



CIRCULAR TO BANKING INSTITUTIONS No. 04-2009/BSD:

“Minimum Equity Capital Implementation Plan”

1. The Reserve Bank has undertaken a capital verification exercise across the sector to determine the capital position of every banking institution operating in Zimbabwe.
2. In particular, the exercise assessed adherence to the prescribed **minimum paid-up equity capital** as provided in section 29 of the Banking Act [*Chapter 24:20*] as read with section 12 of the Banking Regulations S.I. 205 of 2000, (as amended by S. I. 173 of 2008), the requisite levels of which are tabulated hereunder:

Type of Institution	Minimum Capital Requirement (USD)
Commercial Banks	12.5 million
Merchant Banks	10 million
Building Societies	10 million
Finance Houses	7.5 million
Discount Houses	7.5 million
Asset Management Cos.	2.5 million

3. In line with international practice and the definition of “**core capital**” in paragraph 1 of part 1 of the Third Schedule of the Banking Regulations S.I. 205 of 2000, the eligible capital components for minimum equity capital purposes are:
 - a) paid up share capital;
 - b) share premium;
 - c) audited retained earnings; and
 - d) current year retained earnings verified by the banking institution’ external auditors.
4. For the avoidance of doubt, Tier 2 capital is **not** part of minimum capital.
5. As is standard practice regarding enforcement of revised capital requirements, the Reserve Bank has come up with a phased plan for enforcement of the prescribed minimum equity capital requirements as follows:
 - a) every banking institution shall comply with **50%** of the prescribed minimum equity capital requirement for its class of banking business by **30 September 2009**;
 - b) every banking institution shall comply with **100%** of the prescribed minimum capital requirement for its class of banking business by **31 March 2010**;
 - c) standard minimum **capital adequacy ratios** prescribed in part 1 of the Third Schedule of the Banking

Regulations, S.I. 205 of 2000 shall apply on an on-going basis; and

- d) every banking institution whose paid-up equity capital does not comply with the respective prescribed level is required to submit a detailed recapitalisation plan to the Reserve Bank by **15 June 2009**, for its consideration and approval, indicating amounts to be raised and time-frames.

6. The effective prudential milestones are as follows:

Minimum Equity Capital Requirements

Type of Institution	Minimum Equity Capital Requirement (USD) as at 30 September 2009	Minimum Equity Capital Requirement (USD) as at 31 March 2010
Commercial Banks	6,25 million	12,5 million
Merchant Banks	5,0 million	10 million
Building Societies	5,0 million	10 million
Finance Houses	3,75 million	7,5 million
Discount Houses	3,75 million	7,5 million
Asset Management Companies	1,25 million	2,5 million

7. This phased minimum equity capital implementation plan takes into account the need for the banking sector to adapt to

- the new macroeconomic environment and restore confidence in the banking system.
8. Banking institutions without realistic potential to maintain adequate capital levels commensurate with their risk profiles on an on-going basis should seriously consider mergers and consolidations.
 9. The Reserve Bank will closely monitor the adequacy of banking institutions' capital levels and will conduct on-site examinations in order to enforce on-going compliance with minimum capital requirements.

Be guided accordingly.

E-mailed

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08 JUNE 2009