



PRESS STATEMENT

SURRENDER OF LICENCE & CLOSURE OF ROYAL BANK ZIMBABWE LIMITED

1. Members of the public are advised that on Friday 27 July 2012, the Board of Directors of Royal Bank Zimbabwe Limited met and considered various options to deal with the deteriorating financial condition of the bank. The Board of Directors advised the Reserve Bank on the same day that they had resolved to surrender the institution's banking licence.
2. The Board of Directors' decision followed failure by the institution to raise the requisite minimum capital within the stipulated regulatory timeframes, and to conduct banking business in accordance with sound administrative and accounting practices, and risk-management procedures.
3. A recent on-site examination conducted by the Reserve Bank determined that the institution was not in a safe and sound financial condition.

Gross Undercapitalisation...

4. The bank was critically undercapitalized with a core capital of \$1.850 million as at 30 June 2012, which is way below the minimum regulatory capital requirement of \$12.5 million for commercial banks.
5. The bank recorded a cumulative loss of \$5.98 million as at 30 June 2012. The huge and persistent losses are largely attributable to high operating costs and since relicensing, the bank has been using depositors' funds to cover operating expenses.
6. Although the Zimbabwean authorities had approved acquisition of a 62% stake in the bank by Commercial Bank of Africa (CBA) based in Kenya, the parties had failed to finalize implementation of the deal within given timeframes.
7. The transfer of funds from CBA did not materialise and there were conflicting statements from the bank and CBA on when the deal would be consummated.

Critical Liquidity Challenges...

8. Royal Bank was also saddled with chronic liquidity challenges. Relative to the balance sheet size, the bank had a huge negative liquidity gap of \$3.03 million in the critical 0-7 day time band as at 14 June 2012. In addition, the bank had outstanding RTGS payments amounting to \$1,314,582.
9. Due to the persistent liquidity challenges, the bank had outstanding creditors of \$2.27 million and some creditors and depositors had instituted legal proceedings against the bank for failing to meet payment obligations.

10. Reflecting the bank's acute liquidity challenges and its inability to meet depositors' requirements, the bank had imposed a daily withdrawal limit of a paltry \$50 on depositors.

High level of Non-performing Loans...

11. The regulatory authorities are particularly concerned with the rapid deterioration of Royal Bank's loan book over the 15 months since commencement of operations. The recent on-site examination determined that 99.29% of the total loan book of \$1.52 million as at 31 May 2012 was non-performing, including all exposures to related parties. Further, although the bank was fully aware of the level of its non-performing loans, it was misrepresenting the information and data submitted to the Reserve Bank.

12. Members of the public would be aware that Royal Bank was placed under the management of a curator in 2004 due to a number of deficiencies including overbearing influence of founding shareholders, high level of non-performing insider loans and chronic liquidity challenges.

13. The Reserve Bank determined that the same challenges that led to the demise of the institution in 2004 were being wantonly repeated.

14. The unsafe and unsound condition of the bank depicted the unrepentant practices that were being perpetrated by the founding shareholders.

Closure of Royal Bank...

15. In view of the precarious financial condition of Royal Bank and the Resolution by the bank's Board to surrender the banking licence, the Reserve Bank closed Royal Bank on 27 July 2012.
16. The closure of the Bank was necessary in order to stop the institution's hemorrhaging.

Re-opening Prospects...

17. In the absence of an immediate injection of capital and remedy of the serious corporate governance weaknesses, the continued operation of the bank under the conditions enumerated above was clearly detrimental to financial system stability.
18. Reopening of the bank is contingent upon recapitalization of the bank, restructuring of the bank's Board and Senior Management and compliance with the provisions of the Banking Act [*Chapter 24:20*], Banking Regulations S. I. 205 of 2000 and all regulatory directives.
19. As at 30 June 2012, the bank required a minimum of \$11.4 million to comply with regulatory capital requirement of \$12.5 million for commercial banks. The bank should expedite finalisation of any outstanding issues between the bank and CBA and ensure immediate injection of the required capital.
20. The bank's Chief Executive Officer, Mr. J. Mzwimbi and Executive Director-Banking, Mr. D. Simba shall be required to step down from management in line with sound corporate governance practice which requires separation of ownership and management.

21. In the interest of depositors and financial stability, the Reserve Bank urges banking institutions facing challenges to take bold decisions and voluntarily and orderly exit the market.

22. The Reserve Bank remains vigilant and will not hesitate to institute appropriate supervisory action on errant institutions.

DR. G. GONO
GOVERNOR
31 JULY 2012