

1.6.5 The mandate of this unit is to design bank resolution strategies and Prompt Corrective Actions (PCA) as well as work closely with curators and judicial managers of troubled banking institutions.



## CHAPTER ONE - BLSS OPERATIONS AND ACTIVITIES

continued

1.6.6 The underlying objective of this unit is to facilitate a speedy resolution of problems in distressed banking institutions in order to remedy deficiencies noted as well as to facilitate the orderly exit from the financial sector by troubled and failed financial institutions.

### 1.7 SUPERVISION OF NON-BANK FINANCIAL INSTITUTIONS DEPARTMENT

1.7.1 The department oversees the following three functions:-

#### **Supervision of Asset Management Companies...**

1.7.2 Regulation and supervision of asset management companies facilitates effective consolidated supervision and promotes financial stability.

1.7.3 Empirical evidence demonstrates that, if left unregulated and unsupervised, these institutions have the capacity to indulge in speculative activities, which undermines financial stability.

#### **Supervision of Microfinance Institutions...**

1.7.4 The unit is responsible for on-site supervision and off-site surveillance of microfinance institutions and moneylenders to ensure that they have sound risk management systems and internal controls.

#### **Non-Bank Financial Institutions...**

1.7.5 The unit focuses on the supervision of developmental financial institutions. The thrust of incorporating all non-banking financial institutions ensures that no financial institution escapes regulation and eliminates practices by banks to use their unregulated associates to indulge in unethical banking practices and non-banking business.

### 1.8 BANK LICENSING, POLICY RESEARCH, COMPLIANCE & RISK MANAGEMENT DEPARTMENT

1.8.1 The department is responsible for the following three functions:-

#### **Licensing, Policy Research & MIS...**

1.8.2 The unit is responsible for evaluating applications for registration of banking institutions, asset management companies and microfinance and moneylending institutions.

1.8.3 The unit conducts research on the most current regulatory trends and developments for the purpose of policy formulation.

1.8.4 Apart from conducting research, the unit provides regulatory guidance to all other functions within the Division and the market on advanced technical issues.

1.8.5 The unit is also responsible for creating and maintaining a sound database for financial sector prudential statistics, which is critical for both on-site examinations and off-site surveillance.

#### **Corporate Governance & Compliance...**

1.8.6 The unit monitors and enforces compliance with sound governance practices within the supervised institutions, and internally within BLSS by addressing regulatory, supervisory, compliance and corporate governance issues, proper standards of market conduct and observance of international best practice.



## CHAPTER ONE - BLSS OPERATIONS AND ACTIVITIES

continued

### **Risk Management...**

1.8.7 The unit provides guidance on, and enforces adherence to sound risk management practices in the financial sector. The unit also plays a facilitatory role in the identification, measurement, monitoring and controlling of risk within the Reserve Bank.

1.8.8 The unit is also responsible for researching on new products in the market and issuing appropriate risk management guidelines.

### **1.9 LEGAL COUNSEL**

1.9.1 Legal Counsel provides guidance on the interpretation of all applicable laws and regulations.

## CHAPTER TWO - DOMESTIC MACROECONOMIC DEVELOPMENTS

### 2.1 OVERVIEW

2.1.1 The macroeconomic environment continued to present a blend of challenges and opportunities for the financial sector during 2006. The major challenges emanated from high inflation, rising unemployment, foreign currency shortages, shortage of critical inputs, energy shortages, and declining Foreign Direct Investment (FDI).

2.1.2 In spite of these challenges, the financial sector remained largely stable and sound due to improved risk management and corporate governance practices by financial sector participants.

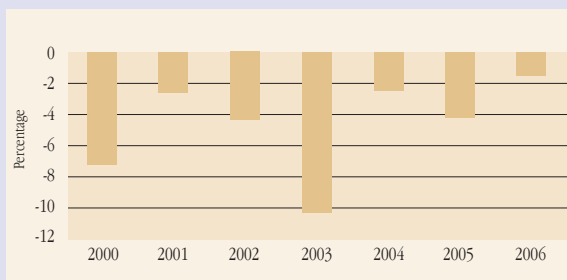
2.1.3 Financial sector stability is vital for sustainable economic development and to facilitate efficient resource allocation in the economy.

### 2.2 GROSS DOMESTIC PRODUCT

2.2.1 The economy declined by 2.5% in 2006, compared to a decline of 3.8% in 2005.

2.2.2 The graph below shows real GDP growth for the past seven years.

Figure 2.1: Real GDP Growth



(Source: Central Statistical Office)

2.2.3 The real GDP position has been negative for the past seven years due to declining industrial productivity and agricultural output as well as declining FDI.

2.2.4 The Government introduced the National Economic Development Priority Program (NEDPP) in April 2006 in an effort to revive the economy. The NEDPP's objectives include reduction of inflation, currency stabilization, ensuring food security and foreign currency generation. The program also sought to restore investor confidence, rehabilitate and develop key infrastructure and reduce government domestic and external debt.

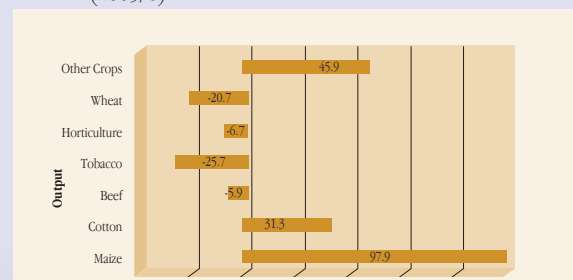
#### Agriculture...

2.2.5 Zimbabwe's economy is agro-based with agriculture contributing 18% to the country's GDP, 33% of foreign exchange earnings and 23% of formal employment.

2.2.6 The 2005/2006 rainy season was largely favourable and agriculture sector output grew by 6.4% compared to a target of 23%. The low output was mainly a result of critical shortages of inputs due to foreign currency constraints and low levels of mechanisation.

2.2.7 The diagram below depicts growth rates for major agricultural outputs in 2006.

Figure 2.2: Growth Rates for major agricultural output (2005/6)



(Source: Central Statistical Office)



## CHAPTER TWO - DOMESTIC MACROECONOMIC DEVELOPMENTS

continued

2.2.8 The declining output in beef, tobacco and horticulture adversely affected the manufacturing sector which continued to experience low capacity utilization, hence negatively affecting economic performance.

### Mining...

2.2.9 The mining sector, which accounts for 4.3% of GDP and 4.5% of formal employment, declined by 14.4% in 2006 compared to a decline of 12.1% in 2005. The decline is largely attributed to lack of extensive mining recapitalisation at existing mines, frequent power outages and continued leakages in mineral exports, especially gold and diamonds.

2.2.10 Gold output declined by 24.17%, from 10.55 tonnes in 2005, to 8.00 tonnes in 2006. Asbestos production declined from 93 326 tonnes in 2005 to 82 252 tonnes in 2006, while platinum production increased marginally from 3.56 tonnes in 2005 to 3.82 tonnes in 2006.

### Manufacturing...

2.2.11 The manufacturing sector, which contributes 15.5% of GDP, a third of foreign exchange earnings and 15% of formal employment declined by 7% in 2006 as compared to 7.6% in 2005. This decline is largely attributed to shortages of foreign currency to import raw materials, power outages, fuel shortages, price controls in some sectors, and the high cost of borrowing.

2.2.12 As a result of the above challenges, the manufacturing sector operated at around 20 – 25% of its capacity.

### Tourism...

2.2.13 The tourism sector contributed 6% of GDP, 2.2% of formal employment, and 10% of foreign exchange earnings.

2.2.14 The sector registered a 23% increase in tourist arrivals in 2006, mainly from the East Asian countries. Revenue from the sector, however, declined by 7% in 2006 compared to a decline of 1.2% in 2005 mainly as a result of reduced spending by tourists due to uncompetitive pricing.

## 2.3 INFLATION

2.3.1 The annual inflation rate was on an upward trend during 2006, gaining 667.9 percentage points from 613.2% in January 2006 to 1 281.1% in December 2006.

2.3.2 This increase was largely driven by high broad money supply (M3) growth, which continued on an upward trend in 2006, increasing from 669.9% in May 2006 to 1438.3% in November 2006, and supply bottlenecks emanating from productivity decline, decreased agricultural output and capacity underutilization.

2.3.3 Increased government borrowings to finance the widening budget deficit also contributed to increased inflation. The stock of outstanding government debt increased from \$14.2 billion in January 2006 to \$175.7 billion as at 31 December 2006.

2.3.4 The graph below shows the annual inflation profile from January 2006 to December 2006.

Figure 2.3: Inflation Trend (Jan-Dec 2006)



(Source: Central Statistical Office)



## CHAPTER TWO - DOMESTIC MACROECONOMIC DEVELOPMENTS

continued

2.3.5 The major inflation drivers include high money supply growth, monetisation of a widening budget deficit, adverse inflation expectations and capacity underutilisation. The above mentioned drivers have also been exacerbated by critical shortages of foreign currency.

### 2.4 FISCAL DEVELOPMENTS

2.4.1 In 2006, total Government revenue amounted to \$406.68 billion, against total expenditure of \$451.10 billion, resulting in a budget deficit of \$44.42 billion. Value Added Tax (VAT) was the highest contributor to total revenue with 27%, followed by individuals and companies with 24% and 23%, respectively.

2.4.2 The budget deficit was largely financed from domestic sources through debt instruments such as Treasury bills and Government bonds.

2.4.3 The financial sector provided most of the funding requirements which had a “crowding out” effect on the rest of the economy. This resulted in financial institutions having balance sheets which are skewed towards money market assets.

### 2.5 EXCHANGE RATE DEVELOPMENTS

2.5.1 The exchange rate was pegged at ZW\$99.20 against the United States Dollar in January 2006. The local currency was devalued to ZW\$250.00 against the US Dollar on 31 July 2006 and remained pegged at the same rate until December 2006.

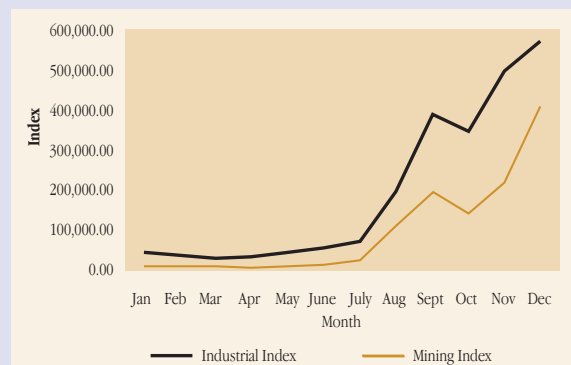
### 2.6 BALANCE OF PAYMENTS DEVELOPMENTS

2.6.1 The balance of payments position continued to deteriorate as a result of the lack of international balance of payments support, subdued foreign direct and portfolio investment inflows, and declining export performance.

### 2.7 STOCK MARKET

2.7.1 The stock market continued to be an attractive investment option in the hyperinflationary environment. The graph below shows the performance of the stock market in 2006.

Figure 2.4: ZSE Performance in 2006



(Source: Zimbabwe Stock Exchange)

2.7.2 Rising inflation, strong corporate earnings growth by blue chip companies, negative real returns on the money market and depreciation of the local currency have collectively sustained momentum on the stock market, resulting in capital appreciation above the inflation level.



## CHAPTER THREE - CONDITION AND PERFORMANCE OF THE BANKING SECTOR

### 3.1 OVERVIEW

3.1.1 As at 31 December 2006 there were twenty-nine banking institutions operating in the country. Fourteen (14) were commercial banks, five (5) were merchant banks, four (4) were discount houses, two (2) were finance houses, and four (4) were building societies.

3.1.2 During the year CFX Bank Limited and National Discount House Limited resumed banking operations. African Banking Corporation Securities and African Banking Corporation Asset Finance merged into African Banking Corporation Zimbabwe Limited. Intermarket Discount House Limited merged into Intermarket Banking Corporation Limited. Sagit Finance House Limited was closed on 3 March 2006.

#### **Challenges...**

3.1.3 The macroeconomic environment remained volatile and was characterised by high interest rates, high inflation and shortages of foreign currency.

3.1.4 The upgrade and acquisition of information technology systems by most banking institutions was negatively affected by shortages of foreign currency and prohibitive procurement costs. This has compromised the sector's service delivery methodologies.

3.1.5 The extent of disintermediation in the banking sector remains an issue of regulatory concern. Balance sheets of most banking institutions remained inclined towards investments in the money market at the expense of traditional loans and advances to the

corporate sector. This exposes banks to high market risk and volatility of earnings.

#### **Key Success Factors...**

3.1.6 The key success factors for a balanced, resilient and competitive financial sector include: adequate capital levels; strong risk management practices; sound corporate governance structures; robust information and accounting systems and high service quality.

3.1.7 Capital is one of the indispensable success factors for banking institutions. It is the cushion that protects banks, their customers and shareholders against losses which may result from the assumption of risk. Adequate capital supports growth, fosters public confidence in the bank's condition, and provides the capacity for the banks to underwrite more business.

3.1.8 Banking institutions are therefore expected to develop their own internal capital adequacy assessment plans (ICAAP) to ensure that the amount of capital held at any particular point in time is commensurate with their risk profiles and remain above regulatory thresholds at all times.

3.1.9 The Reserve Bank also places great emphasis on sound internal risk management systems of financial institutions. Improved performance and soundness of financial institutions and prudent risk management practices noted over the year signify that financial institutions are better able to identify and manage risks.

3.1.10 Financial institutions are expected to continue enhancing their risk management practices through increased usage of credit scoring methodologies,

## CHAPTER THREE - CONDITION AND PERFORMANCE OF THE BANKING SECTOR

CONTINUED

credit rating, application of value-at-risk models, stress testing, sensitivity and gap analysis, and fair value accounting.

3.1.11 Continued improvement in banks' own internal risk management systems is also critical to enable financial institutions to dynamically adjust to and meet future challenges arising from economic uncertainty, intensifying competition, demanding regulatory and international standards and complex risk profiles.

3.1.12 Banking institutions should be proactive in responding to opportunities brought about by technological innovations and evolving consumer tastes in order to remain competitive and retain meaningful market share. Banks require robust management information systems, which are the nerve centre of modern banking operations.

3.1.13 Banking is increasingly becoming a knowledge-based profession, hence banks should acquire and retain the right skills with the necessary capability to steer them through challenging periods and to keep abreast with international best practices.

### 3.2 CONSOLIDATED BALANCE SHEET STRUCTURE

#### Composition of Assets...

3.2.1 The banking sector's total assets increased significantly from \$102.93 billion as at 31 December 2005 to \$1.66 trillion as at 31 December 2006.

3.2.2 Figure 3.1 shows the level and growth of total assets of the banking sector from December 2003 to December 2006.

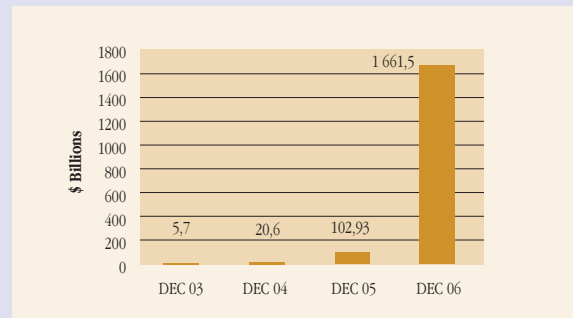


Figure 3.1: Total Banking Sector Assets

3.2.3 For most institutions the majority of assets were investments in money market instruments. Total loans and advances constituted 18.22%, while investments and securities constituted 27.35% of total assets as at 31 December 2006. Statutory reserves remained high constituting 14.07% of total assets.

Figure 3.2 reflects the composition of total assets for the past four (4) years.

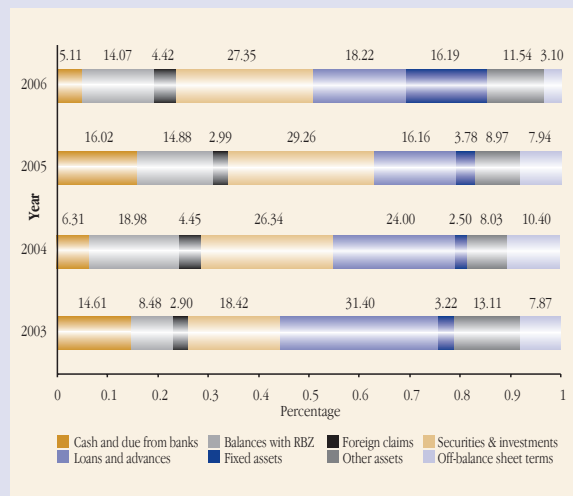


Figure 3.2: Composition of Assets

#### Loans and Advances

3.2.4 Total loans and advances as at 31 December 2006 were \$334.64 billion, representing a significant increase

## CHAPTER THREE - CONDITION AND PERFORMANCE OF THE BANKING SECTOR

CONTINUED

from \$15.22 billion as at 31 December 2005. Commercial banks continued to dominate the market with the greatest amount of credit extended to the corporate sector.

3.2.5 The proportion of loans and advances granted by each of the banking sub-sectors is depicted in Figure 3.3 below:

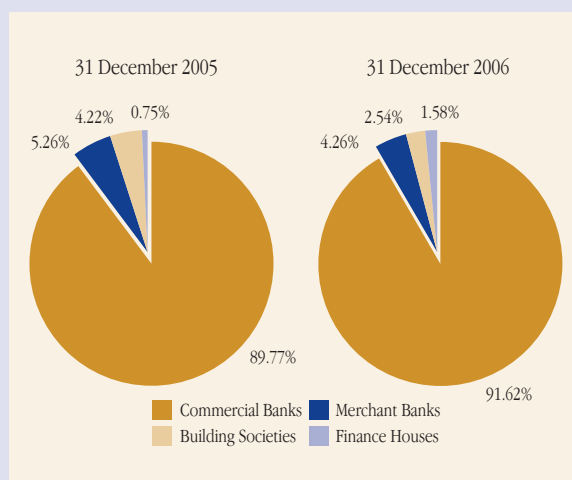


Figure 3.3: Distribution of Loans

3.2.6 As at 31 December 2006, commercial bank loans constituted 91.62% of total loans while loans by merchant banks, building societies and finance houses constituted 4.26%, 2.54% and 1.58%, respectively.

### Composition of liabilities...

3.2.7 The entire industry had a deposit base amounting to \$759.76 billion as at 31 December 2006. Deposits remained the main source of funding for the banking sector and constituted 45.73% of total liabilities. An outline of the composition of liabilities is given in Table 3.1 below.

Table 3.1: Composition of liabilities, 2005 & 2006

	Dec-2005	Dec-2006
Total Deposits	51.19%	45.73%
Due to Reserve Bank	4.38%	5.82%
Due to Financial Institutions	2.59%	4.41%
Foreign Liabilities	3.21%	0.73%
Capital and Reserves	13.71%	23.81%
Other Liabilities	16.69%	16.82%
<b>Off-balance sheet liabilities</b>	<b>8.23%</b>	<b>3.17%</b>
<b>Total Liabilities</b>	<b>100.00%</b>	<b>100.00%</b>

3.2.8 The increase in the proportion of capital and reserves was mainly due to fresh capital injections by banking institutions to meet the new minimum capital requirements that became effective on 30 September 2006. Off-balance sheet liabilities reduced due to a decline in the volume of international trade services offered by banks such as letters of credit and guarantees.

3.2.9 The distribution of deposits in the banking sector as 31 December 2006 was as shown in the table below:

Table 3.2: Sectoral Distribution of Deposits

Banking Category	Deposit Market Share (%)
Commercial banks	85.78
Merchant banks	7.61
Building societies	5.95
Finance houses	0.13
Discount houses	0.52
<b>Total</b>	<b>100</b>



## CHAPTER THREE - CONDITION AND PERFORMANCE OF THE BANKING SECTOR

CONTINUED

3.2.10 Demand deposits continued to form the bulk of the deposits constituting 47.30% while savings deposits contributed 15.96% as at 31 December 2006.

3.2.11 The level of long-term deposits was limited as most investors chose to invest short-term.

### 3.3 PERFORMANCE OF THE BANKING SECTOR

#### Capital adequacy...

3.3.1 The banking sector had a total net capital base of \$395.68 billion as at 31 December 2006, up from \$14.42 billion as at 31 December 2005. The increase was largely attributed to growth in retained earnings and capital injection to meet the revised minimum capital requirements.

3.3.2 The table below shows the minimum capital requirements for banking institutions which became effective from 30 September 2006:

Table 3.3: Minimum Capital Requirements

Type of Institution	Minimum Capital US\$
Commercial Banks	10 000 000.00
Merchant Banks	7 500 000.00
Finance Houses	7 500 000.00
Building Societies	7 500 000.00
Discount Houses	5 000 000.00
Asset Management Companies	1 000 000.00

3.3.3 The sector remained well capitalised over the year. The average capital adequacy ratio was 34.77% as at 31 December 2006, with all banking institutions recording capital adequacy ratios above the regulatory minimum of 10%.

#### Asset Quality...

3.3.4 Loans and advances increased twenty-fold from \$15.22 billion as at 31 December 2005 to \$302.80 billion as at 31 December 2006, constituting 18.22% of total assets as at 31 December 2006, compared to 14.47% as at 31 December 2005.

3.3.5 There was significant improvement in the asset quality of the banking sector during the year ended 31 December 2006 as reflected by a decline in the ratio of adversely classified loans to total loans, from 8.74% as at 31 December 2005 to 2.81% as at 31 December 2006.

3.3.6 Figure 3.4 below depicts quarterly asset quality trend for the year 2006.

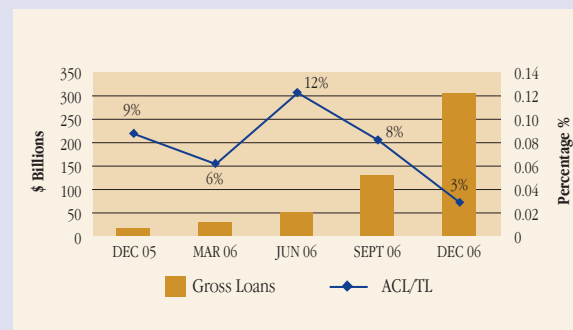


Figure 3.4: Asset Quality Indicators

3.3.7 The improvement in the adversely classified loans to total loans ratio is mainly attributable to a more cautious and conservative approach to lending. In addition, banking institutions are mainly investing in money market instruments which are less risky.

#### Profitability...

3.3.8 Profitability of the banking sector improved during the year 2006, as measured by return on assets which increased from 11.91% in 2005 to 21.92% in 2006. Total

## CHAPTER THREE - CONDITION AND PERFORMANCE OF THE BANKING SECTOR

CONTINUED

income for the banking sector increased 17 times from \$36.90 billion in 2005 to \$690.30 billion in 2006.

3.3.9 The cost-to-income ratio deteriorated from 24.20% in 2005 to 29.86% in 2006 due to the persistent inflationary pressures which increased operating costs, especially staff costs.

3.3.10 Figure 3.5 below depicts the profitability indicators of the banking sector from December 2004 to December 2006.

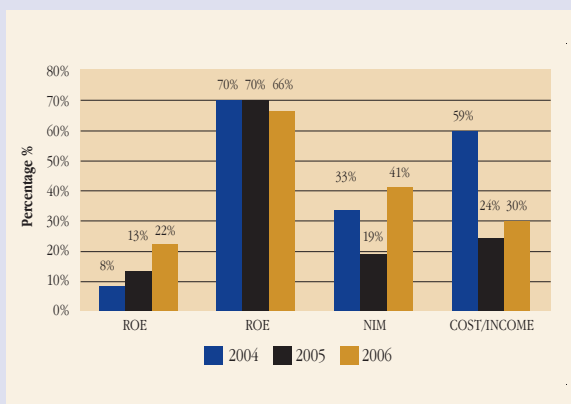


Figure 3.5: Profitability Indicators, 2004 - 2006

3.3.11 The improvement in profitability was attributable to high interest rates on securities and investments which prevailed during the greater part of 2006, resulting in huge interest rate spreads. Consequently, banking institutions recorded increases in net interest margins.

3.3.12 The banking sector's income mix for 2006 reflects a conservative approach to lending, as interest income from loans and advances constituted only 12.31% of total income while contributions from money market investments and non-interest income were 71.45% and 16.24%, respectively, as shown in the pie charts:

Income Mix: 2005

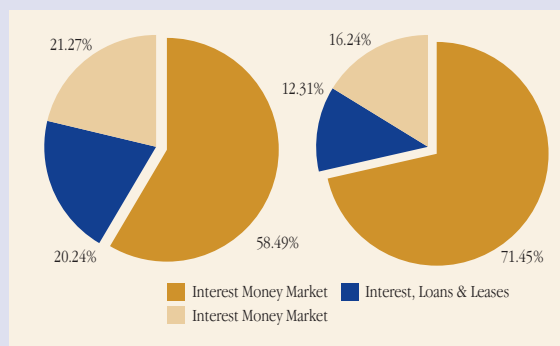


Figure 3.6: Banking Sector Income Mix, 2005 and 2006

3.3.13 Total expenses grew 14 times from \$20.30 billion in 2005 to \$359.18 billion in 2006. The changes in the composition of total expenses for the banking sector during the period under review are shown in the pie charts below:

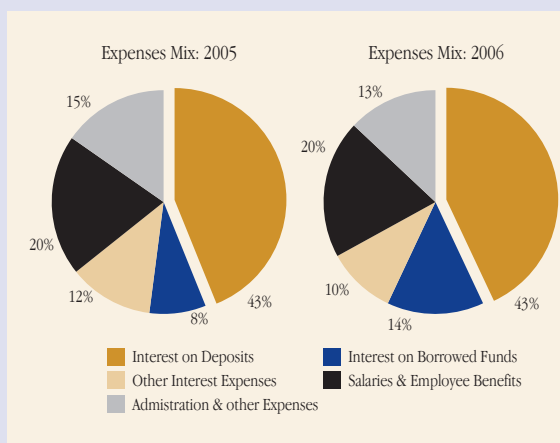


Figure 3.7: Banking Sector Expense Mix

3.3.14 The increase in the proportion of salaries and employee benefits was mainly due to the regular reviews of employee remuneration by banking institutions in order to cushion them against the inflationary pressures that characterised the year under review.

## CHAPTER THREE - CONDITION AND PERFORMANCE OF THE BANKING SECTOR

CONTINUED

### Liquidity and Funds Management...

3.3.15 The banking sector recorded an increase in total deposits from \$57.67 billion as at 31 December 2005 to \$833.07 billion as at 31 December 2006. Demand deposits constituted the largest portion of total deposits as shown in the pie chart below:

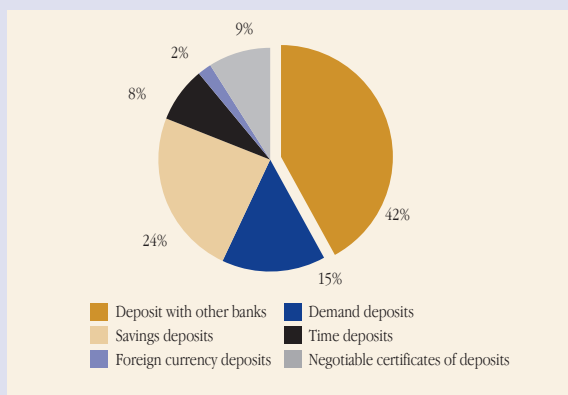


Figure 3.8: Banking Sector Deposit Mix as at 31 Dec. 2006

### 3.4 SECTORAL ANALYSIS

#### COMMERCIAL BANKS

3.4.1 There were fourteen (14) commercial banks operating in the sub-sector as at 31 December 2006, up from twelve (12) that were operating as at 31 December 2005. This followed the upliftment of curatorship on Intermarket Banking Corporation Limited and CFX Bank Limited.

#### Total Assets...

3.4.2 Total assets in the sub-sector increased 15 times from \$86.50 billion as at 31 December 2005 to \$1.30 trillion as at 31 December 2006. The significant growth was attributable to inflationary pressures as well as increased investments in the money market.

3.4.3 Figure 3.9 below shows a comparative asset mix for commercial banks as at 31 December 2005 and 31 December 2006.

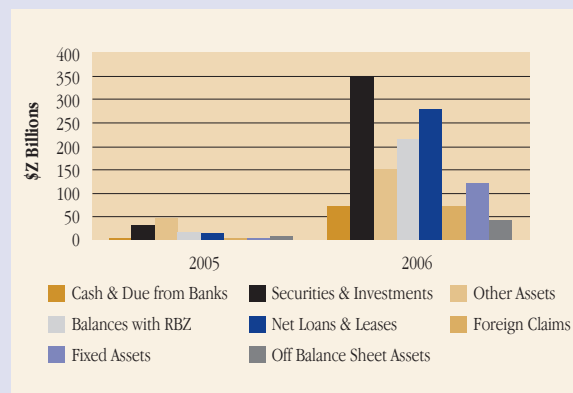


Figure 3.9: Commercial Banks- Composition of Assets

3.4.4 Commercial banks' assets remained skewed towards money market investments. Loans and advances constituted 21.51% of total assets whilst money market investments constituted 26.82% of total assets. The sub-sector has adopted a conservative approach to lending due to the adverse macro-economic environment characterized by high interest rates.

#### Total Liabilities...

3.4.5 Total deposits grew 15 times from \$44.4 billion in 2005 to \$643.93 billion at the end of 2006. The currency reforms of August 2006 encouraged the public to deposit money in banks and the introduction of daily cash withdrawal limits, resulted in the retention of more deposits in the formal banking system.

3.4.6 Commercial banks continued to fund their operations largely through demand and savings deposits, which constituted 68.83% of total deposits as at 31 December 2006, from 61.70% as at the end of 2005.



## CHAPTER THREE - CONDITION AND PERFORMANCE OF THE BANKING SECTOR

CONTINUED

3.4.7 Foreign currency liabilities grew from \$11.92 billion as at 31 December 2005 to \$61.65 billion as at 31 December 2006. The increase was largely due to the devaluation of the local currency during the year.

### Capital Adequacy...

3.4.8 The net capital base for the sub-sector increased from \$11.09 billion as at 31 December 2005 to \$228.60 billion as at 31 December 2006, mainly due to growth in retained earnings and capital injections to meet the revised minimum capital requirements.

3.4.9 The table below shows the capital bases for commercial banks as at 31 December 2006:

Table 3.4: Net Capital Base and Capital Adequacy Ratios

Bank	Net Capital Base (\$ Millions)	Capital Adequacy Ratio (%)
Agribank	7,849.11	15.71
Barclays	33,344.61	33.01
CBZ Bank	22,423.51	26.14
CFX Bank	2,171.72	56.17
FBC Bank	17,143.73	38.82
IBC	2,928.62	62.43
Kingdom Bank	12,713.91	25.71
Metropolitan Bank	14,520.03	21.34
MBCA Bank	2,099.75	29.81
NMB Bank	8,205.74	26.13
Stanbic Bank	34,797.52	43.91
Stanchart	46,842.33	28.49
ZABG	4,242.36	13.37
ZB Bank	12,321.90	16.89

3.4.10 The sub-sector remained adequately capitalised with an average capital adequacy ratio of 27.92% as at 31 December 2006. All banks in the sub-sector had capital adequacy ratios above the regulatory minimum requirement of 10%.

### Asset Quality...

3.4.11 The sub-sector recorded total loans of \$310.35 billion as at 31 December 2006, from \$14.88 billion as at 31 December 2005. The growth in loans was attributable to the Agricultural Sector Productivity Enhancement Facility (ASPEF) disbursements, and revaluation of export loans following the depreciation of the local currency against the US dollar during the year, as well as inflationary pressures.

3.4.12 The proportion of sub-sector loans to total banking sector loans marginally increased to 92.74% as at 31 December 2006, up from 88.94% as at 31 December 2005.

3.4.13 Credit risk in the sub-sector decreased as reflected by an improvement in the proportion of adversely classified loans to total loans from 10.42% in 2005 to 2.93% at the end of 2006. This is a reflection of the shift from lending to low risk securities and investments and the effect of concessionary facilities.

### Earnings...

3.4.14 The sub-sector's profitability level improved over the year as evidenced by an increase in the return on assets ratio from 11.08% as at 31 December 2005 to 15.39% as at 31 December 2006. The improvement was largely attributable to interest income earned on high yielding CPI-indexed paper issued in 2006.

3.4.15 However, net interest margin declined from 40.66% in December 2005 to 30.71% at the end of 2006. This was mainly due to high funding costs as evidenced by the average cost of funds that increased from 21.19% to 29.45% during the year under review.

## CHAPTER THREE - CONDITION AND PERFORMANCE OF THE BANKING SECTOR

CONTINUED

3.4.16 Figure 3.10 shows the comparative key earnings indicators for commercial banks as at 31 December 2004, 2005 and 2006.

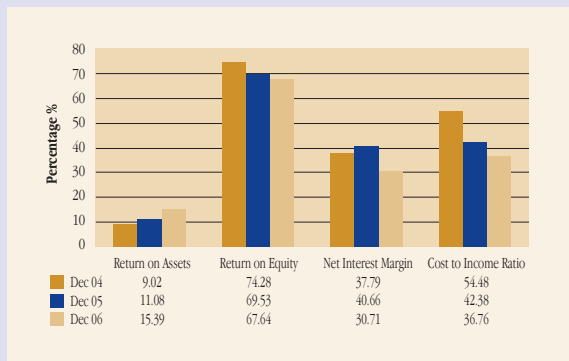


Figure 3.10: Commercial Banks - Key Earnings Indicators

3.4.17 Cost to income ratio decreased from 42.38% in 2005 to 36.76% in December 2006, mainly due to an increase in net interest income.

### Liquidity and Funds Management...

3.4.18 Total deposits for the sub-sector increased from \$44.4 billion as at 31 December 2005 to \$643.93 billion as at 31 December 2006.

3.4.19 Demand deposits at 48.92% accounted for the largest proportion of total deposits followed by time deposits and savings deposits with 18.03% and 14.24%, respectively. Foreign currency deposits and negotiable certificates of deposits constituted 19.49% of total deposits.

3.4.20 Liquidity risk for the sub-sector was considered low in view of its funding structure which is skewed towards relatively cheap and stable retail deposits.

### MERCHANT BANKS

3.4.21 There were five (5) merchant banks operating in the sub-sector as at 31 December 2006, with a market share of 9.50% of the total banking sector assets.

### Total Assets...

3.4.22 Total assets for the sub-sector amounted to \$157.90 billion as at 31 December 2006, up from \$8.20 billion as at 31 December 2005. The growth is mainly attributed to an increase in money market investments and inflationary pressures.

3.4.23 Figure 3.11 shows the comparative asset mix for merchant banks as at 31 December 2005 and 2006.

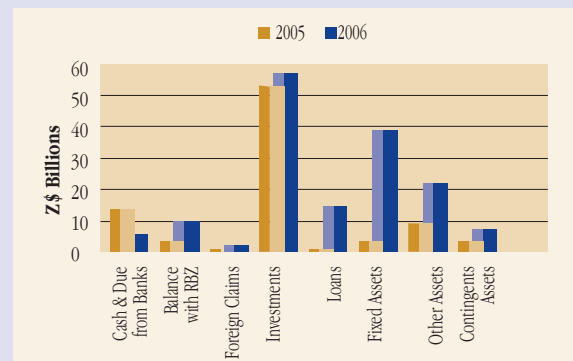


Figure 3.11: Merchant Banks- Composition of Assets

3.4.24 Securities and investments continued to dominate the sub-sector's asset base, representing 36.00% of total assets as at 31 December 2006.

3.4.25 The proportion of loans and advances to total assets remained subdued at 9.35% as at 31 December 2006, as was the case as at 31 December 2005.

3.4.26 Fixed assets accounted for 24.73% of total assets as at



## CHAPTER THREE - CONDITION AND PERFORMANCE OF THE BANKING SECTOR

CONTINUED

31 December 2006, up from 3.67% as at 31 December 2005. The increase was due to fixed assets revaluations necessitated by the current high inflation environment.

### Capital Adequacy...

3.4.27 The sub-sector was adequately capitalised with average capital adequacy and tier 1 ratios of 35.70% and 17.03%, respectively, as at 31 December 2006. This represents an improvement from 19.85% and 11.69% respectively recorded as at 31 December 2005. Retained earnings continued to be the major source of capital growth for the sub-sector.

3.4.28 Table 3.5 shows the net capital base and capital adequacy ratios for the merchant banks as at 31 December 2006.

Table 3.5: Net Capital Base and Capital Adequacy Ratios

Merchant Bank	Net Capital Base (\$ millions)	Capital Adequacy ratio
ABC Corp	20,787.35	42.51%
Genesis	4,615.90	34.64%
Interfin	3,872.39	24.61%
Premier	12,723.27	43.31%
Renaissance	4,063.62	18.75%

### Asset Quality...

3.4.29 Loans and advances for the sub-sector increased from \$0.87 billion as at 31 December 2005 to \$14.76 billion as at 31 December 2006. The growth was largely driven by increased ASPEF disbursements by the sub-sector and inflationary pressures.

3.4.30 Credit risk for the sub-sector was low as reflected by

adversely classified loans to total loans ratio of 0.22% as at 31 December 2006, down from 8.56% recorded as at 31 December 2005.

### Earnings...

3.4.31 The sub-sector's profitability improved as reflected by the increase in return on assets ratio from 6.56% as at 31 December 2005 to 15.16% as at 31 December 2006. The improvement is largely attributed to the significant income recorded from the high yielding CPI-indexed paper issued in 2006.

3.4.32 Figure 3.12 shows the sub-sector's key earnings indicators:

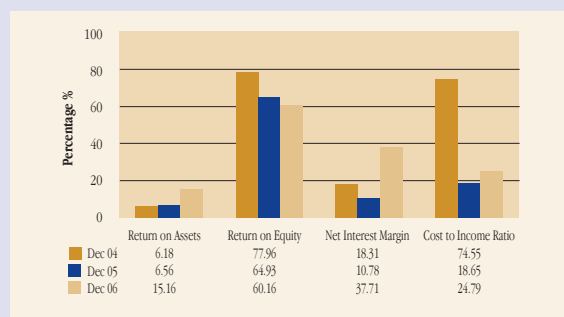


Figure 3.12: Merchant Banks-Key Earnings Indicators

3.4.33 The sub-sector's cost to income ratio deteriorated from 18.65% as at 31 December 2005 to 24.79% as at 31 December 2006, reflecting the impact of inflation on operating costs.

3.4.34 The sub-sector's income was mainly derived from investments and securities.

### Liquidity and Funds Management...

3.4.35 The merchant banks' deposit base increased from \$3.45 billion as at 31 December 2005 to \$64.25 billion as at 31 December 2006.



## CHAPTER THREE - CONDITION AND PERFORMANCE OF THE BANKING SECTOR

CONTINUED

3.4.36 The sector's deposit mix was as follows: time deposits (77.28%), demand deposits (14.04%), interbank deposits (5.98%) and foreign currency deposits (3.42%).

### DISCOUNT HOUSES

3.4.37 The sub-sector comprised of four (4) operating discount houses as at 31 December 2006, down from five (5) as at 31 December 2005. The other discount house, African Banking Corporation Securities Limited, went into a merger with a sister institution, African Banking Corporation Limited.

3.4.38 The number of institutions in the sub-sector has been declining over the years due to increased pressure for discount houses to convert to either commercial or merchant banks which offer scope for diversified income streams.

3.4.39 Discount houses derive their business from securities discounting and brokering activities which constitute a small portion of activities that may be offered in the financial service sector.

3.4.40 The removal of the traditional franchise for discount houses to act as primary dealers in government paper in 1998 reduced the competitive advantage of these institutions and squeezed their sources of income.

3.4.41 This development has resulted in a wave of consolidations and conversions to other classes of banking institutions which offer a variety of products and broader income bases.

### Total Assets...

3.4.42 Total assets for the sub-sector increased significantly from \$1.24 billion as at 31 December 2005 to \$15.69

billion as at 31 December 2006. Discount houses had a market share of 1% in terms of total banking sector assets as at 31 December 2006.

3.4.43 Securities and investments continued to dominate the balance sheets of discount houses, constituting 42.48% of the total assets in line with the traditional business of discount houses.

### Capital Adequacy...

3.4.44 As at 31 December 2006, all the discount houses were adequately capitalised with ratios well above the prescribed minimum of 10%. The average capital adequacy ratio for the sub-sector declined from 58.16% as at 31 December 2005 to 45.89% as at 31 December 2006.

3.4.45 The average capital adequacy ratios for discount houses are generally high due to the nature of their assets which attract lower risk weights. Discount houses' balance sheets were skewed towards money market investments.

### Asset Quality...

3.4.46 Discount houses are exposed to low credit risk as they do not issue out loans and advances. Their balance sheets are mainly skewed towards liquid investment assets particularly treasury bills.

### Earnings...

3.4.47 The sub-sector recorded a net profit after tax of \$4.52 billion for the year ended 31 December 2006, up from \$286.16 million in the previous year. Investments and securities contributed 93.73% of the total income for the year ended 31 December 2006, being an increase from 86.55% achieved in 2005.

## CHAPTER THREE - CONDITION AND PERFORMANCE OF THE BANKING SECTOR

CONTINUED

3.4.48 The sub-sector's earnings have remained subdued as a result of limited business lines and revenue sources. Non-interest earning assets constituted 32.44% of total sub-sector assets as at 31 December 2006, up from 13.11% as at 31 December 2005. Figure 3.13 shows the sub-sector's key earnings indicators:

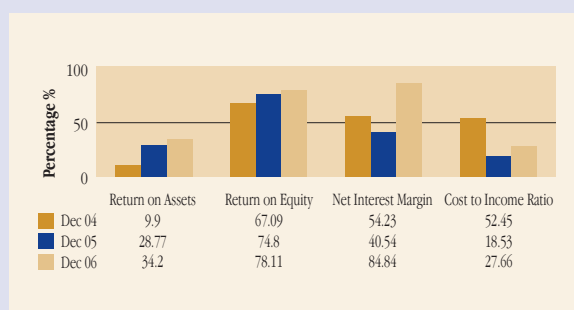


Figure 3.13: Discount Houses- Key Earnings Indicators

3.4.49 The cost to income ratio deteriorated from 18.53% as at 31 December 2005 to 27.66% as at 31 December 2006, primarily due to the high cost of funds and operational expenses. The deposit base of discount houses is comprised of time deposits which are generally expensive as compared to demand deposits.

### Liquidity and Funds Management...

3.4.50 Total deposits for the sub-sector increased from \$0.3 billion as at 31 December 2005 to \$4.42 billion as at 31 December 2006. The total deposits for the sub-sector constituted 0.58% of the total banking sector deposits.

### FINANCE HOUSES

3.4.51 There were two (2) registered finance houses in the sub-sector as at 31 December 2006, namely Trust Finance Limited and ZDB Financial Services. This represent a reduction from the four (4) as at 31 December 2005. Sagit Finance House went into liquidation while ABC

Asset Finance merged with ABC Zimbabwe during the year. The sub-sector held 0.40% of the total banking sector assets of \$1.66 trillion in 2006.

### Total Assets.....

3.4.52 Finance houses recorded a 309.43% growth in total assets, from \$1.59 billion as at 31 December 2005 to \$6.51 billion as at 31 December 2006.

3.4.53 In order to take advantage of high interest rates that prevailed on the money market, during the period under review, finance houses shifted from their core business of hire purchase lending to money market investments.

3.4.54 Securities and investments constituted 30.85%, while loans and advances accounted for 8.31% of total assets. Off-balance sheet items i.e. undrawn commitments on loans and leases accounted for 49% of total assets.

### Capital Adequacy...

3.4.55 The two finance houses were adequately capitalised as at 31 December 2006. The sub-sector's average capital adequacy ratio declined from 29.73% as at 31 December 2005 to 17.82% as at 31 December 2006. This decline was influenced by reduced trading by ZDB Financial Services, pending its merger with Infrastructure Development Bank of Zimbabwe.

### Asset Quality...

3.4.56 The finance houses had total loans of \$541.30 million as at 31 December 2006, representing an increase of 236.17% from \$161.02 million as at 31 December 2005.



## CHAPTER THREE - CONDITION AND PERFORMANCE OF THE BANKING SECTOR

CONTINUED

3.4.57 Credit risk was moderate during the review period. Adversely classified loans to total loans ratio largely remained the same at 13.11% as at 31 December 2006.

### **Earnings...**

3.4.58 The sub-sector's profitability levels improved during the period under review as evidenced by a considerable increase in return on assets from 5.82% as at 31 December 2005 to 48.12% as at 31 December 2006. Net interest margin increased significantly from 17.81% as at 31 December 2005 to 69.80% as at 31 December 2006.

3.4.59 Earnings were mainly derived from interest income from investments and securities which contributed 78.97% to total income. Further, the institution recorded significant income from its investment in high yielding CPI indexed bonds.

### **Liquidity and Funds Management...**

3.4.60 Total deposits for the sub-sector decreased from \$1.4 billion as at 31 December 2005 to \$1.08 billion as at 31 December 2006.

3.4.61 The sub-sector's major funding source was fixed deposits, which constituted 95.96% of total deposits as at 31 December 2006.

### **BUILDING SOCIETIES**

3.4.62 There were four (4) building societies in the sub-sector as at 31 December 2006 with a market share of 10.95% of the total banking sector assets.

### **Total Assets...**

3.4.63 Total assets for the sub-sector grew from \$7.78 billion as at 31 December 2005 to \$184.91 billion as at 31 December 2006.

3.4.64 The sectors' mortgage book in relation to total assets decreased from 10.16% as at 31 December 2005 to 4.33% as at 31 December 2006 due to limited funding sources for investment in residential and commercial property development.

### **Capital Adequacy...**

3.4.65 All institutions in the sub-sector were adequately capitalised with an average capital adequacy ratio of 72.47% as at 31 December 2006, an increase from 58.27% recorded as at 31 December 2005.

3.4.66 The net capital base for the sub-sector increased from \$2.2 billion as at 31 December 2005 to \$101.91 billion as at 31 December 2006 mainly due to a growth in retained earnings.

### **Asset Quality...**

3.4.67 Advances for the sub-sector increased from \$0.81 billion as at 31 December 2005 to \$8.61 billion as at 31 December 2006.

3.4.68 Credit risk was considered to be low in view of the decrease in the adversely classified loans to total loans ratio for the sub-sector from 4.56% as at 31 December 2005, to 2.23% as at 31 December 2006.

### **Earnings...**

3.4.69 The sub-sector's profitability improved over the year. The major source of income was interest income earned from money market investments. Return on assets increased from 10.30% as at 31 December 2005 to 25.57% as at 31 December 2006. The increase was largely due to high interest rates on the money market. The net interest margin also increased from 27.71% to 31.44% during the period.



## CHAPTER THREE - CONDITION AND PERFORMANCE OF THE BANKING SECTOR

CONTINUED

3.4.70 Income from securities and investments contributed 49.24% of total income while mortgages contributed 3.81%, with the balance of 46.95% being non-interest income.

### Liquidity and Funds Management...

3.4.71 Total deposits, which are 5.95% of total banking sector deposits, increased from \$4.5 billion as at 31 December 2005 to \$50.25 billion as at 31 December 2006.

3.4.72 Building Societies continued to enjoy a stable funding base, mainly composed of savings and fixed deposits at 48.83% and 32.09% of total deposits, respectively.

3.4.73 Liquidity risk in the sub-sector was generally low. As at 31 December 2006, the ratio of deposits and short term liabilities to liquid asset was 129.26%.

## 3.5 ASSET MANAGEMENT COMPANIES SECTOR

### Overview...

3.5.1 Asset management is the professional management of various securities (shares, bonds, etc) and other assets (property, etc), to meet specified investment goals for the benefit of investors on a discretionary or non-discretionary basis, for a fee or commission.

3.5.2 The relationship between asset managers and clients is established on an agent - principal basis, hence the investors themselves bear the risk associated with movements in market prices and default of counterparties.

3.5.3 The asset manager invests clients' funds for a fee rather than taking a principal position in the

transaction as is the case with banking institutions. Consequently, investments are made pursuant to a trust deed (unit trusts) or written mandate (portfolio management).

3.5.4 Asset management companies are not involved in the settlement process, do not deal on their own account, underwrite securities and do not lend money. As a result they do not pose the same systemic risk as banking institutions.

3.5.5 The asset management sector comprised seventeen (17) operating institutions with total proprietary assets of \$20.81 billion and client funds under management of \$2.18 trillion as at 31 December 2006.

3.5.6 During the year under review one asset management licence was revoked following the institution's failure to generate meaningful business as well as demonstrate capacity to recapitalise in line with revised minimum capital requirements.

### Capital Adequacy...

3.5.7 The sector was adequately capitalised with an aggregate capital base of \$14.23 billion as at 31 December 2006, up from \$380.42 million as at 31 December 2005.

3.5.8 As at 31 December 2006, all asset management companies were in compliance with minimum capital requirement of \$100 million.

### Funds under Management...

3.5.9 Total funds under management in the sector increased from \$86.07 billion as at 31 December 2005 to \$2.18 trillion as at 31 December 2006. Proprietary

## CHAPTER THREE - CONDITION AND PERFORMANCE OF THE BANKING SECTOR

CONTINUED

investments comprised 0.95% of total funds under management. The increase in funds under management was largely attributed to an increase in the value of equities and a general shift by investors from the money market to the stock market given the highly inflationary environment.

3.5.10 The graph below shows the quarterly trend in the composition of funds under management for the sector over the year for 31 December 2006.

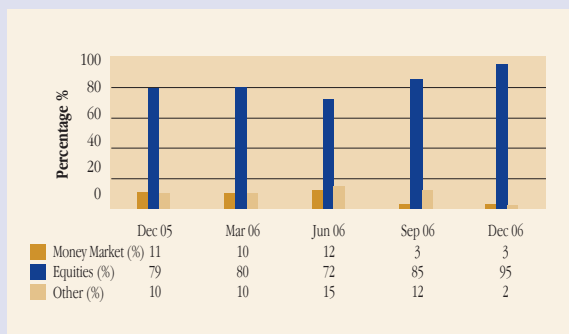


Figure 3.16: Composition of Funds Under Management

### Earnings and profitability...

3.5.11 Improvement in earnings over the year was largely driven by a combination of factors such as growth in funds under management and revaluation of proprietary equity investments.

3.5.12 The graph below illustrates the profitability indicators for asset management companies:

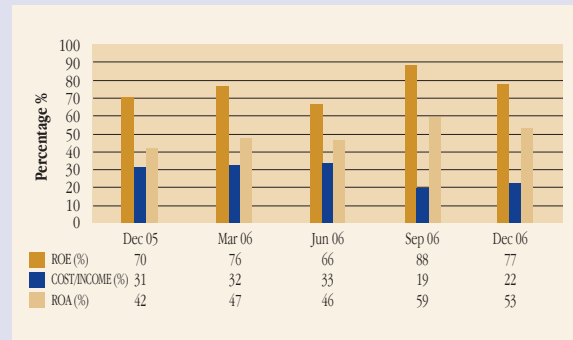


Figure 3.17: Key Earnings Indicators

3.5.13 Net profit after tax for the year ended 31 December 2006 was \$10.94 billion, an increase from \$267.49 million recorded as at 31 December 2005. Return on assets improved from 41.56% in December 2005 to 52.58% in December 2006. The average cost to income ratio improved from 31.14% in December 2005 to 22.05% in December 2006.



## CHAPTER FOUR - MAJOR DEVELOPMENTS IN THE BANKING SECTOR

### 4.1 INTRODUCTION

4.1.1 The financial sector has witnessed transformation in both form and function over the years driven by factors such as de-regulation, globalisation, technological advancement and financial innovation.

4.1.2 At the same time, BLSS has taken various regulatory and supervisory initiatives to promote and maintain a sound and stable financial system.

### 4.2 BANKING SECTOR CONSOLIDATION

4.2.1 During 2006, the consolidation process, through mergers and acquisitions, gained momentum as banking institutions strategically positioned themselves in an adverse macro economic environment.

4.2.2 Cognisant of the new minimum capital requirements effective 30 September 2006, some banking groups with multiple licences found it imperative to consolidate their operations under a single licence.

4.2.3 The consolidation process was also driven by increasing competition and the desire to cut costs. Smaller entities find it difficult to compete with large banks locally and regionally, which enjoy enormous economies of scale and scope and hence consolidation provided synergies to the merged entities. Consolidations result in improved balance sheet size thereby enhancing the merged entities' access to international lines of credit. The Reserve Bank, therefore, has been encouraging the consolidation process, wherever possible.

4.2.4 The Minister of Finance, in conjunction with the Reserve Bank approved three (3) mergers and three (3) takeover transactions of financial institutions in 2006.

4.2.5 The merger transactions were as follows:-

- a) Intermarket Banking Corporation and Intermarket Discount House - the operations of the two entities are now under Intermarket Banking Corporation.
- b) African Banking Corporation of Zimbabwe Limited/African Banking Corporation Securities Limited/African Banking Corporation Asset Finance Limited - operations of the three entities were merged under African Banking Corporation of Zimbabwe Limited.

4.2.6 The takeover transactions were as follows:-

- a) TN Financial Holdings Limited took over Trust Finance Limited;
- b) ZB Holdings Limited took over Intermarket Holdings Limited; and
- c) CBZ Holdings Limited acquired Beverley Building Society.

4.2.7 With increased globalisation and technological improvements, the consolidation process in the banking sector is likely to intensify in the future. The consolidations are expected to result in improvements in the size, structure, outreach and stability of the resultant institutions.

### 4.3 MAJOR ON-SITE EXAMINATION FINDINGS

4.3.1 As part of monitoring and supervision of the banking sector through off-site surveillance, risk-based



## CHAPTER FOUR - MAJOR DEVELOPMENTS IN THE BANKING SECTOR

C O N T I N U E D

examinations and targeted examinations, the Reserve Bank noted a number of issues discussed hereunder.

### **Capital Adequacy...**

4.3.2 Although all banking institutions met the new minimum capital requirements effective 30 September 2006, some institutions were not providing sufficient capital to support proposed diversification strategies as envisaged by their strategic plans.

4.3.3 Concentrated shareholding by individuals at times constrains the capacity of banking institutions to recapitalize to levels that enable underwriting of meaningful business.

4.3.4 As capital levels are periodically reviewed upwards, it is imperative that banks maintain adequate capital commensurate with their risk profiles. Diversity in shareholding to include institutional investors strengthens capacity to provide funding.

### **Asset Quality...**

4.3.5 There was increased disintermediation during the year as reflected by low proportion of loans and advances compared to money market investments.

4.3.6 Credit risk management was compromised by incorrect classification, under-provisioning and imprudent write-offs of non-performing loans in some cases.

### **Management...**

#### **Corporate Governance:**

4.3.7 There was a general improvement in corporate governance structures particularly composition of boards, committees and relationships between stakeholders.

4.3.8 The board of directors in a few institutions failed to provide adequate strategic direction to senior management. In addition, instances of insufficient board oversight on critical functions, such as risk management were noted. Such institutions were directed to restructure their boards and management committees.

4.3.9 Shareholding irregularities were noted during the year, with some institutions, failing to disclose names of new shareholders to the Reserve Bank through filing the appropriate returns.

4.3.10 In some instances board members were appointed without prior vetting by the Reserve Bank.

4.3.11 Some institutions abused associate companies, Special Purpose Vehicles (SPVs) and/or related parties by designing elaborate schemes, to conduct non-banking activities, evade regulation and channel depositors' funds to non-regulated entities such as holding companies.

4.3.12 Lack of independence between the board committees in terms of membership particularly in the Loans Review Committee and Audit Committee adversely affects the effectiveness of the board.

4.3.13 Non-disclosure or inadequate disclosure of adverse information such as auditors' qualification of financial statements militates against promotion of effective market discipline on the basis of which members of the public make rational decisions.

4.3.14 Prior to the 30 September 2006 deadline for new capital requirements, there were isolated instances



## CHAPTER FOUR - MAJOR DEVELOPMENTS IN THE BANKING SECTOR

C O N T I N U E D

where some shareholders created a false impression of adequate capitalisation by using depositors' and borrowed funds to recapitalize their banking institutions in contravention of the Banking Act and the Companies Act. Such capital was subsequently disqualified by the Reserve Bank and accordingly, institutions were directed to recapitalize using unencumbered sources of funding.

- 4.3.15 Going forward, the quality of corporate governance in banking institutions is expected to assume critical importance as competition intensifies and banks strive to retain their client base.

### **Risk Management...**

- 4.3.16 Some institutions were operating without comprehensive corporate strategic plans and consequently had difficulties in aligning activities of their strategic business units to rapid environmental changes.

- 4.3.17 Although policies and procedures were found to be in place and adopted by the board of directors, they are seldom used by personnel as a guide to the day-to-day operations in some institutions. Policies and procedures should continuously be a reference point and a training tool.

- 4.3.18 Poor management information systems compromised integrity of some banks financial records. Lack of interface between systems resulted in human intervention, thereby heightening operational risk. Consequently, in some cases, banking institutions produced inadequate and inaccurate management information.

- 4.3.19 The disaster recovery arrangements of some institutions were found to be inadequate and hence pose potential negative effects on business continuity in cases of major disruptions in IT systems.

- 4.3.20 Some banking institutions appointed risk managers with a strong bias towards credit risk management, despite a significant shift in the balance sheet structure of such institutions from loans and advances to money market investments. As a result, such risk managers are not adequately conversant with contemporary liquidity and interest rate risk management techniques.

- 4.3.21 Weak internal control systems in some institutions resulted in dominant shareholders and senior management overriding set policies and procedures.

- 4.3.22 In a number of institutions it was observed that the internal audit function was ineffective with inadequate coverage of key operations due to staffing and skills constraints. In some cases the internal audit teams exhibited a lack of comprehensive understanding of risk based audit techniques resulting in inadequate checks and balances.

- 4.3.23 Anti-Money Laundering and Know-Your-Customer procedures were not comprehensive in a few institutions. However, where the policies and procedures are detailed, they are not being consistently adhered to.

- 4.3.24 Due to limited business from core activities, a few Asset Management Companies engaged in non-permissible activities such as margin trading, as they were quoting interest rates for clients upfront and



## CHAPTER FOUR - MAJOR DEVELOPMENTS IN THE BANKING SECTOR

C O N T I N U E D

reinvesting the funds at higher interest rates.

### **Earnings...**

4.3.25 Most banking institutions recorded increased profitability levels, largely attributable to income from high-yielding CPI-indexed treasury bills. In addition, the progressive reductions in statutory reserves during the year under review also contributed to the improvement in earnings. It was, however, noted that some banking institutions' profitability levels could not sufficiently support capital growth.

4.3.26 One (1) institution recorded losses which were mainly attributed to a large portfolio of non-performing insider loans and other ill-structured deals initiated by the holding company. Consequently, the institution's licence was cancelled.

4.3.27 Deliberate misclassification of deposits under categories which are exempt from statutory reserves, abuse of multiple licences and collusion with clients in some instances resulted in the understatement of statutory reserves. Misrepresentation of statutory reserve figures casts doubt on the integrity of a banking institution's management.

### **Liquidity...**

4.3.28 Some institutions were noted to have high levels of negative liquidity gaps in the critical short-term time bands. These liquidity gaps were mainly as a result of high levels of non-performing loans and funding of long-dated treasury bills using short-term liabilities.

4.3.29 The funding gaps resulted in high financing costs due to expensive inter-bank and lender of last resort facilities.

4.3.30 Some banks were relying on wholesale deposits, which are expensive, and therefore posed greater liquidity risk to the sector.

4.3.31 It was established that although most banking institutions had put in place contingency liquidity plans, some of the plans focused on a bank crisis only, without due consideration to market-wide crisis.

4.3.32 Some banking institutions are yet to embrace contemporary liquidity management techniques such as development of effective internal policies and benchmarks as well as stress testing of liquidity positions. Trigger points that prompt action in times of liquidity challenges have not been put in place.

### **Sensitivity to Market Risk...**

4.3.33 Some institutions were exposed to high repricing risk as reflected by a huge net liability-sensitive book. Given that assets were mainly funded by short-term wholesale deposits and interbank borrowings, increases in interest rates would reduce the banks' net income significantly.

4.3.34 In 2006, there were considerable changes in the asset and liability structure of banking institutions' balance sheets, in response to changes in macroeconomic variables. There was an upsurge in the banking institutions' money market investments, which constituted substantial proportions of total assets.

4.3.35 These structural changes have strong implications on the financial health and performance of banking institutions. In most instances, this resulted in banks recording significant increases in profitability and



## CHAPTER FOUR - MAJOR DEVELOPMENTS IN THE BANKING SECTOR

CONTINUED

capital adequacy, the shift in financial structure also heightens banking institutions' exposure to market risk.

4.3.36 As is the case with liquidity management, most banking institutions do not have effective internal policies and procedures for managing market risk.

4.3.37 The majority of banking institutions did not have benchmarks and rarely conducted stress testing relating to the management of interest rate risk. This exacerbates banking institution's vulnerability to market risk against the background of a shift in the asset and liability structure of the balance sheets.

### 4.4 SUPERVISORY RESPONSES

4.4.1 To promote and maintain the safety and soundness of the banking system, the Reserve Bank took a number of measures and applied a range of supervisory action to correct deficiencies noted during off-site surveillance and on-site examinations as discussed under:

#### Corrective Orders...

4.4.2 A corrective order is a plan imposed by the Reserve Bank on a banking institution to correct deficiencies. The order specifies actions, persons responsible and time-frame and target levels for achievement of specific actions.

4.4.3 In 2006 there were four (4) banking institutions operating under Corrective Orders. These orders, which were issued in terms of the Banking Act, [Chapter 24:20], required the institutions to address the following issues:

- a) capital injection;
- b) poor asset quality and insider loans;
- c) IT system interface;
- d) enhancement of board and management oversight; and
- e) setting up of effective risk management systems to measure and manage liquidity, credit and market risks.

#### Cancellation of Licences...

4.4.4 One (1) asset management company, Patnel Asset Management, was closed and had its licence cancelled in March 2006. This was after the institution was found to be operating outside the requirements of the Asset Management Act, [Chapter 24:26]. The institution was taking positions with clients' funds, had capitalisation challenges and poor corporate governance structures.

#### Liquidations...

4.4.5 Following placement of a number of banking institutions under curatorship between 2003 and 2005, the Reserve Bank drew important lessons in the resolution of troubled banking institutions.

4.4.6 It was noted that curatorship should be for a limited period of time in order to maintain confidence in the banking sector, and minimize financial loss to depositors. Unrepentant shareholders were reluctant to let go their stake, fruition of market solutions which were being encouraged was slow, whilst Curators took time to complete investigations due to lack of proper accounting records, dubious deals etc.

4.4.7 Therefore, banks which cannot be rehabilitated in the normal course of business will be liquidated with no



## CHAPTER FOUR - MAJOR DEVELOPMENTS IN THE BANKING SECTOR

C O N T I N U E D

recourse to curatorship. In 2006, there were two institutions which could not be resuscitated and consequently were liquidated.

### **Other Enforcement actions...**

- 4.4.8 The Reserve Bank caused the removal of directors and officers, reconstitution of boards and senior management and the reorganisation of corporate structures where it was noted that weak corporate governance and management shortcomings were contributing to the institution's poor performance and non-compliance with relevant laws and regulations.

### **4.5 ISSUANCE OF PRUDENTIAL GUIDELINES**

- 4.5.1 Cognisant of the challenges facing banking institutions and in a bid to enhance risk management systems in the banking sector, the Reserve Bank issued prudential guidelines which should be used as minimum standards by banking institutions.

### **Risk-Based Supervision Policy Framework...**

- 4.5.2 **The Guideline No. 2 – 2006/BSD, Risk-Based Supervision Policy Framework**, sets out the Reserve Bank's approach to risk-based supervision of banking institutions and banking groups under the regulatory and supervisory jurisdiction of the Reserve Bank.
- 4.5.3 The objective of this framework is to explain and provide guidance on the risk-based supervisory methodologies, policies, procedures and practices espoused by the Reserve Bank.
- 4.5.4 The guideline was published to the market to enable

bankers to have a common understanding with the regulators on the application of international best practice in banking supervision. In addition, the framework encourages continuous interaction between the parties, and emphasizes the need for banking institutions to focus on matters of significant supervisory concern.

### **Risk Management Guideline...**

- 4.5.5 To facilitate consistent approach to risk management and adoption of international best practice, the Reserve Bank issued **Guideline No. 1– 2006/BSD, Risk Management**, which provides minimum requirements for sound risk management practices. The guideline encompasses the management of strategic, credit, market, liquidity, operational, legal & compliance and reputational risks.
- 4.5.6 The guideline emphasises four key pillars of a sound risk management framework, namely, adequate board and senior management oversight, sound risk management policies and operating procedures, adequate management information systems, strong risk measurement, monitoring and control capabilities and adequate internal controls.

### **Compliance and Corporate Governance**

- 4.5.7 In line with international initiatives, BLSS issued a Corporate Governance Guideline in 2004.
- 4.5.8 Further, a fit and proper person criterion was developed to compliment the corporate governance standards exposed in the Guideline.



## CHAPTER FOUR - MAJOR DEVELOPMENTS IN THE BANKING SECTOR

CONTINUED

### **Board and Director Evaluation Framework...**

4.5.9 During the course of 2005, the Reserve Bank came up with a comprehensive framework which provided minimum standards regarding the manner in which the Board and Director Evaluations should be carried out.

4.5.10 The framework was consistent with Section 2:16 of the Corporate Governance Guideline No. 01/ 2004/ BSD, which requires banking institutions to conduct annual board and director evaluations in order to assess effectiveness of the board.

4.5.11 The board and director evaluation exercise is a vital component of sound corporate governance and is in line with international best practice on Corporate Governance.

### **Consolidated Supervision...**

4.5.12 The adoption of consolidated supervision has enhanced BLSS capacity to evaluate the strength of the entire banking group to which a banking institution belongs.

4.5.13 Further, the approach helps to reduce regulatory arbitrage as well as evaluate the impact of non-banking subsidiaries on the supervised entities whether operating locally or in other jurisdictions.

4.5.14 Accordingly, the Reserve Bank has established working relationships with other local and regional regulatory authorities, consummated, in some cases, through memoranda of understanding. The memoranda of understanding enhance sharing of information, which is mutually beneficial to all parties, and help in reducing supervisory gaps, regulatory arbitrage, and enhance consolidated supervision.

4.5.15 Further, proposals for amendments of laws and regulations have been made and this will be complimented by a Consolidated Supervision Framework to ensure that bank holding companies are supervised on a consolidated basis, in line with international best practice.



## CHAPTER FIVE - BASEL II IMPLEMENTATION

### 5.1 OVERVIEW

- 5.1.1 The Bank of International Settlements' Basel Committee on Banking Supervision published the revised International Convergence of Capital Measurement and Capital Standards in June 2004.
- 5.1.2 The publication of the Revised Framework, otherwise known as Basel II, marks the culmination of a long gestation period in the evolution of regulatory capital requirements and in the philosophy of supervising banking institutions.
- 5.1.3 Basel II is a more comprehensive capital measurement standard, which seeks to improve on the existing rules by aligning regulatory capital requirements more closely to the underlying risks that banking institutions are exposed to.
- 5.1.4 In addition, Basel II is intended to promote a more forward-looking approach to capital determination and supervision, one that encourages banks to identify the risks they may face, today and in the future, and to develop or improve their ability to manage those risks. As a result, it is intended to be more flexible and better able to evolve with advances in markets and risk management practices.
- 5.1.5 Further, Basel II allows banking institutions a range of options, subject to the Reserve Bank's approval, for determining capital charge that best suit the size, complexity, risk profile, and risk management capability of each institution.
- 5.1.6 The implementation of Basel II will have wide-ranging effects on banks' information technology systems, processes, people, and business strategies.

### 5.2 EVOLUTION OF THE BASEL II FRAMEWORK

- 5.2.1 The first attempt at providing an internationally acceptable standard for measuring capital adequacy in banking institutions was in 1988. In July of that year, the Bank for International Settlements, through its Basel Committee on Banking Supervision (BCBS) released the International Convergence of Capital Measurement and Capital Standards (Basel I).
- 5.2.2 The 1988 Accord, which was primarily designed for internationally active banks in the G10 member countries, mainly dwelt on providing capital for credit risk as lending was considered to be the predominant function of banks at that time. However, the Accord was subsequently adopted by supervisory authorities in more than 150 jurisdictions across the world, including Zimbabwe.
- 5.2.3 Under the 1988 Accord, capital ratios are calculated through applying predetermined risk weights to a bank's credit exposures as indicated below:

<b>Net Capital Base</b>	<b>=</b>	<b>Capital</b>
<b>Risk Weights X Credit Exposures</b>		<b>Adequacy Ratio</b>

- 5.2.4 Thus the capital requirements were defined as a function of the amount of a banks' risk-weighted assets. The minimum capital adequacy ratio was set at 8%.
- 5.2.5 Subsequent to the release of the 1988 Capital Accord the nature of banks balance sheets continued to evolve, particularly in response to financial liberalisation, financial markets integration, globalisation and product innovations. In response to these developments, the Basel Committee developed and issued another guideline setting out approaches for



## CHAPTER FIVE - BASEL II IMPLEMENTATION

CONTINUED

allocating capital for market risk exposures. The market risk principles were issued as an amendment to the 1988 Capital Accord in January 1996. From that year onwards, banking institutions were required to allocate capital for both credit risk and market risk exposures.

5.2.6 Further, as recent as January 2001, the Basel Committee resumed additional revisions to the 1988 Accord to incorporate issues arising from financial market innovation and supervisory challenges emanating from capital arbitrage and securitization.

5.2.7 A lot of valuable improvements were made to the original Capital Accord through iterative consultation processes. In June 2004, the Central Bank Governors as well as the Heads of Supervisory Authorities of the G-10 published the final version of the **International Convergence of Capital Measurement and Capital Standards: A Revised Framework**.

5.2.8 In developing the Revised Framework, the Committee sought to arrive at significantly more risk-sensitive capital requirements as well as to promote the adoption of stronger risk management practices by the banking industry.

5.2.9 The Basel II framework was further revised in November 2005 to incorporate additional guidance on Trading Activities and the Treatment of Double Default Effects. The 1996 Market Risk Amendment was also revised to reflect the changes introduced through Basel II.

5.2.10 As such, Basel II represents bank supervisors' response to changes flowing from the increasing sophistication of risk measurement and management. Therefore, the overarching feature of Basel II is that it embraces a comprehensive approach to risk management and bank supervision. It sets out details

for adopting more risk-sensitive minimum capital requirements as well as strengthening market discipline by enhancing transparency in financial reporting..

5.2.11 The considerably increased scope of regulations in the New Basel Capital Accord is represented in a framework of three complementary pillars that will make the banking system safer, sounder, and more efficient. These pillars are summarised in the table below.

Pillar I - Minimum Capital Requirements	Pillar II - Supervisory Review Process	Pillar III - Market Discipline
<p><b>Market Risk</b></p> <ul style="list-style-type: none"> <li>• Slight change from Basel I.</li> </ul> <p><b>Credit Risk</b></p> <ul style="list-style-type: none"> <li>• Significant change from Basel I.</li> <li>• Three different approaches to the calculation of minimum capital requirements.</li> <li>• Capital incentives for banks to move to more sophisticated credit risk management approaches based on internal ratings.</li> <li>• Sophisticated approaches have systems/controls and data collection requirements as well as qualitative requirements for risk management.</li> </ul> <p><b>Operational Risk</b></p> <ul style="list-style-type: none"> <li>• Not explicitly covered in Basel I.</li> <li>• Three different approaches to the calculation of minimum capital requirements.</li> <li>• Adoption of each approach subject to compliance with defined 'qualifying criteria'.</li> </ul>	<ul style="list-style-type: none"> <li>• Banks should have a process for assessing their overall capital adequacy and strategy for maintaining capital levels.</li> <li>• Supervisors should review and evaluate banks' internal capital adequacy assessment and strategies.</li> <li>• Supervisors should expect banks to operate above the minimum capital ratios and should have the ability to require banks to hold capital in excess of the minimum capital requirement.</li> <li>• Supervisors should seek to intervene at an early stage to prevent capital from falling below minimum levels.</li> </ul>	<ul style="list-style-type: none"> <li>• Market discipline reinforces efforts to promote safety and soundness in banks.</li> <li>• Core disclosures (basic information) and supplementary disclosures to make market discipline more effective.</li> </ul>



## CHAPTER FIVE - BASEL II IMPLEMENTATION

CONTINUED

### 5.3 PILLAR I: MINIMUM CAPITAL REQUIREMENTS

5.3.1 The minimum capital requirements cover the calculation of the total capital requirements for credit risk which was revamped completely, market risk which was not changed and operational risk which was explicitly introduced for the first time. These three risks are the so-called "Pillar 1" risks.

5.3.2 The Revised Framework therefore requires minimum capital requirements to be calculated as follows.

<b>Net Capital Base</b>		
<b>Credit + Operational</b>	=	<b>Capital</b>
<b>+ Market Risk</b>		<b>Adequacy Ratio</b>
<b>Equivalent Assets</b>		

#### Credit Risk...

5.3.3 Basel II takes a more sophisticated approach to credit risk, in that it allows banking institutions to make use of internal ratings based systems to calculate their capital requirement for credit risk.

5.3.4 Pillar I basically sets out three means for calculating capital requirements to cover credit risk:

- The **"standardized" approach** – This is essentially, a set of refinements to the Basel I risk buckets, which provides for the use of external ratings in certain circumstances, and gives some weight to risk mitigation instruments.
- Banks that engage in more sophisticated risk-taking and that have developed advanced risk measurement systems may, with the approval of the supervisors, select from one of the two **"Internal Ratings-Based" (IRB) approaches** to credit risk. Under this approach, banks rely partly on their own measures of borrowers' credit risk to determine their capital requirements, subject to strict data

validation and operational requirements.

- The **"foundation IRB" approach**, sets forth a methodology for using a bank's own internal risk rating system, including its calculated **probabilities of default** (PDs), as a base for calculating capital, using a factor for **loss given default** (LGD) provided by supervisors, and
- The **"advanced IRB" approach**, which bases capital calculations on the bank's own supervisory-validated credit risk rating systems, including bank-calculated PDs and LGDs.

5.3.5 The three options are available to allow banking institutions and regulators to choose an approach that is most appropriate for the sophistication of a banking institution's credit risk activities and internal control.

5.3.6 Basel II gives greater recognition to credit risk mitigation techniques in the loan portfolio. The lender's credit risk is mitigated when the borrower provides collateral, when a third party guarantees the borrower's obligation, when the bank purchases credit protection, for instance through credit derivatives. Basel II enables banking institutions to recognise a wide range of collateral.

#### Operational Risk...

5.3.7 A new type of risk to be incorporated into the calculation of minimum capital adequacy is operational risk, which the Basel Committee defined as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

5.3.8 The incorporation of operational risk in Pillar 1 is a significant step, which recognizes that operational failures are indeed a potentially important risk for many banks.



## CHAPTER FIVE - BASEL II IMPLEMENTATION

CONTINUED

5.3.9 Similar to the range of options provided for assessing exposures to credit risk, the Basel Committee has put forward a framework consisting of three options for calculating operational risk capital charges in a 'continuum' of increasing sophistication, risk sensitivity and complexity.

- The **Basic Indicator Approach**, which sets a charge for operational risk as a fixed percentage (known as the "alpha factor") of gross income. Gross income serves as a proxy for the bank's operational risk exposure. Under this approach, the capital that a banking institution must set aside to protect against losses arising from operational risk is equal to a fixed percentage of average annual gross income over the previous three years;
- The **Standardized Approach**, requires that the institution separate its operations into eight standard business lines, such as retail banking, corporate finance, asset management etc. The capital charge for each business line is calculated by multiplying gross income for that business line by a factor assigned to that business line. The factor differ between business lines; and
- **Advanced Measurement Approach**, which requires full reliance on bank's internal risk management system. The bank must meet quantitative and qualitative criteria as set out in Basel II and use of the approach by banks must be approved by the supervisor.

### Market Risk...

5.3.10 The supervisory community developed capital requirements to cover foreign exchange risk, interest rate risk, commodity and equity risks in 1996 through the Market Risk Amendment.

5.3.11 The Market Risk Amendment provides two

measurement methods for computing market risk capital charge, that is:

- standardised approach; and
- internal models approach.

5.3.12 Under the standardised approach, market risk is measured by a standardised risk-weighting system in which the risk weights are based on the types of positions and financial instruments held by financial institutions. The approach adopts the so-called 'building block' approach for interest-rate related and equity instruments which differentiates capital charges for specific risk from those for general market risk.

5.3.13 The internal models approach allows those financial institutions with the necessary systems to use their own internal risk management models to calculate market risk. The use of this approach is subject to the prior approval of the Reserve Bank and banks are expected to meet various qualitative and quantitative conditions.

5.3.14 With effect from January 2004, the Reserve Bank requires banks to allocate capital for market risk in their assessment of capital adequacy.

### 5.4 PILLAR II: SUPERVISORY REVIEW PROCESS

5.4.1 Pillar II defines the process for supervisory review of an institution's risk management framework and, ultimately, its capital adequacy. It sets out specific oversight responsibilities for the board and senior management, thus reinforcing principles of internal control and sound corporate governance practices.

5.4.2 Basel II stresses the importance of developing an internal capital assessment process and setting targets for capital that are commensurate with a bank's particular risk profile and control environment.



## CHAPTER FIVE - BASEL II IMPLEMENTATION

CONTINUED

Supervisors are responsible for evaluating how well banks are assessing their capital adequacy needs relative to their risks. This internal process would then be subject to supervisory review and intervention.

5.4.3 Pillar II aims at ensuring that banks assess their capital adequacy positions relative to their overall risk, and that supervisor's review and take appropriate actions in response to those assessments.

5.4.4 Banks are expected to perform stress tests to estimate the extent to which their IRB capital requirements could increase during a stress scenario.

5.4.5 The results of such stress test should be used by banks and supervisors to ensure that banks hold sufficient capital buffers.

5.4.6 The Pillar is based on four principles as discussed hereunder:

- **Principle 1:** Banks should have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels. To be rigorous, such a process would encompass the following criteria:
  - i. Board and senior management oversight;
  - ii. Sound capital assessment;
  - iii. Comprehensive management of risks;
  - iv. Monitoring and reporting; and
  - v. Internal control review.
- **Principle 2:** Supervisors should review and evaluate banks' internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure their compliance with regulatory capital ratios. Supervisors should take appropriate supervisory action if they are not satisfied with the result of this process. This supervisory review could involve some

combination of:

- i. On-site examinations or inspections;
- ii. Off-site review;
- iii. Discussions with bank management;
- iv. Review of work done by external auditors; and
- v. Periodic reporting.

- **Principle 3:** Supervisors should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital in excess of the minimum. Capital requirements under Pillar I include a buffer for uncertainties pertaining to the bank population as a whole. Pillar II addresses bank-specific uncertainties.

- **Principle 4:** Supervisors should seek to intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular bank and should require rapid remedial action if capital is not maintained or restored. In taking remedial actions, the regulator could require that the bank undergo intensified monitoring, be restricted in paying dividends, prepare a satisfactory capital restoration plan, and/or raise additional capital immediately. Regulators could require increased capital while the bank seeks to improve its position, perhaps with enhanced systems and internal controls.

5.4.7 The supervisory authority has the option of allocating a higher capital requirement where weaknesses are noted in a bank's internal capital allocation process. This pillar emphasises the importance of timely supervisory intervention where this is required.

### Importance of Pillar II for Banks...

5.4.8 Pillar II is based on a series of four key principles of supervisory review. These principles address two



## CHAPTER FIVE - BASEL II IMPLEMENTATION

CONTINUED

central issues:

- the need for banks to assess capital adequacy relative to risks overall; and
- the need for supervisors to review banks' assessments and, consequently, to determine whether banks require additional capital beyond that required under Pillar I.

5.4.9 To comply with Pillar II, banking institutions must implement a consistent risk-adjusted management framework that is comparable in its sophistication to, and closely linked with, the risk approaches the bank chose under Pillar I. The four principles provide necessary guidance, as does the Basel Committee's other guidance related to the supervisory review process (e.g., "Principles for the Management of Credit Risk", September 2000, "Sound Practices for the Management and Supervision of Operational Risk", February 2003, and "Principles for the Management and Supervision of Interest Rate Risk", July 2004).

### **Pillar II and Economic Capital..**

5.4.10 In stressing the overall management of risks, Pillar II overcomes a substantial shortcoming of Basel I, which barely distinguished between high- and low-risk transactions. With Pillar II, the Revised Accord introduces the concept of "economic capital" into the regulatory capital equation – that is, it enables banks to determine capital adequacy based on the level of risk posed by a transaction.

5.4.11 Under Basel II, banking institutions will develop and use various models to allocate capital to transactions based on how much risk an individual transaction contributes to the bank's portfolio of risks. These models would help determine how much capital is required to support the various risks taken by the bank – a purpose regulatory capital cannot adequately

serve due to the simplicity of its calculation and regulators' lack of knowledge of the bank's customers, practices, and related risks.

5.4.12 Banking institutions may use stress testing to determine capital adequacy. Sound "**stress-testing**" practices enable banking institutions to 1) identify future changes in economic or market conditions or other changes that could unfavorably affect credit exposures, and 2) assess the bank's ability to withstand such events.

5.4.13 Banks are allowed to choose the tests, subject to supervisory review. Implementing a capital measurement framework covering all risk types and different business units poses a variety of challenges. However, a consistent and meaningful risk-adjusted measurement framework provides powerful performance indicators that enable institutions to measure and manage risk/return profiles across their various business activities.

5.4.14 Moreover, the business benefits that a bank can derive from economic capital approaches go beyond Basel II compliance. Indeed, the use of economic capital models helps banks address two key business objectives: 1) developing capital through value creation initiatives by linking risk to return and 2) protecting capital by linking risk to capital required.

5.4.15 While proposals in Basel I only allow the use of economic capital models to assess regulatory capital for market risk, under Basel II the regulators also allow banks to use these models for operational risk. In addition, Pillar II allows banks to have their own measures of capital requirements beyond the scope of Pillar I. Such a risk management process will contribute to improved corporate governance.



## CHAPTER FIVE - BASEL II IMPLEMENTATION

CONTINUED

### 5.5 PILLAR III: MARKET DISCLOSURE

5.5.1 Pillar III aims to bolster market discipline through enhanced disclosure by banks. It “sets out disclosure requirements and recommendations in several areas, including the way a bank calculates its capital adequacy and its risk assessment methods.”

5.5.2 It sets out disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital risk exposures, risk assessment process, and hence the capital adequacy of the institution.

5.5.3 It also discusses the role of materiality of information, frequency of disclosures and the issue of proprietary or confidential information.

5.5.4 The information that is recommended for disclosure includes:

- available capital in the group, capital structure, detailed capital requirements for credit risk, operational and market risk;
- breakdown of asset classification and provisioning;
- breakdown of portfolios according to risk buckets and risk components; and
- risk mitigation methods and exposures covered.

### 5.6 BENEFITS OF IMPLEMENTING BASEL II

5.6.1 The three pillars work in an integrated way to strengthen the stability of banking systems. In navigating the transition to a working Basel II the main goal should be to advance the practice of risk management and encourage its wider adoption. The overarching objective as in Basel I remain to strengthen global financial systems.

5.6.2 The benefits of adopting the Revised Capital Accord in the Zimbabwean banking market are as follows:

- creates a better link between minimum regulatory capital and the bank’s risk profile;
- promotes the stability of the banking sector by ensuring the safety and soundness of banks;
- supports a level playing field in an increasingly integrated global financial system;
- strengthens the link between regulatory capital and risk management;
- gives banking organizations stronger incentives to improve risk measurement and management; and
- provides a consistent framework for improving supervisory assessments of capital adequacy and risk management.

5.6.3 Further, Basel II provisions will not only ensure that banks maintain levels of capital that are in line with their risk exposure, but also require banks to control risk adequately and to justify the risks they have taken. Thus, over and above the calculation of capital requirements, the Revised Framework creates new opportunities for financial institutions through the transformation of the enhanced regulation into a tool for creating value.

5.6.4 Basel II is seen as an opportunity to put in place new risk management and regulatory reporting standards. The advanced approaches for operational risk and credit risk encourage banks to embrace best practices in this area. The banking industry will benefit from adoption of these new measures, more so because correspondent banks usually request for confirmation that their counterparties are moving towards adoption of Basel II. Over and above the calculation of capital requirements Basel II creates opportunities for financial institutions.



## CHAPTER FIVE - BASEL II IMPLEMENTATION

CONTINUED

5.6.5 Provisions in Basel II not only ensure that banks maintain levels of capital that are in line with their risk exposure, but also require banks to control risk properly and to justify the risks they have taken.

5.6.6 Improved risk measurement also promises better-informed investors and greater discipline. If good risk measurement can improve internal discipline, then disclosing internal risk measures will help the market to understand banks' risk postures and to react rationally.

### 5.7 PROGRESS ON BASEL II IMPLEMENTATION

5.7.1 The Reserve Bank has adopted a gradual approach to Basel II implementation in order to allow for a smooth transition from the current system to the new approaches.

5.7.2 The first workshop on Basel II for all banking institutions was held in October 2003 at a time when Basel II was at formative stages. The workshop was conducted by facilitators from the Reserve Bank of India. It was aimed at providing highlights of the Revised Framework which was still under development.

5.7.3 In May 2005, the Reserve Bank held another Basel II seminar, jointly with MEFMI, in Harare. The seminar was attended by representatives of banking institutions and bank supervisors. The presentation was made by a Bank of Finland official and focused on an overview of the Basel II framework and benefits of implementing the same.

5.7.4 As part of the preparations, the Reserve Bank has primed its staff and supervisory systems and practices towards the requirements for Basel II implementation.

The Reserve Bank has recruited staff with specialist skills and experience. This will enable the Reserve Bank to diversify its skills base and establish dedicated specialised teams to facilitate the adoption and implementation of the Revised Framework.

5.7.5 In the last quarter of 2005 the Reserve Bank enhanced its Risk - Based Supervision (RBS) process which was initially adopted in 2002. A comprehensive RBS policy document was also produced and circulated to the market in July 2006.

5.7.6 The RBS framework plays an important role in setting out the foundation and ground work for Pillar II, Supervisory Review Process.

5.7.7 Further, the Reserve Bank issued a Risk Management Guideline as a step towards creating the right environment and a necessary background for the introduction of solid risk management principles prior to implementation of Basel II.

5.7.8 The Reserve Bank has also issued guidance to the market that include guidelines on the internal audit function in banks, as well as a framework for cooperation between the supervisors and banks' external auditors. The roles of these stakeholders complement the supervisory function under Pillar II and are important facets of the risk-focused supervision approach.

5.7.9 In order to promote market discipline under Pillar III the Reserve Bank issued to the market a Corporate Governance Guideline and is finalising an enhanced Financial Disclosure Guideline. In addition, the Reserve Bank is working towards establishment of a credit reference bureau. The bureau will act as a central repository of credit information for



## CHAPTER FIVE - BASEL II IMPLEMENTATION

CONTINUED

counterparties of banking institutions..

5.7.10 The Reserve Bank already requires banking institutions to allocate capital for market and operational risks with effect from March 2005. Capital allocation for these risks is done using the standardized approach.

5.7.11 In order to reduce operational risk associated with failed systems, the Reserve Bank also insists on banks having comprehensive disaster recovery and business continuity plans to ensure that there are alternative arrangements if the core-banking and payment or settlement functions of banks were to fail.

5.7.12 The Reserve Bank seeks to work with all banking institutions under its jurisdiction i.e. commercial banks, merchant banks, finance houses, discount houses and building societies.

5.7.13 Where appropriate, professional bodies will be consulted. Some of the representative bodies that the Reserve Bank has worked with include:

- Bankers' Association of Zimbabwe;
- Association of Building Societies of Zimbabwe;
- Finance Houses Association of Zimbabwe, and
- Institute of Chartered Accountants.

### 5.8 WAY FORWARD

5.8.1 A key point to make is that satisfying the standards should not be viewed as a compliance exercise — that is, satisfying the standards should not mean simply ticking off items in a regulatory checklist. Rather, the Reserve Bank envisage a process that begins with banks conducting self-assessments of the state of their risk management systems relative to the standards embodied in the new framework, determining where

weaknesses may lie, and putting into place appropriate modifications to address those shortcomings. The supervisor's role is to review critically how each of these steps is carried out.

5.8.2 In this regard, the Reserve Bank encourages banking institutions to commence on their implementation plans which should include the following aspects:

- identifying an official to act as the Basel II Coordinator and who shall be the contact point with the Reserve Bank. The Basel II Coordinator shall be responsible for coordinating Basel II implementation activities in their institution;
- thoroughly reviewing their core banking systems with a view to align them to Basel II requirements;
- conducting self assessments of their readiness based on minimum requirements as set out in the Revised Framework and the Reserve Bank guidelines. These assessments will form part of on-going dialogue between banks and the Reserve Bank; and
- formulating broad and detailed internal plans on Basel II implementation which should be appropriately informed by international developments and guidelines issued by the Reserve Bank. The plans should highlight the gaps for moving to Basel II implementation and what is being done to overcome the gaps.

5.8.3 On the other hand the Reserve Bank will undertake the following activities as part of the implementation process:

- prepare framework of methodologies to be adopted;
- assess banks' preparedness for implementation;
- approve banks implementation plans; and
- parallel run Basel I and II to compute capital calculations and ratios for at least one year.



## CHAPTER FIVE - BASEL II IMPLEMENTATION

CONTINUED

- 5.8.4 The Reserve Bank will engage the banking sector and other stakeholders (including cross-border consultations) as and when necessary during the course of implementing Basel II. The following key issues, among others will be considered:
- legal responsibilities of national supervisors;
  - oversight of the implementation of Basel II for a banking group on a consolidated basis;
  - coordination responsibilities;
  - roles of home and host country supervisors to banking groups with significant cross-border operations in multiple jurisdictions; and
  - home-host supervisor information sharing for effective implementation of Basel II.
- 5.8.5 The Reserve Bank anticipates a need for the banking sector to accelerate the process of specialized skill development and to develop a cadre of true quantitative experts capable of understanding the key concepts, methodologies and risks associated with the advanced approaches of Basel II. Training efforts at banking institutions should involve the refinement of skills in areas such as statistics, modeling techniques, models evaluation, simulation and stress testing..
- 5.8.6 The Reserve Bank will also engage banking institutions with cross-border establishments together with other supervisors to agree on the cross-border issues in the implementation of Basel II.



## CHAPTER SIX - BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

### 6.1 OVERVIEW

6.1.1 The Core Principles for Effective Banking Supervision were first issued by the Basel Committee on Banking Supervision (BCBS / the Committee) in 1997 and revised in 2006 to reflect the developments in banking supervision across the internationally. The Core Principles are a framework providing minimum standards intended to guide supervisory authorities in strengthening their supervisory regimes.

6.1.2 Assessments of compliance with the Core Principles, whether undertaken internally or by a third party, assist in identifying weaknesses in the system of supervision and regulation, and provides a good basis for further development of effective supervisory systems.

### 6.2 CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

6.2.1 The Core Principles are broadly categorised into seven groups:

- Objectives, independence, powers, transparency and cooperation (principle 1);
- Licensing and structure (principles 2 to 5);
- Prudential regulation and requirements (principles 6 to 18);
- Methods of ongoing banking supervision (principles 19 to 21);
- Accounting and disclosure (principle 22);
- Corrective and remedial powers of supervisors (principle 23); and
- Consolidated and cross-border banking supervision (principles 24 and 25).

6.2.2 The principles are as follows:

#### **Principle 1 - Objectives, independence, powers, transparency and cooperation:**

6.2.3 An effective system of banking supervision will have clear responsibilities and objectives for each authority involved in the supervision of banks. Each such authority should possess operational independence, transparent processes, sound governance and adequate resources, and be accountable for the discharge of its duties.

6.2.4 A suitable legal framework for banking supervision is also necessary, including provisions relating to authorisation of banking establishments and their ongoing supervision; powers to address compliance with laws as well as safety and soundness concerns; and legal protection for supervisors. Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.

#### **Principle 2 - Permissible activities:**

6.2.5 The permissible activities of institutions that are licensed and subject to supervision as banks must be clearly defined and the use of the word "bank" in names should be controlled as far as possible.

#### **Principle 3 - Licensing criteria:**

6.2.6 The licensing authority must have the power to set criteria and reject applications for establishments that do not meet the set standards. The licensing process, at a minimum, should consist of an assessment of the ownership structure and governance of the bank and its wider group, including the fitness and propriety of



## CHAPTER SIX - BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

CONTINUED

board members and senior management, its strategic and operating plan, internal controls and risk management, and its projected financial condition, including its capital base. Where the proposed owner or parent organisation is a foreign bank, the prior consent of its home country supervisor should be obtained.

### **Principle 4 - Transfer of significant ownership:**

- 6.2.7 The supervisor has the power to review and reject any proposals to transfer significant ownership or controlling interests held directly or indirectly in existing banks to other parties.

### **Principle 5 - Major acquisitions:**

- 6.2.8 The supervisor has the power to review major acquisitions or investments by a bank, against prescribed criteria, including the establishment of cross-border operations, and confirming that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.

### **Principle 6 - Capital adequacy:**

- 6.2.9 Supervisors must set prudent and appropriate minimum capital adequacy requirements for banks that reflect the risks that the bank undertakes, and must define the components of capital, bearing in mind its ability to absorb losses. At least for internationally active banks, these requirements must not be less than those established in the applicable Basel requirement.

### **Principle 7 - Risk management process:**

- 6.2.10 Supervisors must be satisfied that banks and banking groups have in place a comprehensive risk

management process (including board and senior management oversight) to identify, evaluate, monitor and control or mitigate all material risks and to assess their overall capital adequacy in relation to their risk profile. These processes should be commensurate with the size and complexity of the institution.

### **Principle 8 - Credit risk:**

- 6.2.11 Supervisors must be satisfied that banks have a credit risk management process that takes into account the risk profile of the institution, with prudent policies and processes to identify, measure, monitor and control credit risk (including counterparty risk). This would include the granting of loans and making of investments, the evaluation of the quality of such loans and investments, and the ongoing management of the loan and investment portfolios.

### **Principle 9 - Problem assets, provisions and reserves:**

- 6.2.12 Supervisors must be satisfied that banks establish and adhere to adequate policies and processes for managing problem assets and evaluating the adequacy of provisions and reserves.

### **Principle 10 - Large exposure limits:**

- 6.2.13 Supervisors must be satisfied that banks have policies and processes that enable management to identify and manage concentrations within the portfolio, and supervisors must set prudential limits to restrict bank exposures to single counterparties or groups of connected counterparties.

### **Principle 11 - Exposures to related parties:**

- 6.2.14 In order to prevent abuses arising from exposures



## CHAPTER SIX - BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

CONTINUED

(both on balance sheet and off balance sheet) to related parties and to address conflict of interest, supervisors must have in place requirements that banks extend exposures to related companies and individuals on an arm's length basis; these exposures are effectively monitored; appropriate steps are taken to control or mitigate the risks; and write-offs of such exposures are made according to standard policies and processes.

### **Principle 12 - Country and transfer risks:**

- 6.2.15 Supervisors must be satisfied that banks have adequate policies and processes for identifying, measuring, monitoring and controlling country risk and transfer risk in their international lending and investment activities, and for maintaining adequate provisions and reserves against such risks.

### **Principle 13 - Market risks:**

- 6.2.16 Supervisors must be satisfied that banks have in place policies and processes that accurately identify, measure, monitor and control market risks; supervisors should have powers to impose specific limits and/or a specific capital charge on market risk exposures, if warranted.

### **Principle 14 - Liquidity risk:**

- 6.2.17 Supervisors must be satisfied that banks have a liquidity management strategy that takes into account the risk profile of the institution, with prudent policies and processes to identify, measure, monitor and control liquidity risk, and to manage liquidity on a day-to-day basis. Supervisors require banks to have contingency plans for handling liquidity problems.

### **Principle 15 - Operational risk:**

- 6.2.18 Supervisors must be satisfied that banks have in place risk management policies and processes to identify, assess, monitor and control/mitigate operational risk. These policies and processes should be commensurate with the size and complexity of the bank.

### **Principle 16 - Interest rate risk in the banking book:**

- 6.2.19 Supervisors must be satisfied that banks have effective systems in place to identify, measure, monitor and control interest rate risk in the banking book, including a well defined strategy that has been approved by the board and implemented by senior management; these should be appropriate to the size and complexity of such risk.

### **Principle 17 - Internal control and audit:**

- 6.2.20 Supervisors must be satisfied that banks have in place internal controls that are adequate for the size and complexity of their business. These should include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding the bank's assets; and appropriate independent internal audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.

### **Principle 18 - Abuse of financial services:**

- 6.2.21 Supervisors must be satisfied that banks have adequate policies and processes in place, including strict "know-your-customer" rules, that promote high ethical and professional standards in the financial



## CHAPTER SIX - BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

CONTINUED

sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities.

### **Principle 19 - Supervisory approach:**

- 6.2.22 An effective banking supervisory system requires that supervisors develop and maintain a thorough understanding of the operations of individual banks and banking groups, and also of the banking system as a whole, focusing on safety and soundness, and the stability of the banking system.

### **Principle 20 - Supervisory techniques:**

- 6.2.23 An effective banking supervisory system should consist of on-site and off-site supervision and regular contacts with bank management.

### **Principle 21 - Supervisory reporting:**

- 6.2.24 Supervisors must have a means of collecting, reviewing and analysing prudential reports and statistical returns from banks on both a solo and a consolidated basis, and a means of independent verification of these reports, through either on-site examinations or use of external experts.

### **Principle 22 - Accounting and disclosure:**

- 6.2.25 Supervisors must be satisfied that each bank maintains adequate records drawn up in accordance with accounting policies and practices that are widely accepted internationally, and publishes, on a regular basis, information that fairly reflects its financial condition and profitability.

### **Principle 23 - Corrective and remedial powers of supervisors:**

- 6.2.26 Supervisors must have at their disposal an adequate

range of supervisory tools to bring about timely corrective actions. This includes the ability, where appropriate, to revoke the banking licence or to recommend its revocation.

### **Principle 24 - Consolidated supervision:**

- 6.2.27 An essential element of banking supervision is that supervisors supervise the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential norms to all aspects of the business conducted by the group worldwide.

### **Principle 25 - Home-host relationships:**

- 6.2.28 Cross-border consolidated supervision requires cooperation and information exchange between home supervisors and the various other supervisors involved, primarily host banking supervisors. Banking supervisors must require the local operations of foreign banks to be conducted to the same standards as those required of domestic institutions.

## **6.3 PRECONDITIONS FOR EFFECTIVE BANKING SUPERVISION**

- 6.3.1 An effective system of banking supervision depends on a number of external elements, or preconditions. These are factors which, although mostly outside the direct jurisdiction of the supervisors, have a direct impact on the effectiveness of supervision in practice.

- 6.3.2 These external elements include:

- sound and sustainable macroeconomic policies;
- a well developed public infrastructure;
- effective market discipline; and
- mechanisms for providing an appropriate level of



## CHAPTER SIX - BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

CONTINUED

systemic protection (or public safety net).

6.3.3 **Sound macroeconomic policies** are the foundation of a stable financial system. Where macroeconomic fundamentals are weak, they have the potential to undermine the safety and soundness of the banking system.

6.3.4 **A well developed public infrastructure** should comprise the following elements, which, if not adequately provided, can contribute to the weakening of financial systems and markets, or hinder their development:

- a system of business laws, including corporate, bankruptcy, contract, consumer protection and private property laws, which is consistently enforced and provides a mechanism for the fair resolution of disputes;
- comprehensive and well defined accounting principles and rules that command wide international acceptance;
- a system of independent audits for companies of significant size, to ensure that users of financial statements, including banks, have independent assurance that the accounts provide a true and fair view of the financial position of the company and are prepared according to established accounting principles, with auditors held accountable for their work;
- an efficient and independent judiciary, and well regulated accounting, auditing and legal professions;
- well defined rules governing, and adequate supervision of, other financial markets and, where appropriate, their participants, which, if not

adequately provided, can significantly contribute to the destabilization of financial systems; and

- a secure and efficient payment and clearing system for the settlement of financial transactions where counterparty risks are controlled.

6.3.5 **Effective market discipline** depends on adequate flows of information to market participants, appropriate financial incentives to reward well managed institutions, and arrangements that ensure that investors are not insulated from the consequences of their decisions among other factors. Among the issues to be addressed are corporate governance and ensuring that accurate, meaningful, transparent and timely information is provided by borrowers to investors and creditors.

6.3.6 In general, deciding on the **appropriate level of systemic protection** is a policy question to be addressed by the relevant authorities (including the central bank), particularly where it may result in a commitment of public funds. In handling systemic issues, it is necessary to address, on the one hand, risks to confidence in the financial system and contagion to otherwise sound institutions and, on the other hand, the need to minimise the distortion to market signals and discipline. In many countries, Zimbabwe included, the framework for systemic protection includes a system of deposit insurance and the central bank's lender of last resort function.

6.3.7 The Deposit Protection Board established under section 67 (1) of the Banking Act [*Chapter 24:20*] has the responsibility of compensating depositors in the event of the insolvency of a contributory institution.



## CHAPTER SIX - BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

CONTINUED

### 6.4 COMPLIANCE STATUS IN ZIMBABWE

6.4.1 The Reserve Bank is committed to the full implementation of the Core Principles and has made considerable progress over the years.

6.4.2 In this regard, the Reserve Bank periodically conduct self assessments of its compliance with the Core Principles. The principal objective of the self assessments is to identify the strengths, vulnerabilities and development needs in the financial sector and to assist in designing appropriate supervisory policy responses.

6.4.3 The last self assessment was conducted as at 31 December 2006 and the compliance status is summarised in Table 6.1 on the next page:



## CHAPTER SIX - BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

CONTINUED

**Table 6.1: Compliance Status in Zimbabwe**

Core Principle	Grading*				
	Compliant	Largely compliant	Materially Non-Compliant	Non-Compliant	Not Applicable
1. Framework for supervisory authority					
1.1. Objectives	X				
1.2. Independence		X			
1.3. Legal framework	X				
1.4. Enforcement powers	X				
1.5. Legal protection			X		
1.6. Information sharing			X		
2. Permissible activities	X				
3. Licensing criteria	X				
4. Transfer of significant ownership	X				
5. Major acquisitions		X			
6. Capital adequacy	X				
7. Risk Management Process	X				
8. Credit Risk	X				
9. Problem Assets, Provisions and Reserves	X				
10. Large Exposure Limits	X				
11. Exposures to Related Parties	X				
12. Country and Transfer risk			X		
13. Market risk		X			
14. Liquidity risk	X				
15. Operational Risk	X				
16. Interest rate risk in the Banking Book	X				
17. Internal control and Audit	X				
18. Abuse of Financial Services		X			
19. Supervisory Approach		X			
20. Supervisory Techniques	X				
21. Supervisory Reporting		X			
22. Accounting and Disclosure		X			
23. Corrective and remedial powers of supervisors		X			
24. Consolidated Supervision		X			
25. Home-host relationships		X			

\* **Compliant** - A country will be considered compliant with a Principle when all essential criteria applicable for this country are met without any significant deficiencies. There may be instances, of course, where a country can demonstrate that the Principle has been achieved by other means. Conversely, due to the specific conditions in individual countries, the essential criteria may not always be sufficient to achieve the objective of the Principle, and therefore other measures may also be needed in order for the aspect of banking supervision addressed by the Principle to be considered effective.

**Largely compliant** - A country will be considered largely compliant with a Principle whenever only minor shortcomings are observed which do not raise any concerns about the authority's ability and clear intent to achieve full compliance with the Principle within a prescribed period of time. The assessment "largely compliant" can be used when the system does not meet all essential criteria, but the overall effectiveness is sufficiently good, and no material risks are left unaddressed.

**Materially non-compliant** - A country will be considered materially non-compliant with a Principle whenever there are severe shortcomings, despite the existence of formal rules, regulations and procedures, and there is evidence that supervision has clearly not been effective, that practical implementation is weak, or that the shortcomings are sufficient to raise doubts about the authority's ability to achieve compliance. It is acknowledged that the "gap" between "largely compliant" and "materially non-compliant" is wide, and that the choice may be difficult. On the other hand, the intention has been to force the assessors to make a clear statement.

**Non-compliant** - A country will be considered non-compliant with a Principle whenever there has been no substantive implementation of the Principle, several essential criteria are not complied with or supervision is manifestly ineffective



## CHAPTER SEVEN - FINANCIAL INCLUSION

### 7.1 INTRODUCTION

7.1.1 During the currency reform in August 2006, it was noted that despite the high economic activity in the rural and peri-urban communities, very few established banking institutions were providing financial services to these communities and their businesses.

7.1.2 It was also noted that as at 30 June 2006, 333 bank branches (88.3% of total branch network) were within the urban centres where 34.8% of the population resides, while rural communities were serviced by 44 branches (11.7% of total branch network), despite 65.2% of the population residing in rural areas.

### 7.2 FACTORS CONTRIBUTING TO FINANCIAL EXCLUSION

7.2.1 The efforts by banks to expand their outreach to the rural and marginalized communities have been hampered by a number of challenges which include, among others:

- a) high information, transaction, and monitoring costs;
- b) inaccessibility due to poor infrastructure network;
- c) dispersed and intermittent demand for financial services;
- d) seasonality in deposits; and
- e) lack of acceptable collateral in the absence of legal title to land.

### 7.3 COSTS OF FINANCIAL EXCLUSION

7.3.1 Financial exclusion can have a devastating impact on

those that are excluded which in turn translates into poor economic development and increased levels of untold suffering and poverty.

7.3.2 That, coupled with other consequences of financial exclusion such as excessive reliance on expensive informal sources of credit, proliferation of underground economic and parallel market activities, lack of investment opportunities, and aversion to a culture of savings, among others, is detrimental to the socio-economic development of the country.

7.3.3 Access to a well functioning financial system can economically and socially empower people allowing them to better integrate into the economy, actively contribute to their development and protect themselves against economic shocks.

### 7.4 FINANCIAL INCLUSION FRAMEWORK

7.4.1 Cognizant of the devastating impact of financial exclusion, the Reserve Bank took a deliberate policy initiative to improve access to financial services by the unbanked communities and to make financial inclusion a reality, through the unveiling of the Financial Inclusion Framework.

7.4.2 The overarching goal of the framework is to enhance the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups in rural and urban areas. The accessibility of finance and banking services across our population strata is seen as a key factor for unlocking development potential and delivering economic growth.



## CHAPTER SEVEN - FINANCIAL INCLUSION

CONTINUED

7.4.3 The successful implementation of the Financial Inclusion Framework is underpinned by the following pillars:

- a) expanding the outreach of established developmental financial institutions such as the People's Own Savings Bank (POSB), ZIMPOST and Agribank;
- b) expanding the outreach of established commercial banks and building societies;
- c) enhancing provision of microfinance services through establishment of microfinance banks (MFI Banks) or Financial Inclusion Centres (FICs);
- d) urging relevant authorities to ensure provision of adequate infrastructure including roads, telecommunications coverage and provision of electricity;
- e) provision of appropriate incentives to financial institutions engaged in rural banking; and
- f) engaging other stakeholders to facilitate the provision of other incentives.

### Progress to Date...

7.4.4 To date the entire banking industry has embraced the idea of making financial inclusion a reality and has made tremendous efforts to increase outreach to the previously un-banked or under banked communities.

7.4.5 Banking institutions through the Bankers Association of Zimbabwe and Association of Building Societies have taken an industry-wide position to increase provision of banking services to the rural and marginalised communities. In this regard, banking institutions have identified areas that have hitherto been excluded from banking services and are already in the process of allocating among themselves areas

previously excluded from financial services.

## 7.5 NATIONAL MICROFINANCE POLICY

7.5.1 In recognition of the diversity among microfinance service providers and pursuant to building an inclusive financial system, the Reserve Bank developed a National Microfinance Policy. The policy encompasses a tiered approach to the regulation and supervision of the microfinance industry as indicated in table 7.1 below.

Table 7.1: Tiered System for Supervising MFIs

TIERS	INSTITUTIONS CATEGORY	NATURE OF SUPERVISION	SUPERVISORY AGENCY
Tier 1	Banks and Building Societies	Prudential Supervision	Reserve Bank
Tier 2	Microfinance Banks	Prudential Supervision	Reserve Bank
Tier 3	Savings & Credit Union Cooperatives	Prudential Supervision-Discretionary	Ministry responsible for Cooperatives
Tier 4	Microfinance Institutions	Non-Prudential Supervision	Reserve Bank

7.5.2 The policy framework provides for the establishment of Microfinance Banks, whose main focus will be the provision of financial services to the rural and marginalised communities. To this end, the Reserve Bank has made proposals **to amend the Banking Act [Chapter 24:20]** to incorporate the licensing and supervision of Microfinance Banks.

## 7.6 \$32 BILLION SME REVOLVING FUND

7.6.1 Cognisant of the significance of access to finance by marginalized communities, the Reserve Bank availed a \$16 billion SME facility in 2006 targeted at uplifting individual entrepreneurs and the SME sector. The



## CHAPTER SEVEN - FINANCIAL INCLUSION

CONTINUED

facility was accessed by beneficiaries in various economic sectors which included horticulture, piggery, poultry, food processing, metal fabrication and brick moulding.

- 7.6.2 Disbursements were made through 17 banking institutions and four (4) microfinance institutions which handled 45.5% of total funds disbursed. Microfinance institutions demonstrated capacity to reach out to low-income strata of the population thereby fostering financial inclusion.
- 7.6.3 A further \$16 billion was made available for on-ward lending to the SME sector through microfinance institutions and the mainstream financial institutions, during the first half of 2007.



## CHAPTER EIGHT - TROUBLED BANK RESOLUTION

### 8.1 INTRODUCTION

8.1.1 The Zimbabwean banking sector has seen some banking institutions facing serious challenges that ranged from deep-rooted risk management deficiencies, chronic liquidity problems and poor corporate governance practices.

8.1.2 A number of banking institutions with entrenched structural anomalies, inadequate risk management systems, poor corporate governance practices, liquidity and solvency challenges failed to adjust to the difficult macroeconomic environment and collapsed.

#### **The Troubled Bank Resolution Framework...**

8.1.3 As a response to the challenges experienced at different institutions, the Reserve Bank placed some banking institutions under curatorship and closed some asset management companies.

8.1.4 In order to address these challenges in a holistic fashion, the Reserve Bank adopted a comprehensive Troubled Bank Resolution (TBR) Framework.

8.1.5 The Troubled Bank Resolution Framework was designed to achieve restoration of financial stability in the banking sector, strengthen the banking system and promote sound banking practices.

8.1.6 The two pronged approach adopted by the Reserve Bank in dealing with problem banks involved the use of the following strategies:

- a) Restructuring of the troubled institutions which include, among others, mergers and acquisitions; and
- b) Liquidation.

8.1.7 Of the nine banking institutions that were placed under the management of a curator, five institutions, that is, Intermarket Banking Corporation, Intermarket Discount House, Intermarket Building Society, CFX Merchant Bank Limited and CFX Bank Limited restructured their operations and were successfully resuscitated. Similarly, NDH which had experienced serious operational challenges, resumed operations in 2006.

8.1.8 The curators of Trust Bank Corporation Limited, Barbican Bank Limited and Royal Bank Zimbabwe Limited sold the assets and liabilities of the troubled banks to Zimbabwe Allied Banking Group (ZABG).

8.1.9 The shareholders and certain creditors of Royal Bank Zimbabwe Limited and Trust Bank Corporation Limited appealed against the decisions of the curators in disposing of the institutions' assets and both the Reserve Bank and the Minister of Finance upheld the decisions of the curators. The shareholders appealed yet again to the Administrative Court and the appeals are pending finalization.

8.1.10 In 2006, three banking institutions, namely, Barbican Bank Limited, Time Bank of Zimbabwe Limited, and First National Building Society (FNBS) had their licences cancelled.

8.1.11 Two (2) institutions, namely, Sagit Finance House and FNBS were placed under liquidation in 2006. This was in line with the resolution made by the Reserve Bank to liquidate banking institutions which could not be rehabilitated in the normal course of business.



## CHAPTER EIGHT - TROUBLED BANK RESOLUTION

CONTINUED

### 8.2 MARKET SOLUTIONS

#### **The CFX Financial Services Limited Scheme of Arrangement...**

- 8.2.1 On 16 December 2005, the creditors, depositors and shareholders of CFX Merchant Bank Limited (CFXMB) and CFX Bank Limited (CFXB) agreed to a Scheme of Arrangement in terms of which all the depositors of CFXB would receive, net of any debit balances, up to \$5 million as settlement in respect of their deposits in CFXB. The remainder of the deposits, after the cash settlement, if any, would be converted into shares in CFXB.
- 8.2.2 In view of CFXMB's solvent position, all its depositors received 100% of their deposits, net of any debit balances.
- 8.2.3 In order to create a stronger streamlined financial institution, the business of CFXMB was merged into CFXB under one banking licence, while the asset management business was not revived, thus reducing the total capital requirement to \$100 billion instead of recapitalising two institutions.
- 8.2.4 As a result of the Scheme of Arrangement, the depositors' shareholding amounted to 59%, while the holding company's shareholding was reduced from 100% to only 13%.
- 8.2.5 Following the sanctioning of the Scheme of Arrangement by the High Court, the Registrar approved the appointment of members of senior management.
- 8.2.6 The institution, has been turned into a profitable entity and as at 30 June 2007, recorded a net profit of \$17 billion.

#### **Intermarket Group**

- 8.2.7 The Intermarket Group comprises three banking subsidiaries, namely Intermarket Building Society (IBS), Intermarket Discount House Limited (IDH) and Intermarket Banking Corporation Limited (IBC) which are wholly owned by Intermarket Holdings Limited (IHL).
- 8.2.8 The banking subsidiaries in the group were placed under the management of a curator on 12 March 2004 following a determination by the Reserve Bank that the institutions were facing severe solvency and liquidity problems.
- 8.2.9 Curatorship on the building society was lifted on 1 August 2005 following recommendations by the curator and a determination that the building society was now in a safe and sound condition.

#### **The Intermarket Group Scheme of Arrangement...**

- 8.2.10 The Reserve Bank approved a scheme of arrangement between IHL shareholders, depositors and creditors of IBC and IDH in terms of which all secured creditors were paid in full following the liquidation of the institution's securities.
- 8.2.11 Unsecured creditors and depositors were paid up to \$200 million per account and the balance was converted into ordinary or preference shares at a rate of one share per \$188.00 of debt.
- 8.2.12 The Scheme of Arrangement resulted in existing shareholders of IHL remaining with a 24 percent shareholding, while the depositors and creditors accounted for 76 percent shareholding.



## CHAPTER EIGHT - TROUBLED BANK RESOLUTION

CONTINUED

8.2.13 The scheme of arrangement significantly improved the financial condition.

8.2.14 Merger negotiations between ZB Financial Holdings (ZBFH) and IHL were finalized and ZBFH is currently in the process of taking over IHL.

8.2.15 Curatorship for the discount house and the bank was subsequently uplifted on 31 December 2005 and the institutions have been operating profitably posting profits of \$30.1 billion and \$28.3 billion respectively as at 30 June 2007.

### **National Discount House Limited**

8.2.16 National Discount House (NDH) experienced challenges following write-offs occasioned by exposures to collapsed and distressed financial institutions and the result were accumulated trading losses for the 2004 financial year.

8.2.17 In addition, the institution faced working capital constraints as evidenced by failure to meet tax obligations amounting to \$4.6 billion as at end of May 2004. This led to the discount house refinancing liquidity gaps using high cost funds from the market.

### **The NDH Scheme of Arrangement...**

8.2.18 NDH initiated a Scheme of Arrangement in terms of which depositors and creditors converted their deposits and claims into equity.

8.2.19 Following the approval of the scheme of arrangement by a majority of the depositors and creditors, the scheme was sanctioned by the High Court on 12 January 2004.

8.2.20 As a result of the scheme:

a) the depositors and creditors became shareholders through a debt-equity swap totaling \$89.7 billion; and

b) NDH became technically solvent in the sum of \$45.6 billion as at 31 July 2005 compared to the negative gap of \$46.4 billion as at 31 December 2004. However, the institution lacked working capital to resume operations.

8.2.21 At an Extraordinary General Meeting held on 29 September, 2005, shareholders approved a re-capitalisation proposal involving a rights issue to raise \$30 billion to fund the discount house and the stockbroker's working capital requirements.

8.2.22 The rights offer, which was underwritten by a consortium of investors, raised \$30 billion, made up of \$28.3 billion capital injection by the consortium of investors and \$1.7 billion capital injection by the shareholders.

8.2.23 The institution is now operating profitably and as at 30 June 2007, recorded a net profit of \$5.6 billion.

8.2.24 Other banking institutions, however, failed to come up with market solutions to their challenges and cancellations of licences and liquidations were unavoidable in the face of continued deterioration of the institutions' financial condition.

## **8.3 CANCELLATION OF LICENCES**

### **Barbican Bank Limited**

#### **Causes of Failure...**

8.3.1 Barbican Bank Limited was heavily involved in insider



## CHAPTER EIGHT - TROUBLED BANK RESOLUTION

CONTINUED

- lending activities for the benefit of the bank's former Chief Executive Director and major shareholder, Dr. M. Ncube.
- 8.3.2 There was clear evidence of self enrichment by Dr. M. Ncube perpetrated through subsidiary companies which benefited from advances from the bank and the asset management company.
- 8.3.3 There were no proper risk management practices neither were there any sound accounting and administrative practices. The bank from time to time carried short positions on behalf of the asset management company. The bank was also paying maturing liabilities on behalf of the asset management company.
- 8.3.4 The group mixed banking and non-banking business despite earlier undertaking by management to desist from the practice after being warned of the dangers of such practice by the Reserve Bank.
- 8.3.5 The Chief Executive Officer had overbearing influence on the bank's operations and the board. As a result, corporate governance structures were ineffective.
- Curatorship...**
- 8.3.6 As a result of the rampant abuse of depositors' funds associated with insider lending, the bank faced serious liquidity problems which led to the closure of the bank.
- 8.3.7 Following a determination that the institution was not making progress in addressing deficiencies noted by the Reserve Bank, the bank was placed under the management of a curator on 15 March 2004.
- 8.3.8 The curator confirmed findings of the Reserve Bank regarding extensive insider lending, critical liquidity crisis and undercapitalisation. Efforts to resuscitate the bank failed when it was clear that the shareholder could not recapitalize the bank and there were no interested investors to inject capital into the bank. Consequently, the curator sold the bank's assets to ZABG.
- 8.3.9 Following the sale of the bank's assets to ZABG, the Registrar of Banking Institutions proposed to cancel the institution's banking licence in terms of section 14 of the Banking Act.
- 8.3.10 The major shareholder of Barbican Bank lodged an appeal against the proposed cancellation of the institution's licence, albeit out of time, and the appeal was dismissed by the Minister of Finance on 10 July 2006.
- 8.3.11 The institution's banking licence was subsequently cancelled on 31 July 2006.
- Time Bank of Zimbabwe Limited**
- Causes of Failure...**
- 8.3.12 Time Bank conducted the bulk of its business on unusual terms, which were not at arm's length with a group of closely knit related parties such as Mr. Gumbo, Mr. Tande and Mr. Onias Zidanda Gumbo who are cousins and their companies had cross directorships.
- 8.3.13 Over the years, the bank was involved in creative accounting and fraudulent misrepresentation, characterized by insider manipulation, fictitious assets, and fraudulent land schemes.



## CHAPTER EIGHT - TROUBLED BANK RESOLUTION

CONTINUED

8.3.14 Between the years 2000 and 2004, directors of Time Bank, acting in connivance with Shopex Private Limited ('Shopex') and Watermount Estates Private Limited ('Watermount Estates') officials, and other third parties, fraudulently advanced a total of thirty nine property development loans to twenty two companies ostensibly for the purchase of residential and agricultural stands.

8.3.15 The loans were never repaid although unearned interest income was recorded to boost paper profits. Instead, the loans were continuously written off and new ones granted to fictitious clients.

8.3.16 The institution's Chief Executive Director was also involved in externalization of funds through Chrisco (Pty) Limited, a company established in Botswana and Shopfin S.P.R.L another company established in the Democratic Republic of Congo.

### Curatorship...

8.3.17 The imprudent banking practices and abuse of depositors' funds culminated in chronic liquidity problems which triggered a run on the bank in October 2004. Time Bank was unable to meet customer demands for withdrawals and failed to settle its obligations with other banks.

8.3.18 Consequently, the institution was placed under the management of a curator on 27 October 2005.

8.3.19 The curator confirmed findings of the Reserve Bank on imprudent banking practices, abuse of depositors' funds, externalization of funds, insolvency, poor corporate governance and risk management practices.

8.3.20 When it was determined that efforts to resuscitate the banking institution had failed as the shareholders had failed to inject additional capital and there were no interested investors to inject capital, the curator advised that the institution would not be revived and that liquidation was the remaining option.

8.3.21 The institution's registration as a banking institution was cancelled on 19 May 2006.

8.3.22 Following cancellation of registration, the shareholders of Time Bank filed an appeal in the Administrative Court against the Registrar of Banking Institutions' decision to cancel the institution's licence, which appeal is yet to be set down for hearing.

8.3.23 Having regard to the lessons learnt during curatorship of different institutions, the Reserve Bank took a deliberate decision to immediately place under liquidation institutions that are determined to be insolvent and with no prospects of viability.

## 8.4 LIQUIDATIONS

### Sagit Finance House

#### Causes of Failure...

8.4.1 An on-site examination of the institution was conducted from 13 to 16 February 2006 and it was determined that the overall condition of the institution was critical on the basis of negative capital base of \$93.06 billion, marginal profitability, non-performing loan book, liquidity challenges and collapse of corporate governance systems and structures.

8.4.2 The finance house required \$853.56 billion to meet



## CHAPTER EIGHT - TROUBLED BANK RESOLUTION

CONTINUED

the new capital requirement of \$750 billion effective 30 September 2006. Sagit Finance House was factually insolvent, with a capital deficit of \$93.06 billion. Further, its shareholders had no capacity to inject fresh capital into the institution. Some of the major shareholders were embroiled in protracted legal wrangles.

8.4.3 Ninety five percent (95%) of a total loan book of \$123.79 billion was adversely classified loans while loans with significant risk accounted for 93% of the total loan book.

8.4.4 The board was weak, passive and indecisive and had a tendency of leaving important policy decisions to senior management and absolving itself of responsibility.

8.4.5 As a result of the deficiencies noted, the Reserve Bank directed Sagit Finance House to cease all banking business on 2 March 2006.

8.4.6 The finance house was subsequently placed under liquidation on 7 June 2006.

8.4.7 Two meetings with creditors had been held by the end of 2006 and the progress towards the winding up of the institution has been satisfactory.

### **First National Building Society**

#### **Causes of Failure...**

8.4.8 An on-site examination of the institution conducted in 2002 established that the society was plagued with liquidity challenges and that these challenges were a result of:

- a) inadequate board and management oversight on the society's operations;
- b) poor asset and liability management especially the funding of long term projects with short term deposits in the form of NCDs;
- c) abuse of depositor's funds for the personal gain of the two executive directors (Messrs Samson Ruturi and Nicholas Musona) and their companies; and
- d) inadequate staff skills and expertise.

8.4.9 By December 2002, the society required Reserve Bank liquidity assistance in order to remain operational.

8.4.10 In spite of the liquidity support provided by the Reserve Bank, the society's liquidity condition continued to deteriorate due to the fraudulent activities of the two directors. Some cheques issued by the society were being dishonored by its bankers.

8.4.11 The society was placed under curatorship on 7 February 2003. The curator confirmed the Reserve Bank's determination that the society was in a serious liquidity crisis.

8.4.12 He further established that the directors had illegally appropriated depositors' funds for their own benefit between January 1998 and 31 December 2002.

8.4.13 The curator established that the society used depositors' funds to fund the activities of subsidiary companies.

8.4.14 Following a determination that continued curatorship would not lead to its resuscitation; the society was



## CHAPTER EIGHT - TROUBLED BANK RESOLUTION

CONTINUED

placed under liquidation.

8.4.15 All efforts to recapitalize the institution failed and the Registrar of Building Societies cancelled the society's licence on 25 October 2006. Failure of the recapitalisation initiatives also resulted in the resumption of liquidation proceedings.

8.4.16 Following cancellation of the FNBS' licence, the society's shareholders filed an appeal with the Minister of Finance on 23 November 2006, arguing that they were not given due notice of the intention to cancel the licence in terms of the Building Societies Act [Chapter 24:02].

8.4.17 The Registrar filed papers opposing the appeal on 21 December 2006, and now awaits the Minister's decision on the appeal. The shareholders of FNBS have not pursued the appeal to finalization.

8.4.18 Meanwhile, the shareholders of FNBS and the creditors of FNBS could not agree on the Liquidator to be appointed by the Master of High Court. The Reserve Bank referred the matter to the Supreme Court for determination.

8.4.19 The case was heard in the Supreme Court on 19 June 2007 and Reserve Bank awaits handing down of judgment.

### 8.5 APPEALS TO THE ADMINISTRATIVE COURT

#### **Trust Bank Corporation Limited [under curatorship]...**

8.5.1 Trust Bank Corporation Limited began operations in January 1996 as a merchant bank and converted its licence to a commercial bank in 2000.

8.5.2 The bank was facing serious liquidity and solvency challenges emanating from rapid expansion without a corresponding increase in capital, as well as high levels of nonperforming loans.

8.5.3 Poor corporate governance structures, which resulted in poor asset and liability management also contributed to the bank's demise. The bank was also engaging in non-banking activities through a Special Purpose Vehicle (SPV), TMB Nominees.

8.5.4 Following the findings of an on-site examination by the Reserve Bank, an independent investigation of the bank was commissioned which confirmed that the bank was facing liquidity challenges.

8.5.5 The bank's capital deficit was a result of huge losses stemming from poor asset quality and the inhibitive cost of refinancing huge liquidity net mismatches.

8.5.6 Various merger initiatives, with a number of local and regional investors failed to sail through, largely as a result of the huge capital deficit.

8.5.7 The financial condition of the institution worsened as there was no tangible progress made on the re-capitalization drive.

8.5.8 Consequently the bank was placed under the management of a curator on 23 September 2004.

8.5.9 In line with the Troubled Bank Resolution Framework, the assets of the bank were sold to ZABG. The alternative strategy, straight liquidation of the bank,



## CHAPTER EIGHT - TROUBLED BANK RESOLUTION

CONTINUED

was considered undesirable due to potential prejudice to the depositors and creditors.

- 8.5.10 Trust Holdings Limited, the shareholder of Trust Bank Corporation Limited, is contesting the disposal of assets to ZABG by the curator. The curatorship period has been extended to 31 December 2007, in order to allow for the finalization of the appeal noted by the shareholder of the bank in the Administrative Court.

### **Royal Bank Zimbabwe Limited [under curatorship]...**

- 8.5.11 Royal Bank was placed under curatorship on 4 August 2004, after it was determined that the institution was facing chronic liquidity problems and was insolvent.
- 8.5.12 The capital deficit was mainly attributed to non-performing loans, the bulk of which were insider loans.
- 8.5.13 The bank failed to inject the required capital and liquidity to meet maturing liabilities and extinguish the Reserve Bank liquidity assistance facility.
- 8.5.14 The directors engaged in malpractices which included granting of insider loans, illegal foreign currency dealing, siphoning of depositors' funds and poor corporate governance practices.
- 8.5.15 The Directors recapitalized the bank using depositors' funds in violation of both the Banking Act and the Companies Act.
- 8.5.16 Negotiations were pursued with potential investors to inject capital but these talks collapsed after due diligence exercises unearthed the true extent of the huge capital deficit and poor corporate governance practices which rendered the bank unviable.
- 8.5.17 It was against this backdrop that the Reserve Bank

placed the bank under curatorship.

- 8.5.18 In terms of the Troubled Bank Resolution Framework, Royal Bank's assets were sold to ZABG in January 2005 following a determination that it was the most appropriate solution compared to an outright liquidation of the bank which would have disadvantaged depositors and creditors.
- 8.5.19 The shareholders of the institution are challenging the curator's decision to sell the institution's assets to ZABG. The claim has been dismissed by the Reserve Bank following the deliberations of the Justice Smith Panel of experts and has similarly been dismissed by the Minister of Finance on appeal. A further appeal is now pending in the Administrative Court and the Reserve Bank has extended the period of curatorship for the bank to 31 December 2007, in order to allow for the finalization of the appeal.

### **8.6 PROPOSED CHANGES TO THE LEGAL & REGULATORY FRAMEWORK**

- 8.6.1 Due to the challenges that were associated with the resolution of troubled banks, especially the lengthy curatorship periods, the Reserve Bank is currently working on improving the legal and regulatory framework.
- 8.6.2 This will ensure application of prompt corrective actions to troubled banks and timely exit from the financial sector by institutions whose deficiencies have not been remedied within specific timeframes.
- 8.6.3 The amendments cover the following additional areas:
- corporate governance and compliance;
  - financial disclosure;



## CHAPTER EIGHT - TROUBLED BANK RESOLUTION

CONTINUED

- c. consolidated supervision;
  - d. troubled bank resolution;
  - e. prompt corrective action programmes; and
  - f. Basel II amendments.
- 8.6.4 The amendments are expected to bring about enhanced system of troubled bank resolution, instill market discipline through wider disclosure through financial statements, stronger risk management systems and structures through improved corporate governance systems and structures and adoption of Basel II standards.



## CHAPTER NINE - OUTLOOK

### 9.1 OVERVIEW

9.1.1 The challenge for boards and senior management of the Zimbabwean banking industry is to take advantage of the stability obtaining in the sector and the confidence and trust that the banking public has in the sector. For sustained growth and soundness, banking institutions should consider and act on the following:

- i. seek to grow revenues through a judicious mix of organic growth and consolidations;
- ii. continuously focus on strengthening risk management systems, corporate governance and compliance;
- iii. realistically assess and maintain economic capital in relation to banking institutions' risk profiles;
- iv. ensure that banking institutions are well equipped with robust information technology systems, accounting systems and adequate human resources;
- v. focus on core business of lending and work towards reversing the financial disintermediation which was characteristic in 2006;
- vi. banking institutions should expand their service delivery to cover marginalized communities;
- vii. banking institutions are encouraged to obtain sufficient personal and financial information about their customers and be knowledgeable about their activities and the services they require (KYC); and
- viii. ensure that there is adequate capacity building in response to the rapid changes in the skills required among bank employees at all levels.

### 9.2 CONSOLIDATIONS

9.2.1 Banking institutions are encouraged to merge, since

mergers are a critical competitive tool that can be used to balance the business mix and to fill gaps in product lineup, penetrate new markets and obtain economies of scale. Banking institutions will be able to take advantage of some of the following advantages of mergers:

- i. Mergers increase economies of scale. The larger the banking organization, the larger the earnings base to cover overhead costs, and the greater the earning assets to generate income.
- ii. A bank's capacity to lend and invest profitably is directly related to its capital base. The capital of two banks combined, will support larger and more profitable loans.
- iii. Mergers enable banking institutions to pool management resources, attract greater depth and breadth of management expertise, greater diversification of risk and enable customers to enjoy the increased convenience of access to the branches of both banks.
- iv. A carefully planned and structured consolidation may also provide important advantages in the areas of marketing, and access to services.

9.2.2 Banking institutions should however adequately prepare for mergers and carefully consider all applicable issues so as to avoid pitfalls such as possible asset quality problems, compliance problems, problems emanating from non disclosure, adverse market reaction, culture clash, and integration problems.

### 9.3 BASEL II

9.3.1 Basel II is intended to improve safety and soundness in the banking sector by putting more emphasis on



## CHAPTER NINE - OUTLOOK

CONTINUED

banking institutions' internal controls, risk management processes and models, supervisory processes and market discipline.

9.3.2 It is important that banking Institutions boards and senior management ensure that adequate human and technological resources are in place to meet the capital calculation requirements of the New Accord.

9.3.3 Basel II encourages ongoing improvements in risk measurement, assessment and mitigation. Basel II's three pillar concept seeks to align regulatory requirements with economic principles of risk management. Pillar 1 sets out minimum regulatory capital requirements. Pillar II defines the process of supervisory review of an institution's risk management framework, and ultimately, its capital adequacy. Pillar III aims to bolster market discipline through enhanced disclosure by banking institutions.

### 9.4 CAPITALISATION AND ECONOMIC CAPITAL

9.4.1 Banking institutions should realistically assess and maintain economic capital in relation to their risk profiles. Basel II introduces the concept of economic capital; that is it enables banks to determine capital adequacy based on the level of risk posed by a transaction. Economic capital is the capital banks set aside as a buffer against potential losses inherent in a particular business activity.

9.4.2 Pillar II addresses the need for banks to assess capital adequacy relative to overall risks, and the need for supervisors to review banks' assessments, and, consequently, determine whether to require banks to

hold capital beyond that required under Pillar I.

### 9.5 CORPORATE GOVERNANCE

9.5.1 Banking institutions should ensure that they have strong and effective corporate governance frameworks in place. Improved risk management and internal controls are a result of good corporate governance. Board and senior management are responsible for instituting sound risk management techniques and methodologies, integrated internal control frameworks and structures used to direct and manage business affairs of banking institutions. Basel II's Pillar II's purpose is to enhance corporate governance.

9.5.2 The division of power and establishment of mechanisms for achieving accountability between board of directors, management and shareholders, while protecting the interests of depositors and taking into account the effects on other stakeholders such as creditors, employees, customers and the community has to be appropriate and transparent.

9.5.3 Banking institutions will go far in meeting legal and regulatory requirements if they can ensure the establishment of proper business processes, including a sound risk management framework through enhanced corporate governance.

### 9.6 RISK MANAGEMENT

9.6.1 The process of financial intermediation is fraught with risks and rewards that need to be balanced through judicious and prudent risk management. Banking institutions should thus ensure that the banking



## CHAPTER NINE - OUTLOOK

CONTINUED

institutions' risk management systems encompass the four pillars of a sound risk management framework; i.e., effective board and senior management oversight; comprehensive and sound policies, procedures and limits, adequate and effective internal controls, and a robust management information system (MIS). The MIS should facilitate risk identification, measurement, monitoring and control.

### 9.7 ROBUST INFORMATION TECHNOLOGY AND ACCOUNTING SYSTEMS

9.7.1 Banking institutions should have adequate MIS to facilitate effective risk management and control all aspects of their operations. The sophistication of the MIS should be consistent with the complexity and diversity of the institution's activities. Automated processes should be promoted as they reduce operational risk - (fraud, error and manipulation).

9.7.2 Key elements such as timeliness, accuracy, consistency, completeness, and relevance should all be addressed by the MIS. Basel II also requires robust information systems.

9.7.3 Board and senior management should ensure that robust accounting systems which ensure accurate, consistent and timely reporting are in place. Basel II Pillar 3 aims to bolster market discipline through enhanced disclosure by banks.

9.7.4 Strong accounting systems should support Pillar 3, which sets out disclosure requirements and recommendations in various areas, including the way a banking institution's risk assessment methods and the

way it calculates its capital adequacy. Pillar 3s disclosure framework is aligned with IFRSs, and does not conflict with broader accounting disclosure standards with which banking institutions must comply.

### 9.8 INTERNATIONAL FINANCIAL REPORTING STANDARDS

9.8.1 Global accounting standards require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions. Banking institutions should promote the use and rigorous application of IFRSs in order to achieve comparability, transparency and quality reporting.

9.8.2 The finance function should be able to meet the legislative, regulatory and business requirements at an acceptable cost efficiently and effectively.

### 9.9 KNOW-YOUR-CUSTOMER PRINCIPLES

9.9.1 Banking institutions have an obligation to obtain sufficient personal and financial information about their customers that is relevant to the services provided to the customer. Banking institutions should have procedures in place to avoid association and involvement with criminals. (Anti Money Laundering and Anti Terrorist Financing). They should implement sound Know-Your-Customer (KYC) policies and procedures on a group wide basis. Policies and procedures at the branch or subsidiary level must be consistent with the group's KYC standards. KYC includes:



## CHAPTER NINE - OUTLOOK

CONTINUED

- customer identification and record keeping; and
- increased diligence by financial institutions in detecting and reporting suspicious transactions.

9.9.2 A sound KYC framework aids in mitigating operational losses that may arise from external fraud.

### 9.10 FINANCIAL INCLUSION

9.10.1 Banking institutions have a part to play to ensure access to basic financial services by all Zimbabweans in a sustainable, economically viable manner. Currently, rural communities are under banked, with a single branch in the rural areas serving about 170 000 people, compared to a city branch that serves 12 000 urban dwellers.

9.10.2 Following the Financial Inclusion initiative unveiled in the 2006 Year-end Monetary Policy Review, which seeks to make Financial Inclusion a reality to the majority of marginalized Zimbabweans, banking institutions should be poised to be part of the solution that will result in the provision of financial services to the rural and marginalized communities.

### 9.11 CAPACITY BUILDING

9.11.1 Skills required in banking have to evolve in response to the evolution in the industry with respect to new products, technological advances, risk management techniques, regulatory requirements and corporate governance practices.

9.11.2 A systematic approach to developing appropriate and relevant skills has to be taken. A proactive approach that looks holistically at training, performance management and workforce planning in order to develop staff is necessary. Training will need to be an ongoing activity to keep pace with a broader range of more complex products and more stringent compliance requirements.

**TABLE 1A**  
**COMPOSITION OF THE BALANCE SHEET (As at 31 December, 2006)**

COMMERCIAL BANKS																																
ASSETS	Agribank		Barclays		CBZ		CFX		FBC		IBC		Kingdom		MBCA		Metro		NMB		Stanbic		Stanchart		ZABG		ZB Bank		COMPOSITE 2005		COMPOSITE 2006	
	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%		
Cash and Due from Banks	1,576.03	1.77%	10,213.96	5.48%	9,661.67	6.08%	158.71	2.27%	1,279.12	2.03%	1.00	0.02%	2,482.08	3.85%	4,508.94	4.74%	530.00	4.72%	1,444.73	2.34%	12,854.90	9.52%	7,591.83	3.23%	2,126.33	4.89%	16,764.85	11.85%	2,923.25	3.39%	71,194.14	5.49%
Balances with Central Bank	19,380.63	21.82%	34,252.39	18.39%	28,737.24	18.08%	472.15	6.74%	4,942.61	7.86%	72.35	1.40%	8,167.07	12.65%	4,335.57	4.56%	1,630.04	14.51%	12,852.50	20.82%	23,451.55	17.36%	40,492.03	17.24%	4,655.25	10.71%	31,058.64	21.95%	14,821.14	17.17%	214,500.00	16.54%
Foreign claims	46.13	0.05%	10,203.86	5.48%	5,515.51	3.47%	.00	0.00%	1,011.42	1.61%	173.97	3.37%	1,896.50	2.94%	31,109.43	32.71%	13.83	0.12%	.00	0.00%	8,526.16	6.31%	8,228.46	3.50%	235.90	0.54%	4,138.67	2.92%	15,057.12	17.44%	71,099.84	5.48%
Securities and Investments	33,001.85	37.15%	76,640.39	41.15%	46,174.88	29.05%	4,552.12	65.01%	15,016.90	23.87%	1,772.65	34.38%	23,830.24	36.92%	15,344.19	16.13%	4,280.18	38.09%	25,473.41	41.26%	17,047.26	12.62%	50,900.34	21.67%	7,538.37	17.35%	26,213.16	18.53%	21,589.83	25.01%	347,785.94	26.82%
Loans & Advances	30,191.84		23,463.51		42,084.84		1,025.03		8,051.21		626.19		20,429.85		14,537.45		3,752.35		15,573.05		52,945.20		33,547.83		12,576.84		20,094.01		14,875.16		278,899.17	
Total Provisions	3.91		.68		1.21		.01		.19		.03		.32		1.11		.12		1.41		2.73		.84		.30		.55		1,402.46		13.40	
Net Loans & Advances	30,187.93	33.99%	23,462.83	12.60%	42,083.64	26.48%	1,025.02	14.64%	8,051.03	12.80%	626.15	12.15%	20,429.52	31.65%	14,536.34	15.28%	3,752.23	33.39%	15,571.62	25.22%	52,942.47	39.19%	33,546.99	14.28%	12,576.54	28.94%	20,093.46	14.20%	13,472.70	15.60%	278,885.77	21.51%
Fixed Assets	983.19	1.11%	18,525.73	9.95%	6,599.40	4.15%	728.47	10.40%	9,774.37	15.54%	159.52	3.09%	3,949.67	6.12%	1,451.97	1.53%	602.27	5.89%	4,371.28	7.08%	15,623.25	11.57%	46,743.63	19.90%	8,985.75	20.68%	2,315.62	1.64%	2,530.66	2.93%	120,874.11	9.32%
Other Assets	3,649.51	4.11%	3,384.45	1.82%	20,095.40	12.64%	65.72	0.94%	22,842.64	36.31%	2,337.58	45.34%	25.99	0.04%	12,577.33	13.22%	303.53	2.70%	1,206.89	1.95%	1,876.73	1.39%	35,548.54	15.14%	7,166.74	16.49%	40,085.47	28.33%	7,629.33	8.84%	151,166.51	11.66%
Total Book Assets	88,825.26	100.00%	176,683.61	94.87%	158,867.74	99.96%	7,002.19	100.00%	62,918.09	100.00%	5,143.23	99.76%	60,781.06	94.18%	83,863.76	88.17%	11,172.09	99.42%	60,920.42	98.68%	132,322.31	97.96%	223,051.81	94.98%	43,284.89	99.61%	140,669.86	99.42%	78,024.03	90.37%	1,255,306.32	96.83%
Off-Balance Sheet Items	.00	0.00%	9,550.99	5.13%	68.91	0.04%	.00	0.00%	.00	0.00%	12.23	0.24%	3,572.29	5.82%	11,254.01	11.83%	64.98	0.58%	817.38	1.32%	2,754.29	2.04%	11,799.56	5.02%	168.35	0.39%	824.10	0.58%	8,312.82	9.63%	41,072.10	3.17%
Total Assets	88,825.26	100.00%	186,234.60	100.00%	158,936.65	100.00%	7,002.19	100.00%	62,918.09	100.00%	5,155.47	100.00%	64,538.35	100.00%	95,117.77	100.00%	11,237.07	100.00%	61,737.79	100.00%	135,076.61	100.00%	234,851.37	100.00%	43,453.23	100.00%	141,493.96	100.00%	86,336.85	100.00%	1,296,578.42	100.00%
EQUITIES & LIABILITIES																																
	Agribank		Barclays		CBZ		CFX		FBC		IBC		Kingdom		MBCA		Metro		NMB		Stanbic		Stanchart		ZABG		ZB Bank		COMPOSITE 2005		COMPOSITE 2006	
	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%		
Total Deposits	25,418.20	28.62%	107,584.57	57.77%	78,805.02	49.58%	2,766.54	39.51%	13,753.06	21.86%	602.38	11.68%	36,766.97	56.97%	36,653.34	38.53%	4,709.35	41.91%	29,320.26	47.49%	82,399.65	61.00%	118,112.06	50.29%	18,819.05	43.31%	88,222.85	62.35%	44,437.55	51.47%	643,933.28	49.66%
Demand Deposits	20,501.11		63,452.56		43,172.09		524.60		10,459.55		181.58		8,934.65		5,489.13		2,044.45		18,379.41		51,616.12		83,634.67		7,597.22		30,525.57		23,127.40		346,512.70	
Savings Deposits	4,916.22		17,602.74		9,486.30		85.71		2,294.23		.99		9,972.27		70.31		288.74		899.26		5,238.86		24,989.09		1,221.90		19,664.90		4,291.48		96,691.53	
Time Deposits/ Fixed Deposits	.88		17,212.43		18,880.59		2,132.31		639.27		419.81		15,222.01		10,341.07		2,365.44		1,441.18		17,438.13		446.39		9,821.34		35,295.88		4,948.68		131,656.74	
Foreign Currency Deposits	.00		9,316.84		7,266.09		23.91		360.00		.00		2,688.03		20,752.83		10.73		1,219.56		8,106.54		9,041.91		178.59		2,736.48		11,922.89		61,651.46	
Negotiable Certificates of Deposit	.00		.00		.00		.00		.00		.00		.00		.00		7,420.85		.00		.00		.00		.00		.00		147.10		7,420.85	
Amounts Owing to Central Bank	.00	0.00%	10,062.80	5.40%	13,780.03	8.67%	.00	0.00%	.00	0.00%	.00	0.00%	3,489.36	5.41%	7,146.42	7.51%	2,488.77	22.15%	6,683.70	10.83%	.00	0.00%	13,669.68	5.82%	7,895.24	18.17%	14,366.21	10.15%	4,146.61	4.80%	79,382.21	6.14%
Due to Financial Institutions	444.42	0.50%	8,059.97	4.33%	30,453.24	19.16%	1,722.90	24.61%	4,679.78	7.44%	1,355.95	26.30%	.00	0.00%	3,740.09	3.93%	1,195.77	10.64%	7,914.47	12.82%	2,271.08	1.68%	164.04	0.07%	.00	0.00%	7,144.61	5.05%	2,117.23	2.45%	69,146.31	5.33%
Foreign Liabilities	.00	0.00%	283.35	0.15%	32.50	0.02%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	10,288.93	10.82%	.00	0.00%	.00	0.00%	.00	0.00%	324.39	0.14%	16.74	0.04%	89.25	0.06%	3,222.92	3.75%	11,035.16	0.85%
Capital and Reserves	7,378.66	8.31%	33,017.43	17.73%	17,526.15	11.03%	2,148.98	30.69%	17,586.27	27.95%	2,896.14	56.18%	14,380.13	22.28%	13,953.42	14.67%	2,045.22	18.20%	8,017.44	12.99%	33,823.04	25.04%	48,881.71	20.81%	9,446.33	21.74%	17,492.18	12.36%	10,788.55	12.46%	228,593.08	17.63%
Other Liabilities	55,583.98	62.58%	17,675.48	9.49%	18,270.80	11.50%	363.78	5.20%	26,888.99	42.75%	300.99	5.84%	4,856.72	7.53%	12,081.57	12.70%	732.98	6.52%	8,984.55	14.55%	13,828.55	10.24%	41,899.94	17.84%	7,107.53	16.36%	13,354.78	9.44%	13,291.19	15.39%	221,940.63	17.12%
Sub-total	88,825.26	100.00%	176,683.61	94.87%	158,867.74	99.96%	7,002.19	100.00%	62,918.09	100.00%	5,142.24	99.76%	59,493.17	94.18%	83,863.76	88.17%	11,172.09	99.42%	60,920.42	98.68%	132,322.31	97.96%	223,051.81	94.98%	43,284.89	99.61%	140,669.86	99.42%	77,974.06	90.31%	1,254,230.67	96.73%
Off-Balance Sheet Items - Liabilities	.00	0.00%	9,550.99	5.13%	68.91	0.04%	.00	0.00%	.00	0.00%	12.23	0.24%	3,572.29	5.82%	11,254.01	11.83%	64.98	0.58%	817.38	1.32%	2,754.29	2.04%	11,799.56	5.02%	168.35	0.39%	824.10	0.58%	8,362.79	9.69%	42,347.75	3.27%
Total Equity and Liabilities	88,825.26	100.00%	186,234.60	100.00%	158,936.65	100.00%	7,002.19	100.00%	62,918.09	100.00%	5,155.47	100.00%	64,538.35	100.00%	95,117.77	100.00%	11,237.07	100.00%	61,737.79	100.00%	135,076.61	100.00%	234,851.37	100.00%	43,453.23	100.00%	141,493.96	100.00%	86,336.85	100.00%	1,296,578.42	100.00%



**TABLE 1B**  
**COMPOSITION OF THE BALANCE SHEET (As at 31 December, 2006)**

<b>MERCHANT BANKS</b>														
<b>ASSETS</b>														
	<b>ABC</b>		<b>GENESIS</b>		<b>INTERFIN</b>		<b>PREMIER</b>		<b>RENAISSANCE</b>		<b>COMPOSITE '2005</b>		<b>COMPOSITE '2006</b>	
	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>
Cash and Due from Banks	2,376.44	4.85%	40.38	0.14%	-78.06	-0.28%	3,403.31	10.00%	44.13	0.24%	811,864.33	9.90%	5,786.20	3.66%
Balances with Central Bank	3,387.29	6.91%	2,140.96	7.35%	337.71	1.22%	2,448.13	7.19%	1,606.32	8.91%	289,538.31	3.53%	9,920.41	6.28%
Foreign Claims	756.24	1.54%	59.76	0.21%	1,389.15	5.01%	144.84	0.43%	38.18	0.21%	375,999.82	4.58%	2,388.17	1.51%
Securities and Investments	18,332.04	37.42%	11,652.87	40.02%	19,849.60	71.58%	4,779.85	14.04%	2,224.98	12.34%	4,251,199.81	51.82%	56,839.34	36.00%
Loans & Advances	2,137.40		1,894.09		163.89		5,389.32		5,174.08		871,563.09		14,758.78	
Total Provisions	.38		.01		.00		.31		.03		64,869.31		.74	
Net Loans & Advances	2,137.02	4.36%	1,894.08	6.50%	163.88	0.59%	5,389.01	15.83%	5,174.05	28.70%	806,693.77	9.83%	14,758.04	9.35%
Fixed Assets	21,137.28	43.15%	2,258.66	7.76%	910.27	3.28%	13,879.16	40.78%	870.77	4.83%	487,284.14	5.94%	39,056.13	24.73%
Other Assets	862.59	1.76%	3,958.76	13.60%	5,024.96	18.12%	3,992.34	11.73%	8,071.33	44.77%	890,469.13	10.85%	21,909.97	13.88%
Total Book Assets	48,988.88	100.00%	22,005.47	75.57%	27,597.51	99.52%	34,036.65	100.00%	18,029.75	100.00%	7,913,049.31	96.45%	150,658.26	95.41%
Off-Balance Sheet Items	.00	0.00%	7,112.95	24.43%	132.80	0.48%	.00	0.00%	.00	0.00%	291,265.20	3.55%	7,245.75	4.59%
Total Assets	48,988.88	100.00%	29,118.42	100.00%	27,730.31	100.00%	34,036.65	100.00%	18,029.75	100.00%	8,204,314.51	100.00%	157,904.01	100.00%
<b>EQUITY AND LIABILITIES</b>														
	<b>ABC</b>		<b>GENESIS</b>		<b>INTERFIN</b>		<b>PREMIER</b>		<b>RENAISSANCE</b>		<b>COMPOSITE '2005</b>		<b>COMPOSITE '2006</b>	
	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>
Total Deposits	16,022.04	32.71%	12,009.59	41.24%	15,693.36	56.59%	8,528.91	25.06%	7,828.27	43.42%	3,447,968.85	42.03%	60,082.17	38.05%
Demand Deposits	7,692.15		74.51		138.43		924.23		277.71		205,255.91		9,107.02	
Savings Deposits	.00		.00		.00		.00		.00		26,688.37		.00	
Time Deposits/Fixed Deposits	7,125.05		11,872.18		15,357.25		7,518.05		7,489.13		2,894,374.93		49,361.66	
Foreign Currency Deposits	1,204.84		62.90		197.68		86.63		61.43		321,649.64		1,613.49	
Negotiable Certificates of Deposit	.00		.00		.00		.00		.00		.00		.00	
Amounts Owing to Central Bank	.00	0.00%	557.69	1.92%	59.94	0.22%	5,253.98	15.44%	1,444.16	8.01%	205,694.90	2.51%	7,315.77	4.63%
Due to Financial Institutions	1,941.88	3.96%	8.36	0.03%	1,732.40	6.25%	480.99	1.41%	.00	0.00%	601,030.58	7.33%	4,163.64	2.64%
Foreign Liabilities	.00	0.00%	.00	0.00%	1,084.97	3.91%	.00	0.00%	.00	0.00%	157,325.11	1.92%	1,084.97	0.69%
Capital and Reserves	22,254.06	45.43%	4,075.77	14.00%	4,233.45	15.27%	12,709.46	37.34%	4,458.86	24.73%	866,822.15	10.57%	47,731.60	30.23%
Other Liabilities	8,770.90	17.90%	5,354.05	18.39%	4,793.39	17.29%	7,063.31	20.75%	4,298.46	23.84%	2,634,207.73	32.11%	30,280.11	19.18%
Sub-total	48,988.88	100.00%	22,005.47	75.57%	27,597.51	99.52%	34,036.65	100.00%	18,029.75	100.00%	7,913,049.31	96.45%	150,658.26	95.41%
Off-Balance Sheet Items - Liabilities	.00	0.00%	7,112.95	24.43%	132.80	0.48%	.00	0.00%	.00	0.00%	291,265.20	3.55%	7,245.75	4.59%
Total Equity and Liabilities	48,988.88	100.00%	29,118.42	100.00%	27,730.31	100.00%	34,036.65	100.00%	18,029.75	100.00%	8,204,314.51	100.00%	157,904.01	100.00%





## APPENDIX 1 - STATISTICAL TABLES

CONTINUED

**TABLE 1C**  
**COMPOSITION OF THE BALANCE SHEET (As at 31 December, 2006)**

**BUILDING SOCIETIES**

ASSETS	BEVERLEY		CABS		INTERMARKET BS		FBC BS*		COMPOSITE '2005		COMPOSITE '2006	
	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%
Cash and Due from Banks	2,079.78	5.25%	4,186.75	4.26%	264.09	1.34%	200.15	0.74%	474.28	6.10%	6,730.77	3.64%
Balances with Central Bank	3,470.14	8.75%	2,728.04	2.77%	1,192.18	6.03%	526.51	1.94%	686.88	8.83%	7,916.87	4.28%
Foreign Claims	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%
Securities and Investments	16,120.28	40.66%	14,516.44	14.75%	6,592.13	33.34%	3,905.63	14.41%	3,057.08	39.30%	41,134.48	22.25%
Loans & Advances	2,869.80		4,229.73		739.94		770.63		805.22		8,610.09	
Total Provisions	.03		.02		.00		.01		14.79		.06	
Net Loans & Advances	2,869.78	7.24%	4,229.71	4.30%	739.93	3.74%	770.62	2.84%	790.43	10.16%	8,610.04	4.66%
Fixed Assets	14,561.13	36.73%	67,285.67	68.39%	4,083.32	20.65%	19,401.80	71.59%	2,261.00	29.06%	105,331.91	56.96%
Other Assets	547.10	1.38%	5,445.09	5.53%	6,901.49	34.90%	2,296.36	8.47%	509.13	6.56%	15,190.03	8.21%
Total Book Assets	39,648.20	100.00%	98,391.69	100.00%	19,773.15	100.00%	27,101.07	100.00%	7,779.68	100.00%	184,914.11	100.00%
Off-Balance Sheet Items	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	0.88	0.00%	.00	0.00%
Total Assets	39,648.20	100.00%	98,391.69	100.00%	19,773.15	100.00%	27,101.07	100.00%	7,779.68	100.00%	184,914.11	100.00%
<b>EQUITY &amp; LIABILITIES</b>												
	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%
Total Deposits	8,692.89	21.93%	28,537.59	29.00%	8,172.02	41.33%	4,843.19	17.87%	4,524.77	58.16%	50,245.68	27.17%
Demand Deposits	.00		526.37		.00		2,305.32		451.29		2,831.69	
Savings Deposits	6,091.62		17,065.31		1,370.25		8.59		2,073.30		24,535.78	
Time Deposits/Fixed Deposits	1,876.00		10,945.90		775.70		2,529.27		1,818.27		16,126.87	
Foreign Currency Deposits	.00		.00		.00		.00		.00		.00	
Negotiable Certificates of Deposit	725.27		.00		6,026.07		.00		181.92		6,751.34	
Amounts Owing to Central Bank	9,823.32	24.78%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	9,823.32	5.31%
Due to Financial Institutions	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%
Foreign Liabilities	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%
Capital and Reserves	14,291.94	36.05%	65,912.27	66.99%	10,352.33	52.36%	20,324.12	74.99%	2,199.22	28.27%	110,880.66	59.96%
Other Liabilities	6,840.05	17.25%	3,941.84	4.01%	1,248.79	6.32%	1,933.77	7.14%	1,054.82	13.56%	13,964.45	7.55%
Sub-Total	39,648.20	100.00%	98,391.69	100.00%	19,773.15	100.00%	27,101.07	100.00%	7,778.80	99.99%	184,914.11	100.00%
Off-Balance Sheet Items - Liabilities	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.88	0.01%	.00	0.00%
Total Equity and Liabilities	39,648.20	100.00%	98,391.69	100.00%	19,773.15	100.00%	27,101.07	100.00%	7,779.68	100.00%	184,914.11	100.00%

\* Formerly Zimbabwe Building Society (ZBS)



## APPENDIX 1 - STATISTICAL TABLES

### CONTINUED

**TABLE 1D**  
**COMPOSITION OF THE BALANCE SHEET (As at 31 December, 2006)**

<b>DISCOUNT HOUSES</b>												
<b>ASSETS</b>	<b>DCZ</b>		<b>Highveld</b>		<b>NDH</b>		<b>Tetrad</b>		<b>COMPOSITE 2005</b>		<b>COMPOSITE 2006</b>	
	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>
Cash and Due From Banks	31.65	0.68%	433.17	9.77%	13.83	0.92%	444.14	8.84%	22.98	1.86%	922.79	5.92%
Balances With Central Bank	466.95	10.10%	515.65	11.63%	139.50	9.24%	202.40	4.03%	106.92	8.64%	1,324.51	8.49%
Foreign Claims	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%
Securities and Investments	3,079.94	66.60%	2,149.88	48.48%	501.22	33.18%	893.87	17.79%	868.73	70.18%	6,624.91	42.48%
Loans & Advances	.00		.00		.00		.00		12.84		.00	
Total Provisions	.00		.00		.00		.00		.00		.00	
Net Loans & Advances	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	12.84	1.04%	.00	0.00%
Fixed Assets	953.83	20.63%	842.11	18.99%	240.24	15.90%	1,698.87	33.81%	55.36	4.47%	3,734.05	23.95%
Other Assets	92.00	1.99%	493.95	11.14%	615.73	40.76%	1,785.35	35.53%	170.96	13.81%	2,978.04	19.15%
Total Book Assets	4,624.38	100.00%	4,434.77	100.00%	1,510.53	100.00%	5,024.63	100.00%	1,237.79	100.00%	15,959.30	100.00%
Off-Balance Sheet Items	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%
Total Assets	4,624.38	100.00%	4,434.77	100.00%	1,510.53	100.00%	5,024.63	100.00%	1,237.79	100.00%	15,959.30	100.00%
<b>EQUITY &amp; LIABILITIES</b>												
	<b>DCZ</b>		<b>Highveld</b>		<b>NDH</b>		<b>Tetrad</b>		<b>COMPOSITE 2005</b>		<b>COMPOSITE 2006</b>	
	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>
Total Deposits	888.41	19.21%	1,078.76	24.33%	472.78	31.30%	1,979.62	39.40%	300.04	24.24%	4,419.57	28.34%
Demand Deposits	74.21		12.63		.00		785.56		68.73		872.39	
Savings Deposits	.00		.00		.00		.00		.00		.00	
Time Deposits/Fixed Deposits	.00		1,066.14		472.78		1,194.06		97.06		2,732.98	
Foreign Currency Deposits	.00		.00		.00		.00		.00		.00	
Negotiable Certificates of Deposit	814.20		.00		.00		.00		134.26		814.20	
Amounts Owing to Central Bank	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	251.69	20.33%	.00	0.00%
Due to Financial Institutions	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%
Foreign Liabilities	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%
Capital And Reserves	2,860.63	61.86%	1,512.04	34.10%	984.57	65.18%	1,528.07	30.41%	362.25	29.27%	6,885.31	44.15%
Other Liabilities	875.33	18.93%	1,843.96	41.58%	53.18	3.52%	1,516.94	30.19%	323.81	26.16%	4,289.42	27.51%
Sub-Total	4,624.38	100.00%	4,434.77	100.00%	1,510.53	100.00%	5,024.63	100.00%	1,237.79	100.00%	15,594.30	100.00%
Off-Balance Sheet Items - Liabilities	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%
Total Equity and Liabilities	4,624.38	100.00%	4,434.77	100.00%	1,510.53	100.00%	5,024.63	100.00%	1,237.79	100.00%	15,594.30	100.00%



## APPENDIX 1 - STATISTICAL TABLES

CONTINUED

**TABLE 1E**  
**COMPOSITION OF THE BALANCE SHEET (As at 31 December, 2006)**

<b>FINANCE HOUSES</b>								
<b>ASSETS</b>	<b>ZDB FINANCIAL SERVICES</b>		<b>TRUSTFIN</b>		<b>COMPOSITE 2005</b>		<b>COMPOSITE 2006</b>	
	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z \$ Million</b>	<b>%</b>
Cash and Due From Banks	20.78	5.51%	188.76	3.08%	537.21	33.73%	209.55	3.22%
Balances With Central Bank	.00	0.00%	125.40	2.04%	125.29	7.87%	125.40	1.93%
Foreign Claims	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%
Securities and Investments	66.42	17.60%	1,917.10	31.26%	696.46	43.73%	1,983.52	30.47%
Loans & Advances	69.87		471.49		161.02		541.35	
Total Provisions	.03		.03		28.06		.05	
Net Loans & Advances	69.84	18.51%	471.46	7.69%	132.97	8.35%	541.30	8.31%
Fixed Assets	3.53	0.94%	42.94	0.70%	70.70	4.44%	46.47	0.71%
Other Assets	216.81	57.45%	247.31	4.03%	27.93	1.75%	464.11	7.13%
Total Book Assets	377.38	100.00%	2,992.98	48.80%	1,590.56	99.88%	3,370.35	51.77%
Off-Balance Sheet Items	.00	0.00%	3,139.75	51.20%	1.96	0.12%	3,139.75	48.23%
Total Assets	377.38	100.00%	6,132.72	100.00%	1,592.52	100.00%	6,510.10	100.00%
<b>EQUITY &amp; LIABILITIES</b>								
	<b>ZDB FINANCIAL SERVICES</b>		<b>TRUSTFIN</b>		<b>COMPOSITE 2005</b>		<b>COMPOSITE 2006</b>	
	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z\$ Million</b>	<b>%</b>	<b>Z \$ Million</b>	<b>%</b>
Total Deposits	.00	0.00%	1,080.61	17.62%	1,112.99	69.89%	1,080.61	16.60%
Demand Deposits	.00		43.66		51.73		43.66	
Savings Deposits	.00		.00		.00		.00	
Time Deposits/Fixed Deposits	.00		1,036.96		1,061.26		1,036.96	
Foreign Currency Deposits	.00		.00		.00		.00	
Negotiable Certificates of Deposit	.00		.00		.00		.00	
Amounts Owing to Central Bank	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%
Due to Financial Institutions	.00	0.00%	.63	0.01%	.03	0.00%	.63	0.01%
Foreign Liabilities	.00	0.00%	.00	0.00%	.00	0.00%	.00	0.00%
Capital and Reserves	365.60	96.88%	1,226.57	20.00%	232.10	14.57%	1,592.17	24.46%
Other Liabilities	11.78	3.12%	685.15	11.17%	245.44	15.41%	696.93	10.71%
Sub-Total	377.38	100.00%	2,992.98	48.80%	1,590.56	99.88%	3,370.35	51.77%
Off-Balance Sheet Items - Liabilities	.00	0.00%	3,139.75	51.20%	1.96	0.12%	3,139.75	48.23%
Total Equity and Liabilities	377.38	100.00%	6,132.72	100.00%	1,592.52	100.00%	6,510.10	100.00%



## APPENDIX 1 - STATISTICAL TABLES

CONTINUED

**TABLE 1F**  
**COMPOSITION OF THE BALANCE SHEET (As at 31 December, 2006)**

**CONSOLIDATED BALANCE SHEETS**

ASSETS	Commercial		Merchant		Building Societies		Discount Houses		Finance Houses		COMPOSITE'2006	
	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%
Cash and Due From Banks	71,194.14	5.49%	5,786.2	3.66%	6,730.77	3.64%	922.79	5.92%	209.55	3.22%	84,843.45	5.11%
Blances With Central Bank	214,500.00	16.54%	9,920.41	6.28%	7,916.87	4.28%	1,324.51	8.49%	125.40	1.93%	233,787.20	14.07%
Foreign Claims	71,099.84	5.48%	2,388.17	1.51%	.00	0.00%	.00	0.00%	.00	0.00%	73,488.01	4.42%
Securities and Investments	347,785.94	26.82%	56,839.34	36.00%	41,134.48	22.25%	6,624.91	42.48%	1,983.52	30.47%	454,368.19	27.35%
Loans & Advances	278,899.17		14,758.78		8,610.04		.00		541.35	302.81		
Total Provisions	13.40		0.74		.06		.00		.05			
Net Loans & Advances	278,885.77	21.51%	14,758.04	9.35%	8,610.04	4.66%	.00	0.00%	541.30	8.31%	302,809.40	18.22%
Fixed Assets	120,874.11	9.32%	39,056.13	24.73%	105,331.91	56.96%	3,735.05	23.95%	46.47	0.71%	14.25	16.19%
Other Assets	151,166.51	11.66%	21,909.97	13.88%	15,190.03	8.21%	2,987.04	19.15%	464.11	7.13%	302,795.15	11.54%
Total Book Assets	1,255,506.32	96.83%	150,658.26	95.41%	184,914.11	100.00%	15,594.30	100.00%	3,370.35	51.77%	269,043.69	96.90%
Off-Balance Sheet Items	41,072.10	3.17%	7,245.75	4.59%	.00	0.00%	.00	0.00%	3,139.75	48.23%	191,717.67	3.10%
Total Assets	1,296,578.42	100.00%	157,904.01	100.00%	184,914.11	100.00%	15,594.30	100.00%	6,510.10	100.00%	1,661,500.95	100.00%
<b>EQUITY AND LIABILITIES</b>												
	<b>Commercial</b>	<b>Merchant</b>	<b>Building Societies</b>	<b>Discount Houses</b>	<b>Finance Houses</b>	<b>COMPOSITE'2006</b>						
	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%	Z\$ Million	%
Total Deposits	643,933.28	49.66%	60,082.17	38.05%	50,245.68	27.17%	4,419.57	28.34%	1,080.61	16.60%	759,761.32	45.73%
Demand Deposits	346,512.70		9,107.02		2,831.69		872.39		43.66		359,367.47	
Savings Deposits	96,691.53		.00		24,535.78		.00		.00		121,227.31	
Time Deposits/Fixed Deposits	131,656.74		49,361.66		16,126.87		2,732.98		1,036.96		200,915.21	
Foreign Currency Deposits	61,651.46		1,613.49		.00		.00		.00		63,264.94	
Negotiable Certificates of Deposit	7,420.85		.00		6,751.34		814.20		.00		14,986.39	
Amounts Owing to Central Bank	79,582.21	6.14%	7,315.77	4.63%	9,823.32	5.31%	.00	0.00%	.00	0.00%	96,721.31	5.82%
Due to Financial Institutions	69,146.31	5.33%	4,163.64	2.64%	.00	0.00%	.00	0.00%	.63	0.01%	73,310.58	4.41%
Foreign Liabilities	11,035.16	0.85%	1,084.97	0.69%	.00	0.00%	.00	0.00%	.00	0.00%	12,120.13	0.73%
Capital and Reserves	228,593.08	17.63%	47,731.60	30.23%	110,880.66	59.96%	6,885.31	44.15%	1,592.17	24.46%	395,682.81	23.81%
Other Liabilities	221,940.63	17.12%	30,280.11	19.18%	13,964.45	7.55%	4,289.42	27.51%	696.93	10.71%	272,447.20	16.32%
Sub-Total	1,254,230.67	96.73%	150,658.26	95.41%	184,914.11	100.00%	15,594.30	100.00%	3,370.35	51.77%	1,610,043.35	96.83%
Off-Balance Sheet Items - Liabilities	42,347.75	3.27%	7,245.75	4.59%	.00	0.00%	.00	0.00%	3,139.75	48.23%	51,457.60	3.17%
Total Equity and Liabilities	1,296,578.42	100.00%	157,904.01	100.00%	184,914.11	100.00%	15,594.30	100.00%	6,510.10	100.00%	1,661,500.95	100.00%

**TABLE 2A**  
**COMPOSITION OF INCOME STATEMENTS (31 DECEMBER 2006)**

COMMERCIAL BANKS															
	AGRIBANK Z\$ Millions	BARCLAYS Z\$ Millions	CBZ Z\$ Millions	CFX Z\$ Millions	FBC Z\$ Millions	INTERMARKET Z\$ Millions	KINGDOM Z\$ Millions	MBCA BANK Z\$ Millions	METRO Z\$ Millions	NMB Z\$ Millions	STANBIC Z\$ Millions	STANCHART Z\$ Millions	ZABG Z\$ Millions	ZB BANK Z\$ Millions	TOTAL Z\$ Millions
Total Interest Income	21,019.51	64,299.72	50,659.16	2,246.98	36,277.59	1,840.43	30,028.03	42,542.58	5,952.26	18,338.48	48,176.74	49,163.93	12,422.92	62,204.15	445,172.49
Loans and Leases	5,816.44	11,182.18	6,809.80	51.90	1,999.48	609.33	2,409.33	3,789.67	1,986.01	3,786.86	9,156.52	12,762.60	3,243.04	9,893.33	73,496.49
Securities and Investments	15,203.07	52,166.10	43,331.91	2,195.08	33,092.39	1,230.39	27,618.70	37,480.17	3,915.58	14,309.50	37,847.93	34,793.86	8,875.72	51,785.26	363,845.65
Deposit Balances and Other Interest Income	.00	951.45	517.45	.00	1,185.72	.71	.00	1,272.73	50.67	242.12	1,172.30	1,607.47	304.15	525.56	7,830.35
Total Interest Expenses	2,693.93	26,327.76	23,838.11	1,324.19	10,945.09	626.74	8,354.74	20,877.12	2,435.76	9,829.24	12,119.51	19,449.34	4,614.10	37,309.58	180,745.20
Deposits	-59.54	19,027.27	13,956.50	1,324.19	270.71	626.74	8,354.74	19,011.87	2,118.82	6,895.22	3,338.87	10,932.26	4,294.39	12,269.70	102,361.75
Borrowed Funds	.00	7,299.46	9,861.01	.00	5,258.87	.00	.00	16.28	316.94	2,932.61	8,780.64	8,517.08	273.27	8,721.71	51,977.87
Other Interest Expenses	2,753.48	1.02	20.60	.00	5,415.50	.00	.00	1,848.96	.00	1.41	.00	.00	46.44	16,318.17	26,405.58
Net Interest Income	18,325.58	37,971.97	26,821.06	922.79	25,332.50	1,213.69	21,673.29	21,665.46	3,516.50	8,509.24	36,057.23	29,714.58	7,808.82	24,894.57	264,427.29
Total Provisions For Current Period	1,133.45	714.45	954.05	.00	171.35	.00	342.89	800.41	93.45	125.39	2,602.31	328.95	256.69	485.41	8,008.80
Total Non - Interest Income	635.35	5,343.91	4,552.24	292.64	1,422.50	1,945.20	5,273.47	3,341.92	236.75	4,815.26	9,290.06	13,146.05	2,585.43	4,629.82	57,520.60
Fees, Commission and Service Charges	611.23	4,619.29	4,218.23	176.08	1,203.04	381.73	895.20	1,208.45	241.18	241.05	1,498.78	2,284.23	878.85	1,741.64	20,198.98
Foreign Exchange Fees and Commission	14.48	653.78	37.71	-30.47	360.18	.03	3,077.95	2,094.43	.00	212.57	5,788.89	1,094.22	23.60	786.87	14,114.23
Other Non Interest Income	9.64	70.84	296.30	147.03	-140.72	1,563.44	1,300.31	39.04	-4.43	4,361.64	2,002.39	9,767.61	1,682.98	2,111.31	23,207.38
Total Non - Interest Expenses	7,357.96	15,453.84	9,276.87	1,582.43	8,594.30	544.37	5,486.93	3,298.52	1,210.13	3,631.14	7,232.89	12,122.34	5,510.26	8,867.09	90,169.08
Salaries and Employee Benefits	4,610.56	10,606.08	6,158.17	743.03	6,339.08	300.51	2,784.38	2,078.43	741.15	2,211.26	3,478.88	6,046.79	3,310.87	5,627.70	55,036.88
Occupancy - Net of Rental	646.43	72.79	241.62	63.26	270.18	55.11	124.24	72.20	35.49	152.76	52.42	1,223.89	618.96	353.49	3,982.84
Other Non Interest Expenses	2,100.97	4,774.97	2,877.08	776.14	1,985.04	188.75	2,578.31	1,147.88	433.50	1,267.12	3,701.60	4,851.66	1,580.44	2,885.90	31,149.36
Net Income (Loss) before Taxation and Extraordinary Items	10,469.52	27,147.58	21,142.38	-367.00	17,989.36	2,614.51	21,116.94	20,908.45	2,449.67	9,567.97	35,512.09	30,409.34	4,627.31	20,181.90	223,770.01
Taxation	3,957.15	9,945.22	7,859.00	-172.40	6,773.47	37.15	7,496.78	7,282.40	763.44	2,627.94	12,836.85	11,337.94	1,532.81	4,998.90	77,276.66
Net Income / (Loss) after Taxation before Extraordinary Items	6,512.36	17,202.36	13,283.37	-194.59	11,215.88	2,577.36	13,620.16	13,626.05	1,686.23	6,940.02	22,675.24	19,071.40	3,094.50	15,183.00	146,493.35
Extraordinary Items	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
Net Income / (Loss)	6,512.36	17,202.36	13,283.37	-194.59	11,215.88	2,577.36	13,620.16	13,626.05	1,686.23	6,940.02	22,675.24	19,071.40	3,094.50	15,183.00	146,493.35
Dividends	.00	.00	.00	.00	316.58	.00	.00	554.90	.00	.00	.00	.00	107.52	.00	979.00
Retained Earnings	6,512.36	17,202.36	13,283.37	-194.59	10,899.30	2,577.36	13,620.16	13,071.15	1,686.23	6,940.02	22,675.24	19,071.40	2,986.98	15,183.00	145,514.36





## APPENDIX 2 - STATISTICAL TABLES

CONTINUED

**TABLE 2B**  
**COMPOSITION OF INCOME STATEMENTS (31 DECEMBER 2006)**

**MERCHANT BANKS**

	<b>ABC Bank Z\$ Millions</b>	<b>Genesis Z\$ Millions</b>	<b>Interfin Z\$ Millions</b>	<b>Premier Z\$ Millions</b>	<b>Renaissance Z\$ Millions</b>	<b>Total Z\$ Millions</b>
Total Interest Income	24,371.87	11,697.69	12,933.48	19,394.29	9,458.27	77,855.59
Loans and Leases	1,619.69	201.04	175.14	3,060.28	2,804.38	7,860.53
Securities and Investments	15,021.36	11,490.18	12,758.33	14,542.06	6,653.90	60,465.84
Deposit Balances and Other Interest Income	7,730.81	6.46	.01	1,791.94	.00	9,529.22
Total Interest Expenses	14,460.99	5,927.56	8,034.47	10,979.61	1,420.06	40,822.69
Deposits	14,460.99	.00	8,026.56	10,979.61	1,420.06	34,887.22
Borrowed Funds	.00	.00	7.91	.00	.00	7.91
Other Interest Expenses	.00	5,927.56	.00	.00	.00	5,927.56
Net Interest Income	9,910.87	5,770.12	4,899.01	8,414.68	8,038.22	37,032.90
Total Provisions For Current Period	342.25	10.58	230.91	179.11	8.98	771.83
Total Non - Interest Income	12,148.72	221.56	768.42	349.38	1,664.12	15,152.20
Fees, Commission and Service Charges	126.33	195.11	519.06	35.11	1,543.57	2,419.19
Foreign Exchange Fees and Commission	36.71	.00	.00	1.88	.00	38.59
Other Non Interest Income	11,985.68	26.45	249.36	312.39	120.55	12,694.42
Total Non - Interest Expenses	4,385.13	1,223.25	1,614.87	2,571.45	2,667.57	12,462.27
Salaries and Employee Benefits	3,276.72	722.83	1,039.42	1,130.20	1,846.56	8,015.73
Occupancy - Net of Rental	104.80	26.37	79.54	134.78	60.55	406.04
Other Non Interest Expences	1,003.60	474.05	495.91	1,306.47	760.46	4,040.50
Net Income (Loss) before Taxation and Extraordinary Items	17,332.22	4,757.85	3,821.64	6,013.50	7,025.79	38,951.00
Taxation	5,320.87	1,705.44	731.38	1,086.26	2,658.58	11,502.52
Net Income / (Loss) after Taxation before Extraordinary Items	12,011.35	3,052.42	3,090.26	4,927.24	4,367.20	27,448.48
Extraordinary Items	.00	.00	.00	.00	.00	.00
Net Income / (Loss)	12,011.35	3,052.42	3,090.26	4,927.24	4,367.20	27,448.48
Dividends	.00	300.00	.00	80.00	.00	380.00
Retained Earnings	12,011.35	2,752.42	3,090.26	4,847.24	4,367.20	27,068.48



## APPENDIX 2 - STATISTICAL TABLES

CONTINUED

**TABLE 2C**  
**COMPOSITION OF INCOME STATEMENTS (31 DECEMBER 2006)**

**BUILDING SOCIETIES**

	Beverley Z\$ Millions	CABS Z\$ Millions	FBC BS Z\$ Millions	Intermarket BS Z\$ Millions	Total Z\$ Millions
Total Interest Income	11,064.61	21,807.94	11,824.42	5,360.10	50,057.07
Loans and Leases	991.00	2,906.82	90.20	308.35	4,297.06
Securities and Investments	10,072.44	18,901.12	11,734.22	5,051.75	45,759.53
Deposit Balances and Other Interest Income	.47	.00	.00	.00	.47
Total Interest Expenses	5,062.05	11,062.62	3,676.77	1,268.18	21,069.62
Deposits	1,553.29	11,062.62	3,676.77	1,257.63	17,550.31
Borrowed Funds	622.76	.00	.00	.00	662.76
Other Interest Expenses	2,886.00	.00	.00	10.55	2,896.55
Net Interest Income	6,002.56	10,745.32	8,147.65	4,091.92	28,987.44
Total Provisions For Current Period	32.92	-140.75	8.59	.00	-99.24
Total Non - Interest Income	6,922.28	30,824.40	530.97	4,045.97	42,423.62
Fees, Commission and Service Charges	1,375.87	1,031.43	268.66	876.48	3,552.44
Foreign Exchange Fees and Commission	-136.76	.00	.00	.00	-136.76
Other Non Interest Income	5,683.17	29,792.97	362.31	3,169.49	39,007.94
Total Non - Interest Expenses	3,139.15	6,179.44	1,603.61	2,454.02	13,376.22
Salaries and Employee Benefits	2,277.58	3,660.96	1,136.80	1,416.44	8,491.78
Occupancy - Net of Rental	4.64	211.42	104.25	72.91	393.21
Other Non Interest Expenses	856.93	2,307.06	362.57	964.67	4,491.22
Net Income (Loss) before Taxation and Extraordinary Items	9,752.77	35,531.04	7,166.42	5,683.87	58,134.79
Taxation	1,165.60	.00	.00	.00	1,165.60
Net Income / (Loss) after Taxation before Extraordinary Items	8,587.18	35,531.04	7,166.42	5,683.87	56,968.50
Extraordinary Items	.00	.00	.00	.00	.00
Net Income / (Loss)	8,587.18	35,531.04	7,166.42	5,683.87	56,968.50
Dividends	1,200.00	.00	.00	.00	1,200.00
Retained Earnings	7,387.18	35,531.04	7,166.42	5,683.87	55,768.50



## APPENDIX 2 - STATISTICAL TABLES

CONTINUED

**TABLE 2D**  
**COMPOSITION OF INCOME STATEMENTS (31 DECEMBER 2006)**

**DISCOUNT HOUSES**

	DCZ Z\$ Millions	Highveld Z\$ Millions	NDH Z\$ Millions	Tetrad Z\$ Millions	Total Z\$ Millions
Total Interest Income	4,525.31	3,673.07	772.03	5,648.58	14,618.99
Loans and Leases	.00	.00	14.07	.58	14.65
Securities and Investments	4,525.31	3,673.07	757.96	5,639.32	14,595.66
Deposit Balances and Other Interest Income	.00	.00	.00	8.68	8.68
Total Interest Expenses	1,519.23	1,597.01	220.96	1,336.29	4,673.49
Deposits	1,519.23	1,597.01	220.96	1,336.29	4,673.49
Borrowed Funds	.00	.00	.00	.00	.00
Other Interest Expenses	.00	.00	.00	.00	.00
Net Interest Income	3,006.08	2,076.06	551.06	4,312.29	9,945.50
Total Provisions For Current Period	.00	.00	.00	.00	.00
Total Non - Interest Income	.60	.00	.00	1,845.35	1,845.94
Fees, Commission and Service Charges	.01	.00	.00	.00	.01
Foreign Exchange Fees and Commission	.00	.00	.00	.00	.00
Other Non Interest Income	.59	.00	.00	1,845.35	1,845.93
Total Non - Interest Expenses	260.28	331.27	204.61	1,450.94	2,247.10
Salaries and Employee Benefits	157.71	130.23	92.78	998.02	1,378.74
Occupancy - Net of Rental	7.31	20.29	11.43	32.89	71.92
Other Non Interest Expenses	95.26	180.75	100.40	420.03	796.44
Net Income (Loss) before Taxation and Extraordinary Items	2,746.40	1,744.80	346.45	4,706.69	9,544.34
Taxation	987.71	793.00	.00	1,535.77	3,316.48
Net Income / (Loss) after Taxation before Extraordinary Items	1,758.68	951.80	346.45	3,170.92	6,227.86
Extraordinary Items	.00	.00	.00	.00	.00
Net Income / (Loss)	1,758.68	951.80	346.45	3,170.92	6,227.86
Dividends	.00	.00	.00	1,709.42	1,709.42
Retained Earnings	1,758.68	951.80	346.45	1,461.50	4,518.44



## APPENDIX 2 - STATISTICAL TABLES

CONTINUED

**TABLE 2E**  
**COMPOSITION OF INCOME STATEMENTS (31 DECEMBER 2006)**

<b>FINANCE HOUSES</b>			
	<b>Trustfin Z\$ Millions</b>	<b>ZDB Financial Services Z\$ Millions</b>	<b>Total Z\$ Millions</b>
Total Interest Income	1,756.77	758.25	2,515.02
Loans and Leases	340.12	188.89	529.01
Securities and Investments	1,416.65	569.36	1,986.01
Deposit Balances and Other Interest Income	.00	.00	.00
Total Interest Expenses	841.94	415.33	1,257.28
Deposits	839.55	413.86	1,253.41
Borrowed Funds	2.39	1.44	3.83
Other Interest Expenses	.00	.04	.04
Net Interest Income	914.82	342.92	1,257.74
Total Provisions For Current Period	3.34	16.92	20.26
Total Non - Interest Income	24.81	46.78	71.59
Fees, Commission and Service Charges	23.80	46.78	70.58
Foreign Exchange Fees and Commission	.00	.00	.00
Other Non Interest Income	1.01	.00	1.01
Total Non - Interest Expenses	229.89	37.14	267.03
Salaries and Employee Benefits	95.05	14.25	109.30
Occupancy - Net of Rental	11.82	.00	11.82
Other Non Interest Expenses	123.02	22.89	145.91
Net Income (Loss) before Taxation and Extraordinary Items	706.40	335.64	1,042.04
Taxation	252.70	.00	252.70
Net Income / (Loss) after Taxation before Extraordinary Items	453.70	335.64	789.34
Extraordinary Items	.00	.00	.00
Net Income / (Loss)	453.70	335.64	789.34
Dividends	.00	.00	.00
Retained Earnings	453.70	335.64	789.34



## APPENDIX 2 - STATISTICAL TABLES

CONTINUED

**TABLE 2F**  
**CONSOLIDATED INCOME STATEMENTS ( 31 DECEMBER 2006)**

	Commercial Z\$ Millions	Merchant Z\$ Millions	Building Societies Z\$ Millions	Discount Houses Z\$ Millions	Finance Houses Z\$ Millions	Total Z\$ Millions
Total Interest Income	445,172.49	77,855.59	50,057.07	14,618.99	2,515.02	590,219.16
Loans and Leases	73,496.49	7,860.53	4,297.06	14.65	529.01	86,197.75
Securities and Investments	363,845.65	60,465.84	45,759.53	14,595.66	1,986.01	486,652.69
Deposit Balances and Other Interest Income	7,830.35	9,529.22	.47	8.68	.00	17,368.72
Total Interest Expenses	180,745.20	40,822.69	21,069.62	4,673.49	1,257.28	248,568.29
Deposits	102,361.75	34,887.22	17,550.31	4,673.49	1,253.41	160,726.18
Borrowed Funds	51,977.87	7.91	622.76	.00	3.83	52,612.37
Other Interest Expenses	26,405.58	5,927.56	2,896.55	.00	.04	35,229.74
Net Interest Income	264,427.29	37,032.90	28,987.44	9,945.50	1,257.74	341,650.87
Total Provisions For Current Period	8,008.80	771.83	-99.24	.00	20.26	8,701.66
Total Non - Interest Income	57,520.60	15,152.20	42,423.62	1,845.94	71.59	117,013.96
Fees, Commission and Service Charges	14,114.23	2,419.19	3,552.44	.01	70.58	20,156.45
Foreign Exchange Fees and Commission	20,198.98	38.59	-136.76	.00	.00	20,100.82
Other Non Interest Income	23,207.38	12,694.42	39,007.94	1,845.93	1.01	76,756.69
Total Non - Interest Expenses	90,169.08	12,462.27	13,376.22	2,247.10	267.03	118,521.69
Salaries and Employee Benefits	55,036.88	8,015.73	8,491.78	1,378.74	109.30	73,032.43
Occupancy - Net of Rental	3,982.84	406.04	393.21	71.92	11.82	4,865.82
Other Non Interest Expenses	31,149.36	4,040.50	4,491.22	796.44	145.91	40,623.44
Net Income (Loss) before Taxation and Extraordinary Items	223,770.01	38,951.00	58,134.09	9,554.34	1,042.04	331,441.49
Taxation	77,276.66	11,502.52	1,165.60	3,316.48	252.70	93,513.96
Net Income / (Loss) after Taxation before Extraordinary Items	146,493.35	27,448.48	56,968.50	6,227.86	789.34	237,927.53
Extraordinary Items	.00	.00	.00	.00	.00	.00
Net Income / (Loss)	146,493.35	27,448.48	56,968.50	6,227.86	789.34	237,927.53
Dividends	979.00	380.00	1,200.00	1,709.42	.00	4,268.42
Retained Earnings	145,514.36	27,068.48	55,768.50	4,518.44	789.34	233,559.11



## APPENDIX 3 - STATISTICAL TABLES

**TABLE 3A  
COMPOSITION OF THE BALANCE SHEET - (As at 31 December, 2006)**

**ASSET MANAGEMENT COMPANIES**

ASSETS	ZIMNAT		TN		TFS		SYFRETS		PURPOSE		PREMIER		OLD MUTUAL		MBCA		LEGEND		KINGDOM	
	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%
Fixed Assets	63.58	25.74	48.77	8.25	-	-	300.00	17.50	812.00	43.62	642.90	60.18	116.91	7.51	5.44	1.52	6.31	4.38	26.13	2.77
Own Assets	63.58	25.74	48.77	8.25	-	-	300.00	17.50	812.00	43.62	642.90	60.18	116.91	7.51	5.44	1.52	6.31	4.38	26.13	2.77
Long Term Assets	-	-	80.80	13.67	376.53	49.60	874.59	51.02	-	-	-	-	-	-	-	-	-	-	76.90	8.16
Current Assets	1,129.96	457.50	461.31	78.07	382.68	50.40	539.60	31.48	1,049.58	56.38	425.34	39.82	1,440.10	92.49	352.08	98.48	137.80	95.62	838.90	89.06
Cash & Bank Balances	6.73	2.72	6.17	1.04	90.45	11.91	-	-	5.56	0.30	143.75	13.46	268.14	17.22	12.69	3.55	0.58	0.40	(0.07)	(0.01)
Debtors	503.42	203.83	39.39	6.67	18.51	2.44	264.74	15.44	346.85	18.63	12.68	1.19	303.29	19.48	74.78	20.92	25.99	18.04	283.23	30.07
Related Parties	372.82	150.95	5.80	0.98	-	-	0.02	0.00	-	-	-	-	612.87	39.36	-	-	-	-	-	-
Short Term Investments	246.98	100.00	409.95	69.38	273.71	36.05	274.85	16.03	697.16	37.45	268.91	25.17	255.80	16.43	264.61	74.01	111.22	77.18	555.74	59.00
Total Assets	1,193.53	100.00	590.89	100.00	759.21	100.00	1,714.20	100.00	1,861.58	100.00	1,068.24	100.00	1,557.01	100.00	357.52	100.00	144.11	100.00	941.93	100.00
<b>LIABILITIES</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>
Capital	570.85	47.83	447.62	75.75	559.53	73.70	1,080.53	63.03	1,341.27	72.05	763.91	71.51	853.09	54.79	224.08	62.68	121.47	84.29	708.29	75.20
Share Capital	0.01	0.00	0.00	0.00	24.73	3.26	0.03	0.00	0.00	0.00	0.52	0.05	0.00	0.00	0.02	0.01	0.60	0.42	0.01	0.00
Share Premium	99.99	8.38	32.53	5.51	84.71	11.16	10.00	0.58	111.16	5.97	-	-	100.55	6.46	41.58	11.63	89.90	62.38	99.99	10.62
Reserves	-	-	0.03	0.01	-	-	-	-	635.93	34.16	7.76	0.73	-	-	-	-	9.50	6.59	-	-
Retained Earnings	470.85	39.45	415.06	70.24	450.09	59.28	1,070.50	62.45	594.18	31.92	755.63	70.74	752.54	48.33	182.49	51.04	21.47	14.90	608.29	64.58
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities	592.16	49.61	93.64	15.85	199.67	26.30	297.61	17.36	276.75	14.87	120.05	11.24	696.27	44.72	133.44	37.32	19.48	13.52	167.47	17.78
Dividend Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxation	168.81	14.14	56.76	9.61	32.55	4.29	40.48	2.36	188.97	10.15	98.19	9.19	96.04	6.17	70.39	19.69	(0.77)	(0.54)	103.17	10.95
Related Parties	5.19	0.43	-	-	163.22	21.50	-	-	-	-	-	-	-	-	-	-	-	-	23.36	2.48
Creditors	157.43	13.19	36.88	6.24	3.88	0.51	144.28	8.42	87.78	4.72	-	-	244.89	15.73	53.86	15.07	15.75	10.93	40.94	4.35
Provisions	260.73	21.84	-	-	0.03	0.00	-	-	-	-	21.86	2.05	355.34	22.82	9.18	2.57	4.50	3.12	-	-
Other Liabilities	30.52	2.56	49.62	8.40	-	-	336.06	19.60	243.56	13.08	184.28	17.25	7.66	0.49	-	-	3.15	2.19	66.18	7.03
Total Liabilities & Capital	1,193.53	100.00	590.89	100.00	759.21	100.00	1,714.20	100.00	1,861.58	100.00	1,068.24	100.00	1,557.01	100.00	357.52	100.00	144.11	100.00	941.93	100.00

**TABLE 3A (CONTINUED)  
COMPOSITION OF THE BALANCE SHEET (As at 31 December, 2006)**

**ASSET MANAGEMENT COMPANIES**

ASSETS	INFINITY		IMARA		FIDELITY		EQUIVEST		DATVEST		ALPHA		ABC		COMPOSITE 2005		COMPOSITE 2006			
	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%		
Fixed Assets	117.55	31.67	139.54	17.54	76.07	7.50	66.44	9.07	184.29	3.15	467.09	76.01	0.03	0.00	111.05	17.26	3,073.07	14.76		
Own Assets	117.55	31.67	139.54	17.54	76.07	7.50	66.44	9.07	184.29	3.15	-	-	0.03	0.00	111.06	17.26	2,605.98	12.52		
Long Term Assets	163.47	44.03	-	-	16.14	1.59	95.84	13.08	4,645.08	79.46	37.34	6.08	974.30	77.82	51.25	7.96	7,341.00	35.27		
Current Assets	90.20	24.30	656.09	82.46	922.43	90.91	570.45	77.85	1,016.38	17.39	110.05	17.91	277.70	22.18	478.97	74.42	6,644.40	31.92		
Cash & Bank Balances	0.74	0.20	0.16	0.02	2.38	0.23	4.26	0.58	167.83	2.87	9.83	1.60	27.14	2.17	49.69	7.72	10,150.09	48.76		
Debtors	46.21	12.45	428.39	53.84	397.12	39.14	5.46	0.74	317.80	5.44	24.73	4.02	27.14	2.17	112.57	17.49	746.34	3.59		
Related Parties	-	-	14.21	1.79	-	-	-	-	-	-	-	-	-	-	18.06	2.81	3,092.60	14.86		
Short Term Investments	43.26	11.65	213.33	26.81	522.93	51.54	560.73	76.53	530.76	9.08	75.48	12.28	69.99	5.59	298.60	46.40	1,075.70	5.17		
Total Assets	371.22	100.00	795.63	100.00	1,014.65	100.00	732.73	100.00	5,845.75	100.00	614.48	100.00	1,252.03	100.00	643.56	100	20,814.72	82		
<b>LIABILITIES</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>
Capital	278.55	75.03	167.07	21.00	847.00	83.48	702.98	95.94	4,157.04	71.11	566.87	92.25	844.72	67.47	380.42	59.11	14,234.90	68.4		
Share Capital	35.56	9.58	0.01	0.00	43.57	4.29	0.00	0.00	0.01	0.00	0.09	0.02	0.01	0.00	9.48	1.47	105.18	0.5		
Share Premium	48.74	13.13	10.50	1.32	120.80	11.91	0.78	0.11	249.99	4.28	65.15	10.60	0.49	0.04	73.18	11.37	1,166.87	5.6		
Reserves	16.16	4.35	-	-	-	-	5.84	0.80	-	-	433.13	70.49	-	-	24.53	3.81	1,108.35	5.3		
Retained Earnings	178.09	47.97	156.56	19.68	682.63	67.28	696.37	95.04	3,907.04	66.84	68.49	11.15	844.22	67.43	268.86	41.78	11,854.50	57.0		
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4.36	0.68	-	-		
Current Liabilities	25.08	6.76	594.74	74.75	146.63	14.45	29.75	4.06	400.00	6.84	41.43	6.74	160.41	12.81	244.93	38.06	3,994.58	19.2		
Dividend Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.23	0.03	-	-		
Taxation	1.45	0.39	152.34	19.15	33.60	3.31	-	-	84.19	1.44	-	-	(12.95)	(1.03)	121.03	18.81	1,113.22	5.3		
Related Parties	-	-	-	-	-	-	-	-	-	-	-	-	142.29	11.37	9.82	1.53	334.06	1.6		
Creditors	23.63	6.36	10.72	1.35	88.18	8.69	0.50	0.07	37.61	0.64	35.94	5.85	-	-	75.17	11.68	982.27	4.7		
Provisions	-	-	431.68	54.26	24.86	2.45	29.25	3.99	278.20	4.76	5.49	0.89	31.06	2.48	38.69	6.01	1,452.18	7.0		
Other Liabilities	67.60	18.21	33.82	4.25	21.01	2.07	-	-	1,288.71	22.05	6.18	1.01	246.90	19.72	18.22	2.83	2,585.25	12.4		
Total Liabilities & Capital	371.22	100.00	795.63	100.00	1,014.65	100.00	732.73	100.00	5,845.75	100.00	614.48	100	1,252.03	100	643.56	100.00	20,814.72	100.00		

**TABLE 3B**  
**COMPOSITION OF THE INCOME STATEMENT FOR THE YEAR**

ASSET MANAGEMENT COMPANIES																			
Figures in ZW\$ Millions	ZIMNAT	TN	TFS	Syrets	PURPOSE	PREMIER	OMAM	MBCA	LEGEND	KINGDOM	INFINITY	IMARA	FIDELITY	EQUIVEST	Datvest	ALPHA	ABC	Composite 2005	Composite 2006
Total Income	1,293.17	700.12	763.51	1,662.00	853.21	649.85	2,153.77	347.54	93.49	985.39	377.70	1,363.67	850.54	784.56	7,212.09	218.49	1,300.95	551.34	21,610.04
Fee- Income	942.10	94.01	265.32	254.69	107.23	253.12	2,008.58	114.04	44.13	185.61	90.45	866.44	351.57	120.42	1,227.08	73.61	432.11	282.64	7,430.52
Income from Securities & Investments	312.29	601.16	447.20	244.45	745.98	364.04	105.83	137.43	49.07	606.11	285.05	342.28	461.62	641.78	5,907.81	107.00	848.58	258.35	12,207.68
Other Income	38.77	4.95	51.00	1,162.86	-	32.70	39.37	96.07	0.29	193.67	2.20	154.94	37.35	22.35	77.20	37.87	20.26	40.88	1,971.84
Total Expenses	462.09	178.73	168.45	182.18	279.82	199.05	726.60	83.99	70.92	129.52	111.34	501.87	250.33	80.02	1,066.17	142.47	131.08	171.71	4,764.63
Salaries and Employees Benefits	372.18	60.59	44.35	116.32	59.50	97.33	395.24	46.17	17.36	67.93	23.31	439.24	78.28	21.18	839.20	75.58	71.22	105.77	2,824.97
Other (Depreciation and Rentals)	89.91	118.13	124.10	65.86	220.32	101.71	331.37	37.82	53.56	61.58	88.03	62.63	172.05	58.84	226.97	66.89	59.86	65.94	1,939.66
Profit Before Tax	831.08	521.40	595.07	1,479.82	573.39	450.80	1,427.17	263.55	22.57	855.87	266.36	861.80	600.21	704.53	6,145.92	76.02	1,169.87	382.03	16,845.42
Taxes and Extraordinary Items	257.63	107.84	51.79	449.36	143.29	112.70	142.96	83.58	(5.08)	247.51	62.66	279.32	31.43	22.00	1,920.43	10.54	334.04	106.35	4,251.98
Profit After Tax	573.45	413.56	543.28	1,030.46	430.09	338.10	1,284.21	179.98	27.65	608.36	203.71	582.48	568.78	682.53	4,225.49	65.48	835.83	275.69	12,593.43
Dividends	110.76	-	9.50	-	200.00	-	474.70	-	-	-	-	630.00	22.84	-	200.83	-	-	8.20	1,648.64
Retained Earnings	462.68	413.56	533.78	1,030.46	230.09	338.10	809.51	179.98	27.65	608.36	203.71	(47.52)	545.94	682.53	4,024.65	65.48	835.83	267.49	10,944.79





## APPENDIX 3 - STATISTICAL TABLES

### CONTINUED

**TABLE 3C**  
**COMPOSITION OF THE NOMINEE BALANCE SHEET as at 31 December 2006**

**ASSET MANAGEMENT COMPANIES**

ASSETS	ZIMNAT		TN		TFS		Syfrets		PURPOSE		PREMIER		OLD MUTUAL		MBCA		LEGEND		KINGDOM	
	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%
Cash	298.01	0.89	98.59	2.95	1.49	0.00	0.44	0.01	-	-	-	-	753.83	0.06	40.40	0.28	4.34	1.85	282.51	1.41
Money Market	2,469.45	7.38	2,159.39	64.23	1,707.50	3.19	4,247.56	52.15	3,585.95	87.08	1,103.68	18.28	23,801.82	1.78	629.94	4.35	191.80	81.71	3,720.03	18.59
Bonds	142.45	0.43	-	-	-	-	-	-	-	-	517.71	8.58	1,474.49	0.11	28.28	0.20	-	-	621.33	3.10
Equities Quoted	27,556.22	82.30	1,104.11	32.84	51,534.71	96.32	3,711.90	45.58	532.04	12.92	4,414.92	73.14	1,310,696.70	98.03	13,779.43	95.17	38.60	16.44	14,368.34	71.80
Equities Unquoted	736.93	2.20	-	-	245.22	0.46	-	-	-	-	-	-	245.60	0.02	-	-	-	-	-	-
Property	2,280.00	6.81	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,019.60	5.09
Non Performing Assets	-	-	-	-	14.79	0.03	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	184.49	2.27	-	-	-	-	0.11	0.00	-	-	-	-	-	-
Total Investments	33,483.05	100.00	3,362.09	100.00	53,503.71	100.00	8,144.38	100.00	4,118.00	100.00	6,036.31	100.00	1,336,972.55	100.00	14,478.05	100.00	234.74	100.00	20,011.81	100.00
<b>LIABILITIES</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>
Clients Funds ( Top 20)	29,576.91	88.33	1,573.70	46.81	3,469.44	6.48	7,959.45	97.73	4,118.00	100.00	3,620.04	59.97	1,613,588.18	120.69	13,749.26	94.97	176.30	75.11	13,095.30	65.44
Other Client Funds	1,309.90	100.00	1,788.39	53.19	50,034.27	93.52	184.93	2.27	-	-	2,416.28	40.03	(276,615.62)	(20.69)	728.79	5.03	58.44	24.89	2,214.89	11.07
Unit Trusts	2,596.24	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,701.63	23.49
Total Clients Funds	33,483.05	100.00	3,362.09	100.00	53,503.71	100.00	8,144.38	100.00	4,118.00	100.00	6,036.31	100.00	1,336,972.55	100.00	14,478.05	100.00	234.74	100.00	20,011.81	100.00

**TABLE 3C (CONTINUED)**  
**COMPOSITION OF THE NOMINEE BALANCE SHEET as at 31 December, 2006**

**ASSET MANAGEMENT COMPANIES**

ASSETS	INFINITY		IMARA		FIDELITY		EQUIVEST		Datvest		ALPHA		ABC		COMPOSITE 2005		COMPOSITE 2006	
	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%	Z\$ Millions	%
Cash	0.91	0.01	4,925.90	1.55	626.75	1.15	9.78	0.04	1,507.73	0.84	2.09	0.17	61.87	0.06	1,343.50	1.56	8,614.63	0.40
Money Market	868.20	5.87	11,631.51	3.65	4,869.60	8.95	321.77	1.19	6,184.58	3.44	993.24	81.23	325.58	0.32	7,994.26	9.29	68,811.61	3.16
Bonds	-	-	66.92	0.02	0.84	0.00	-	-	-	-	-	-	2,198.44	2.16	1,266.66	1.47	5,050.46	0.23
Equities Quoted	13,921.61	94.12	279,114.46	87.68	44,128.50	81.14	26,597.08	98.77	171,891.99	95.72	227.38	18.60	95,815.58	94.13	67,512.51	78.44	2,059,433.56	94.58
Equities Unquoted	-	-	27.58	0.01	4,758.97	8.75	-	-	-	-	-	-	-	-	56.95	0.07	6,014.31	0.28
Property	-	-	22,572.20	7.09	-	-	-	-	-	-	-	-	3,393.19	3.33	7,631.83	8.87	29,264.99	1.34
Non Performing Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.61	0.00	14.79	0.00
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6.58	0.01	184.60	0.01
Total Investments	14,790.72	100.00	318,338.57	100.00	54,384.67	100.00	26,928.63	100.00	179,584.31	100.00	1,222.71	100.00	101,794.66	100.00	86,073.63	100.00	2,177,388.95	100.00
<b>LIABILITIES</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>	<b>Z\$ Millions</b>	<b>%</b>
Clients Funds ( Top 20)	14,744.19	99.69	160,372.38	50.38	53,540.46	98.45	24,567.56	91.23	124,024.27	69.06	679.79	55.60	83,289.30	81.82	66,422.31	77.17	2,152,144.54	98.84
Other Client Funds	46.53	0.31	157,966.19	49.62	844.21	1.55	2,361.07	8.77	55,560.04	30.94	542.92	44.40	18,505.35	18.18	19,390.66	22.53	17,946.54	0.82
Unit Trusts	-	-	-	-	-	-	-	-	-	-	-	-	260.66	0.30	7,297.87	0.34	-	-
Total Clients Funds	14,790.72	100.00	318,338.57	100.00	54,384.67	100.00	26,928.63	100.00	179,584.31	100.00	1,222.71	100.00	101,794.66	100.00	86,073.63	100.00	2,177,388.95	100.00



## APPENDIX 4- REGISTERED AND OPERATING BANKING INSTITUTIONS AS AT 31 DECEMBER 2006

COMMERCIAL BANKS		Total Assets: ZW\$ Millions		
Banking Institution	Address & Website	2005	2006	Annual Growth
Agribank	15th Floor, Hurudza House 14-16 Nelson Mandela Avenue Harare Tel: 774429 or 773704/5 or 774554 Fax 774554 Website Not Available	3,423.88	88,825.26	2494.29%
Barclays Bank of Zimbabwe	1st Street/Jason Moyo Avenue Harare Phone: 758280/99 or 758324 <a href="http://www.africa.barclays.com">http://www.africa.barclays.com</a>	15,942.91	186,234.60	1068.13%
CBZ Bank Limited	60 Kwame Nkrumah Avenue Harare Phone: 749714 or 748050/79 / 759110-6 Fax 758077 <a href="http://www.cbz.co.zw">http://www.cbz.co.zw</a>	14,344.08	158,936.65	1008.03%
CFX Bank Limited	Block 4, Tendeseka Park Samora Machel Avenue, Harare Phone: 700000 / 750811-8 Fax 750508	405.45	7,002.19	1627.02%
FBC Bank Limited	Old Reserve Bank Building 76 Samora Machel Avenue Harare Phone: 700312/703529 Fax 704995 <a href="http://www.fbc.co.zw">http://www.fbc.co.zw</a>	2,291.59	62,918.09	2645.61%
Intermarket Banking Corporation	12th Floor, Intermarket Centre Kwame Nkrumah Avenue Harare Phone: 759660-9 Fax 796860 Website Not Available	163.40	5,115.47	3030.64%
Kingdom Bank Limited	12th Floor, Karigamombe Centre 53 Samora Machel Avenue Harare Phone: 749400 or 758469/70/71 or 749407, Fax: 755201 <a href="http://www.kingdom.co.zw">http://www.kingdom.co.zw</a>	1,785.93	64,538.35	3513.71%



**APPENDIX 4 - REGISTERED AND OPERATING BANKING INSTITUTIONS AS AT 31 DECEMBER 2006 - CONTINUED**

COMMERCIAL BANKS		Total Assets: ZW\$ Millions		
Banking Institution	Address & Website	2005	2006	Annual Growth
MBCA Bank Limited	Old Mutual Centre 3rd Street/ Jason Moyo Harare Tel: 701636/52 Fax 727330 www.mbca.co.zw	7526.18	95,117.77	1163.83%
Metropolitan Bank of Zimbabwe Limited	Metropolitan House 3 Central Avenue Harare Phone: 706091/706128 (701970 - Direct) Fax 733014 http://www.metbank.co.zw	826.01	11,237.07	1260.40%
NMB Bank Limited	1st Floor, Unity Court Kwame Nkrumah Avenue Harare Phone: 759651/9 or 754933/5 or 70912268 or 70912409 http://www.nmbz.co.zw	3,552.35	61,737.79	1637.94%
Stanbic Bank Zimbabwe Limited	Stanbic Centre Samora Machel Avenue Harare Phone: 759471 Fax 772126 http://www.stanbic.co.zw	10,879.95	135,076.61	1141.52%
Standard Chartered Bank Zimbabwe Limited	2nd Floor, Old Mutual Centre Cnr. Third Street/ Jason Moyo Avenue Harare Phone: 253801-7 or 252289 Fax 252288 http://www.stanchart.co.zw	15,969.63	234,851.37	1370.61%
ZB Bank Limited  * Formerly Zimbank	ZB House Cnr. 1st Street/ Speke Avenue Harare Phone: 751168/75 or 78662590/2576 http://www.finhold.co.zw	8,066.00	141,493.96	1654.20%
Zimbabwe Allied Banking Group	13th Floor, SSC S. Nujoma / J. Nyerere Way Harare Tel: +263-4-794459 / 737261-4 http://www.zabg.co.zw	1673.6	43,453.23	2496.39%



**APPENDIX 4 - REGISTERED AND OPERATING BANKING INSTITUTIONS AS AT 31 DECEMBER 2006 - CONTINUED**

<b>MERCHANT BANKS</b>		<b>Total Assets: ZW\$ Millions</b>		
<b>Banking Institution</b>	<b>Address &amp; Website</b>	<b>2005</b>	<b>2006</b>	<b>Annual Growth</b>
African Banking Corporation Limited	1 Endeavour Crescent Mt. Pleasant Business Park Harare Phone: 727294/9 or 703071 Fax 338102 369260-99 <a href="http://www.africanbankingcorp.com">http://www.africanbankingcorp.com</a>	2,043.35	48,988.88	2297.48%
Genesis Investment Bank Limited	2nd Floor, Corner House, 29 Samora Machel Avenue Harare Phone: 703791/6 or 703551/3 , Fax 705491 <a href="http://www.genesisbank.co.zw">http://www.genesisbank.co.zw</a>	1,066.90	29,118.42	2629.25%
Interfin Merchant Bank	3rd Floor, Social Security Centre Cnr. J. Nyerere Way/S. Nujoma Str Harare Phone: 790824, 790901, 790791 Fax: 799492 / 252155 <a href="http://www.interfin.co.zw">http://www.interfin.co.zw</a>	1,358.14	27,730.31	1941.79%
Renaissance Merchant Bank	7th Floor, Karigamombe Centre 53 Samora Machel Avenue Harare Phone: 773458/774686 Fax 798910 <a href="http://www.renaissance.co.zw">http://www.renaissance.co.zw</a>	2,030.28	18,029.75	788.04%
Premier Banking Corporation	Borrowdale Office Sam Levy's Office Park, Block A, Piers Road, Borrowdale, Harare Tel: 851642-49, Fax 851630-31 <a href="http://www.premierfinance.co.zw">http://www.premierfinance.co.zw</a>	1,705.65	34,036.65	1895.52%



**APPENDIX 4 - REGISTERED AND OPERATING BANKING INSTITUTIONS AS AT 31 DECEMBER 2006 - CONTINUED**

<b>COMMERCIAL BANKS</b>		<b>Total Assets: ZW\$ Millions</b>		
<b>Banking Institution</b>	<b>Address &amp; Website</b>	<b>2005</b>	<b>2006</b>	<b>Annual Growth</b>
Beverley Building Society	Beverley Place Selous Avenue Harare Phone: 792631/5 / 705001, Fax 705999	1,647.20	39,648.20	2307.01%
Central African Building Society	Northridge Park Northend Close Borrowdale Harare Phone: 883823/59, Fax 883804 <a href="http://www.cabsonline.co.zw">http://www.cabsonline.co.zw</a>	5,108.79	98,391.69	1825.93%
FBC Building Society	FBC House 113 Leopold Takawira Street Harare Phone: 756811/6 or 772721/24/30/48 <a href="http://www.fbc.co.zw">http://www.fbc.co.zw</a>	504.27	27,101.07	5274.32%
Intermarket Building Society	1st Floor, Travel Centre South Wing 95 Jason Moyo Avenue, Harare Phone: 702571 or 705833/705837	519.43	19,773.15	3706.70%



**APPENDIX 4 - REGISTERED AND OPERATING BANKING INSTITUTIONS AS AT 31 DECEMBER 2006 - CONTINUED**

FINANCE HOUSES		Total Assets: ZW\$ Millions		
Banking Institution	Address & Website	2005	2006	Annual Growth
Trustfin (Pvt) Limited	First Floor, Building 1 Arundel Office Park Mount Pleasant, Harare Tel: +263-4-338235-52 Fax: +263-04-338256	244.2	6,132.72	2411.35%
ZDB Financial Services Limited	ZDB House 99 Rotten Row, Harare Phone: 774226/7, 750171/8, 751341 Fax: 720724/774225 <a href="http://www.zdb.co.zw">http://www.zdb.co.zw</a>	191.67	377.38	96.89%



**APPENDIX 4 - REGISTERED AND OPERATING BANKING INSTITUTIONS AS AT 31 DECEMBER 2006 - CONTINUED**

DISCOUNT HOUSES		Total Assets: ZW\$ Millions		
Banking Institution	Address & Website	2005	2006	Annual Growth
Discount Company of Zimbabwe Limited	70 Park Lane Harare Phone: 708945/6 or 705414 Fax 731670 <a href="http://www.kingdom.co.zw">http://www.kingdom.co.zw</a>	269.23	4,624.38	1617.63%
Highveld Financial Services	12th Floor, Pearl House 61 Samora Machel Avenue Harare Phone:700462/3, 700471, 700533 / 851642 Fax 700565 Fax:700565 Web page not available	274.17	4,434.77	1517.52%
National Discount House Limited	5th Floor, MIPF House 5 Central Avenue Harare Phone: 700771/5 or 705596/8 Fax 705749 / 251402 <a href="http://www.ndh.co.zw">http:// www.ndh.co.zw</a>	1.16	1,510.53	130117.90%
Tetrad Securities Limited	1st Floor, Building 5 Arundel Office Park Norfolk Road Mt. Pleasant Harare Phone: 704271/5 / 302625, Fax 704149 <a href="http://www.tetrad.co.zw">http://www.tetrad.co.zw</a>	148.28	5,024.63	3288.61%



**APPENDIX 4 - REGISTERED AND OPERATING BANKING INSTITUTIONS AS AT 31 DECEMBER 2006 - CONTINUED**

ASSET MANAGEMENT COMPANIES			Total Assets (\$ millions)		
No.	Institution	Address	2005	2006	Growth
1.	ABC Asset Management Company	1 Endeavour Crescent Mount Pleasant Office Park Mount Pleasant Harare	27.48	1252.03	4456%
2.	Alpha Asset Management	17th Floor, Intermarket Life Towers 77 Jason Moyo Avenue Harare	5.96	614.48	10210%
3.	CBZ Asset Management	1st Floor, Cecil House 2 Central Avenue Harare	211.09	5,845.75	2669%
4.	Equivest Asset Managers	18 Rowland Square Milton Park Harare	19.14	732.73	3728%
5.	Fidelity Life Asset Management	6th Floor, Northwing 101 Kwame Nkurumah Avenue Harare	15.59	1,014.65	6408%
6.	Imara Asset Management	Block 4 Tendeseka Office Park Samora Machel Avenue Harare	57.05	795.63	1295%
7.	Infinity Asset Management	7th Floor, Red bridge South Eastgate Harare	17.43	371.22	2030%
8.	Kingdom Asset Management	71 Selous Avenue Harare	22.51	941.93	4084%
9.	Legend Asset Management	95 Park Lane, 2nd Floor Kenyan High Commission Building Harare	6.11	144.11	2259%
10.	MBCA Capital Management	Shop 1, Stanley House 1st Street & Jason Moyo Avenue Harare	8.27	357.52	4223%



**APPENDIX 4 - REGISTERED AND OPERATING BANKING INSTITUTIONS AS AT 31 DECEMBER 2006 - CONTINUED**

ASSET MANAGEMENT COMPANIES			Total Assets (\$ millions)		
No.	Institution	Address	2005	2006	Growth
11.	Old Mutual Asset Managers	100 The Chase West Emerald Hill Harare	41.40	1,557.01	3661%
12.	Premier Asset Management	Block A, Sam Levy Office Park Piers Road, Borrowdale Harare	24.72	1,068.24	4221%
13.	Purpose Asset Management	Number 7, Philips Avenue Belgravia Harare	43.31	1,861.58	4198%
14.	TFS Asset Mgt	9th Floor, Pegasus House Samora Machel Avenue Harare	22.43	759.21	3285%
15.	TN Asset Management	5th Floor, Suite A & B 101 Kwame Nkurumah Avenue Harare	3.48	590.89	16880%
16.	ZB Asset Management	4th Floor, Batanai Gardens 1st Street & Jason Moyo Avenue Harare	94.53	1714.20	1713%
17.	Zimnat Asset Management	1st Floor, Zimnat House Nelson Mandela Avenue Harare	17.02	1193.53	6913%







