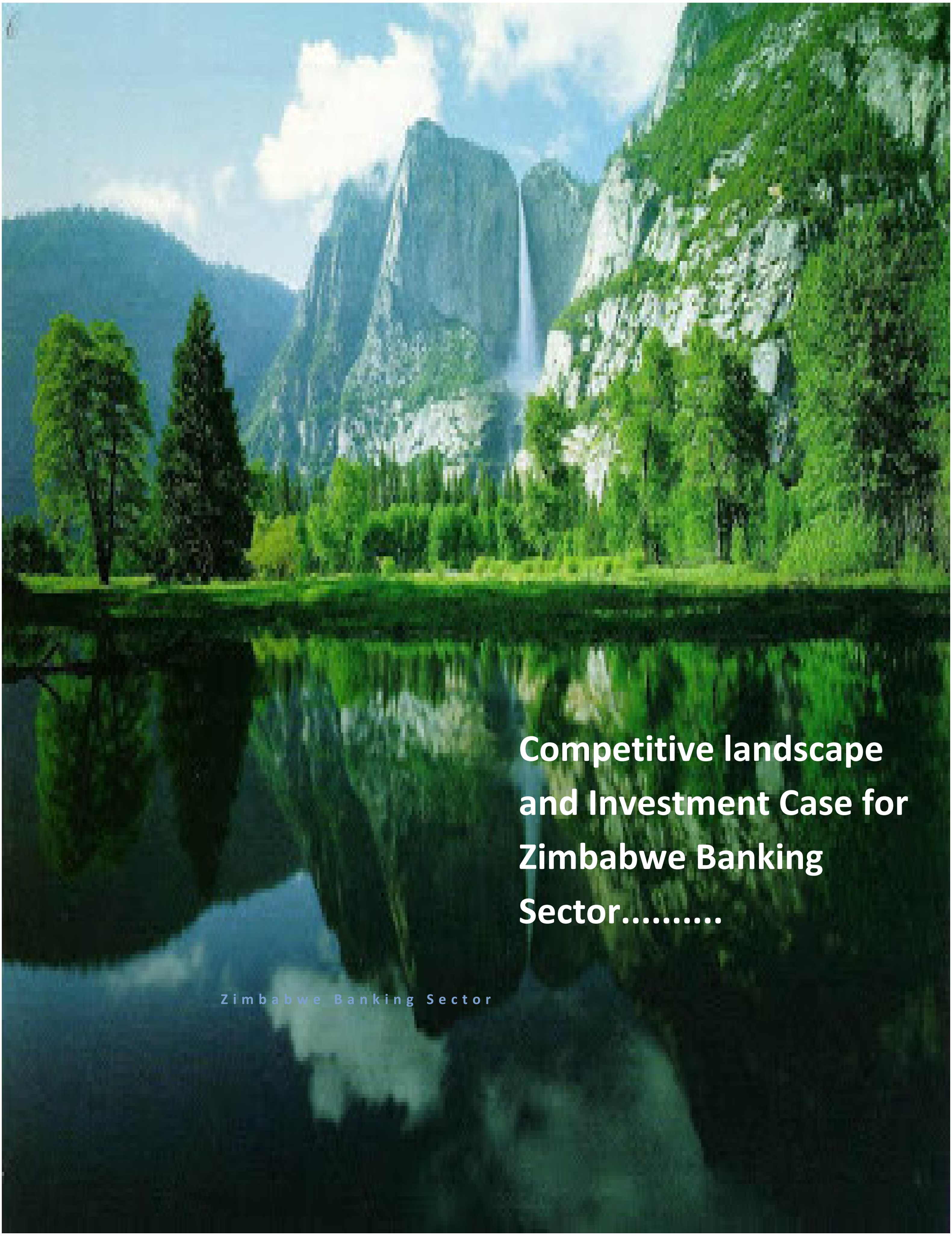


Competitive landscape and Investment Case for Zimbabwe Banking Sector……….

Zimbabwe Banking Sector

EXECUTIVE SUMMARY

- The release of the Banking Sector Report is at a time when some banks have not yet published their half year financial results, notably Afrasia Kingdom, Trust and Stewart Bank. Despite, the architecture of the Zimbabwean Banking sector spanning from Commercial Banking business, Building Societies and, as well POSBs, the report focus is mainly on Commercial Banks, for clear comparison. While the banking sector has remained sound taking a cue from improving macroeconomic fundaments, over the retrospective period an essential shift has happened with most banks offering little surprises in their financials. Current half year profitability profiles are indicative of the hurdles that have exhibited the general economic and political landscape.

- Zimbabwean banking sector is in part affected by the uncertainty around the political scenery as most depositors are risk averse to similar and related losses of political dispensation in historical events, while also the effects of Memorandum of Understanding (MoU) cannot be taken for granted. Revenues in the sector were confronted by the MoU agreement established earlier on in the year, which overall affected the performance of non funded income. The effects of the MoU have echoed the need for alternative revenue sources within the sector with strong emphasis on sustainable investment in Information Technology Systems and Product innovation and Development. The aptitude to mobilize cheaper lines of credit will also have profound domino effect in the sector going forth as the local liquidity conditions have remained resiliently squeezed. Consequently, the sector has exhibited stagnating growth in the deposit base against a more than proportionate increase in funding requirements, a challenge that has continued to debilitate the sector from sufficiently matching the economy's funding requirements

- Like any phenomenon, economic theory is not immune to the mean reversion principle, that, over time extreme ends of a spectrum will be eliminated as variables tend towards the mean, weakest players are eliminated while abnormal profiteers are forced to settle for normal profits as the competitive landscape intensifies. Such is the case for Zimbabwe's banking sector, confronted by revenue restricting legislation, and cut throat competition in a monopolistic competition setup, with many players scrambling for a little around US$4.4 billion worth of deposits.

- Meanwhile, capitalization efforts will continue to be at the forefront of corporate finance and restructuring activity in the sector as Bankers strive to meet capitalization requirements. The ability to secure partnerships with regional and international investors will depend largely on individual performance and potential as well as the prevailing political and economic environment, clarity and delineation on the Indigenization policy with regards new investment will also play a profound role in facilitating foreign investment into the sector.

Sector exhibit a blend of monopolistic and oligopolistic structure........

.....World Economic Forum Ranking too pessimistic and penalising and disregard of the combined efforts of business stakeholders - (Risk management and capitalisation efforts......

Zimbabwe Banking Sector Snapshot

- The Zimbabwean banking system is well developed and effectively regulated, comprising the Central Bank of Zimbabwe, 16 Commercial Banks, 2 Merchant Banks, 4 Building Societies and 1 Savings Bank. However, as alluded to earlier on, the report covers only Commercial Banks. The country's banking system exhibit a blend of a monopolistic and oligopolistic structure wherein the products offering are differentiated but however similar in nature. With the convergence of technological advancement in the global perspective, electronic banking facilities have become extensive; a platform that in our view in the short-run offers an opportunity for future economic benefits, not only in the sector but on a national outlook.

- In the context of Indigenisation and empowerment; to date most banks have complied except for only 3, notably Barclays, Standard chartered and Stanbic Bank. While the government has maintained thumbs up on the law, target being also the banking sector, in our view, to preserve the credibility and sanity of the banking sector, while also backing up the trickling in of lines of credit from the international arena, a less aggressive approach is essential on foreign owned banks.

- Despite the perceived threats of indigenisation and economic empowerment, the Zimbabwean banking sector has remained sound and viable. The soundness of banks was ranked 137 out of 148 in the World Economic Forum Global Competitive Index 2013 -2014; but however, we hold this ranking as too pessimistic, penalising and disregard of the combined efforts of business stakeholders (Risk management and capitalisation efforts) to ensure soundness in the sector. The table 1 below summaries the Zimbabwean banking system development.

Table 1: Summary of the Zimbabwean banking System development

GDP per Capita (GDP*) US$	**756**
No. of Banks	**22**
GDP* to Banks (The greater the Number the Less Banked the Population, relative to other comparable)	**34.4**
Bank Loans /GDP (%)	**32.58**
Deposits/GDP (%)	**40.84**
Deposits Accounts per 1000 Individuals	**138.55**
Bank Branches/100 000 Individuals	**7.11**
WEF Soundness of Banks (Score 1-7) (Score 1-7, Most Preferable = 7)	**3.4**

Source: World Economic Forum and IMF

....the economy's growth outlook is expected at 3.2% in 2013, pointing to structural problems in the economy.....

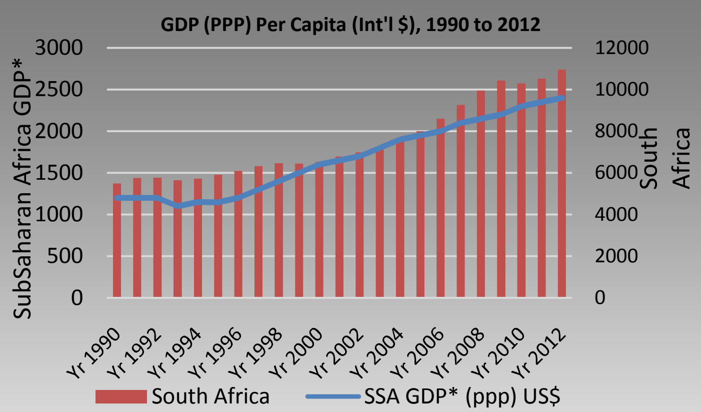
Is Zimbabwe Over/Under-banked?

- While there is prudential supervision of banks in Zimbabwe to ensure safety and soundness of the banking system to contribute to the stability of the financial sector; there has been a debate on whether the economy is over or under-banked. To try and bring an end to this dilemma, comparable key variables have been assessed, notably, Per Capita GDP to Banks, Total Deposits to GDP, Total loans and advances to GDP, Deposits Accounts per 1,000 individuals, as well as Financial Inclusion for a selected countries in the Sub-Saharan Africa region.

Relative Country Overview

South Africa

- South Africa is one of the richest countries in SSA and was ranked 53 out of 148 countries in the World Economic Forum Global Competitive Index 2013 -2014. The country has an estimated population of 51.2 million (2012) translating to a per capita GDP of $7,191. Currently, the country is faced with a triple challenge of chronic high unemployment, poverty and inequality amid a slow and volatile domestic and global economic environment. To this effect, tepid growth is inevitable with 2.0% growth expected in 2013 while the economy's growth outlook is expected at 2.8% in 2014, pointing to structural problems in the economy (export demand from Europe and domestic consumption remain subdued and labour unrest continues to harm mining output).



Source: World Bank, IMF

- Meanwhile, in the context of the Banking sector, the country's banking sector development has remained impressive at third position out of 148. The Financial services sector is South Africa's biggest, accounting for 21.1% of total GDP. The banking sector compares favourably with those of the industrialized countries, with a total of 77 Banks. The access and the use of financial services through ATMs per 100,000 adults is at approximately at 59.9 with ATMs per 1000 square km at 17.50. Figure 1 below explains the development of South Africa's banking system.

........The economy is characterised as one of Africa's success stories..........

Fig 1: South Africa's banking sector development

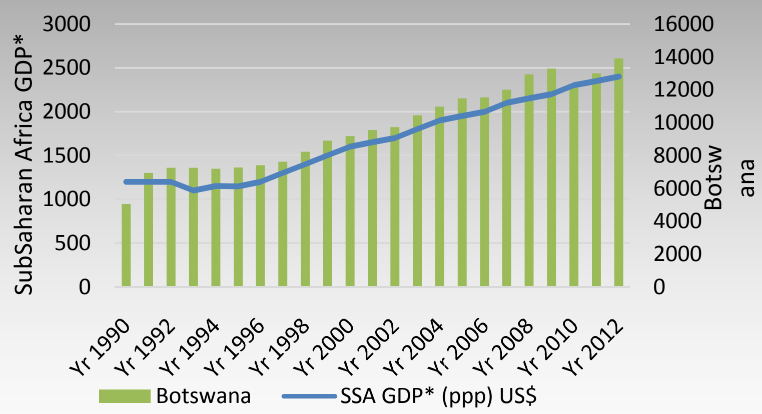
GDP per Capita (GDP*) US$	7,191
No of Banks	77
GDP* to Banks (The greater the Number the Less Banked the Population, relative to other comparables)	93.39
Bank Loans /GDP (%)	73.38
Deposits/GDP (%)	43.92
Deposit Accounts per 1000 Individuals	1,373.44
Bank Branches/100 000 Individuals	10.42
WEF Soundness of Banks (Score 1-7) (Score 1-7, Most Preferable = 7)	6.6

Source: World Economic Forum and IMF

Botswana

- Botswana is categorised as an "Upper middle- income" country by the IMF, with an estimated population of 2.0 million(2012). While per Capita GDP stood at $9,398 – the highest in SSA; with high income inequality distribution, ~20.7% of total population is classified as extremely poor.
- However, premised on sound macroeconomic policies, good governance, well-functioning institutions and judicious management of diamond resources, Botswana's economy is characterised as one of Africa's success stories, and was ranked 74 out of 148 countries in the World Economic Forum Global Competitive Index 2013 -2014. Meanwhile, the economy's Real GDP has averaged 3.62% in the period between 2009 and 2012. However, with the contagion effects of the global economic slowdown, the short-term outlook points to a retard, with GDP growth expected to decelerate to 5.6% and 5.5% in 2013 and 2014 respectively.

GDP (PPP) Per Capita (Int'l $), 1990 to 2012



Source: World Bank, IMF

......Banking Sector exhibit an oligopolistic market structure......

- In perspective to the Banking System , Botswana's banking sector exhibits an oligopolistic structure, comprising of ten commercial Banks. Half of these banks are listed on the BSE and they command approximately 77% of the total loan book and 78.2% of total deposits. AMTs per 100 000 adults in the economy stood at 27 while bank branches per 100 000 adults is at 9. Bank branches per 1000 square km is around 0.21. Fig 2, below give a snapshot of Botswana's banking sector development.

Fig 2: Botswana's banking sector development

GDP per Capita (GDP*) US$	**9,398**
No. Of Banks	**10**
GDP* to Banks (The greater the Number the Less Banked the Population, relative to other comparable)	**939.8**
Bank Loans /GDP (%)	**29.16**
Deposits/GDP (%)	**30.53**
Deposit Accounts Per 1000 Individuals	**728.56**
Bank Branches/100 000 Individuals	**8.56**
WEF Soundness of Banks (Score 1-7) (Score 1-7, Most Preferable = 7)	**5.9**

Source: World Economic Forum and IMF

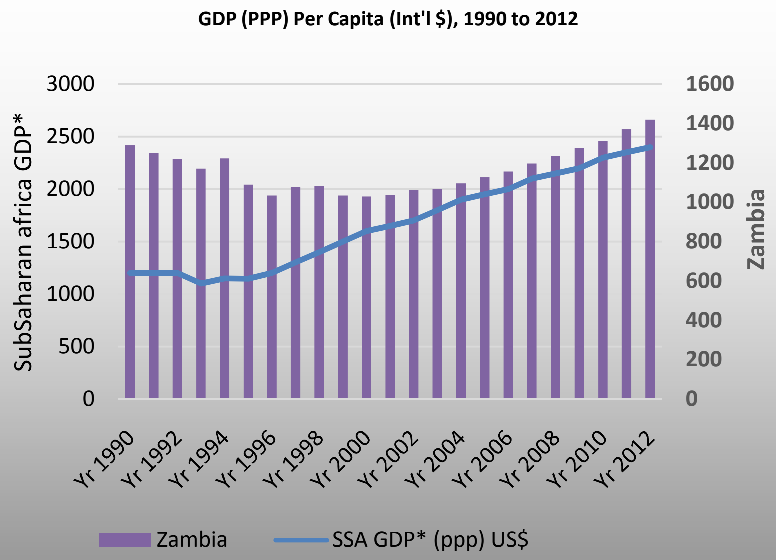
Zambia

..... real GDP is forecasted to remain solid in the ensuing years amidst the ability to attract the attention of varying business people and organisations from the rest of the world due to the favourable political and socio-economic environment..........

- Zambia is part of the Southern African Development Community with an estimated population of 14.08 million in 2012. Its GDP grew at an average of 6.3% in the period between 2004 and 2012. The economy's real GDP is forecasted to remain solid in the ensuing years (average of 7.7% in 2013-2017), due to its ability to attract the attention of varying business people and organisations from the rest of the world aback the favourable political and socio-economic environment. While the economy is the largest producer of copper in the African continent, continued production is set to benefit the economy from firming of copper prices in the international market.

- The economy was ranked 93 out of 148 countries in the World Economic Forum Global Competitive Index 2013 -2014, moving nine places in the positive from 102 in the prior year index. The graph below depicts the Zambian per Capita GDP relative to SSA in the period 1990 and 2012.

.....Banks earn their revenue under monopolistic competition conditions.....



Source: World Bank, IMF

- In Zambia, there are 19 registered commercial banks. Zambian banks earn their revenue under monopolistic competition conditions. Point in case being; risk taking, revenue diversity and regulatory diversity are critical aspects in estimating market power. In terms of the soundness of its banking system, Zambia was ranked 56 out of 148 countries in the World Economic Forum Global Competitive Index 2013 -2014. Meanwhile, Commercial Banks branches per 1,000 square km is ~0.45 as ATMs per 1000 square km equals to 0.86. ATMs per 100,000 adults were around 8.58 in 2012. Fig 3 shows the Zambian Banking sector development.

Fig 3: Zambia's banking sector development

GDP per Capita (GDP*) US$	**1,469**
Banks	**19**
GDP* to Banks (The greater the Number the Less Banked the Population, relative to other comparable)	**77.32**
Bank Loans /GDP (%)	**15.61**
Deposits /GDP (%)	**23.64**
Deposit Accounts per 1000 Individuals	**-**
Bank Branches/100 000 Individuals	**4.44**
WEF Soundness of Banks (Score 1-7) (Score 1-7, Most Preferable = 7)	**5.3**

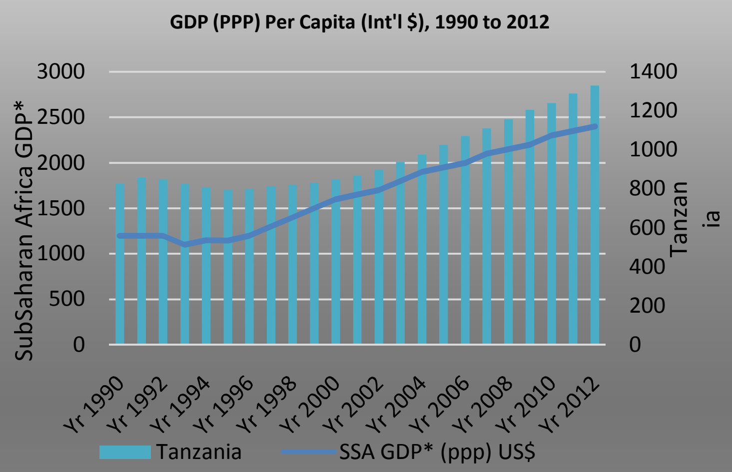
Sources: World Economic Forum and IMF

........Backed by improved performance in the manufacturing, mining, trade (wholesale and retail) and transport and communication activities the country's real GDP growth rate further increased albeit marginally from 6.4% in 2011 to 6.9% in 2012.......

......Limited geographical distribution of banks saw a mere 14% of bankable population captured......

Tanzania

- Tanzania is classified as a "Low Income" country by the IMF with an estimated population of 47.78 million(2012). In the World Economic Forum Global Competitive Index 2013 -2014, the country was ranked 125 out of 148 countries. Its real GDP growth averaged 6.8% in the period between 2008 and 2010. Backed by improved performance in the manufacturing, mining, trade (wholesale and retail) and transport and communication activities, the country's real GDP growth rate further increased albeit marginally from 6.4% in 2011 to 6.9% in 2012. In the medium term, growth forecasts are expected to remain strong at an identical 7.0% in 2013 and 2014 respectively.



Sources: World Bank and IMF

Banking Sector

- Tanzania houses 45 Banks; but, however, due to the limited geographical distribution of banks within the national boundaries, it seems there is an influx of banks in major cities resulting in a mere 14% of the bankable population being captured. Against this background, the banking sector is characterised by a oligopolistic competition market structure with five banks controlling 85 per cent market share in terms of total industry assets, loans and customer deposits. The top banks in the market in terms of total assets in context are CRDB, NMB, NBC, Standard Chartered and Exim.
- Meanwhile the economy was ranked 114 out of 148 countries in the World Economic Forum Global Competitive Index 2013 -2014 in terms of the soundness of its banks.
- In Tanzania, 90% of deposits are in the hands of eight banking institutions, notably, three local banks and five foreign banks.

.....The economy heavily relies on the extraction and the processing of minerals for export.....

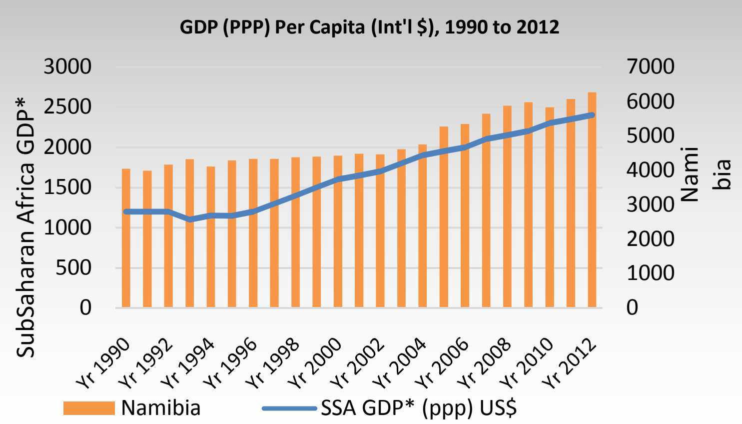
Fig 4: Tanzania's banking sector development

GDP per Capita (GDP*) US$	609
Banks	45
GDP* to Banks (The greater the Number the Less Banked the Population, relative to other comparable)	13.53
Bank Loans /GDP (%)	33.11
Deposits/GDP (%)	-
Deposit Accounts per 1000 Individuals	186.71
Bank Branches/100 000 Individuals	2.21
WEF Soundness of Banks (Score 1-7) (Score 1-7, Most Preferable = 7)	3.5

Source: World Economic Forum and IMF

Namibia

- Namibia is an economy that heavily relies on the extraction and the processing of minerals for export. The Mining sector accounts for 8% of GDP while providing more than 50% of foreign exchange earnings. Coming off a negative (-1.1%) in 2009, its GDP averaged 5.6% in the period between 2010 and 2012, aback a higher- than- expected diamond and uranium production, as well as resilient growth of wholesale and retail trade. The domestic economy is expected to grow by 4.7% and 5% in 2013 and 2014 respectively; and was ranked 90 in a list of 148 countries in the World Economic Forum Global Competitive Index 2013 -2014. The country has a population that compares favourably among less economically developed countries at ~2.3 million. As a result, Namibia's per capita GDP is relatively high among developing countries, at around $5.702, but, however, the country has one of the most unequal income distribution patterns on the African continent. Meanwhile, the pegging of the local currency to the rand has helped reduce inflation and provided predictability in exchange markets. Below is GDP per Capita compared to the SSA.



Sources: World Bank and IMF

....Banking sector is mature and well-established....

Banking System

- Namibia's banking sector is mature and well-established, comprising of 4 commercial banks and one Micro-Finance bank. While the economy's banking system soundness was ranked 23 out of 148 countries in the World Economic Forum Global Competitive Index 2013 -2014, however, key aspects of concern have been among others, limited competition amongst banks, shallow financial markets, inadequate and less effective regulation, limited access to financial services and lack of customer protection and low financial literacy.

Fig 5: Namibia's banking sector development

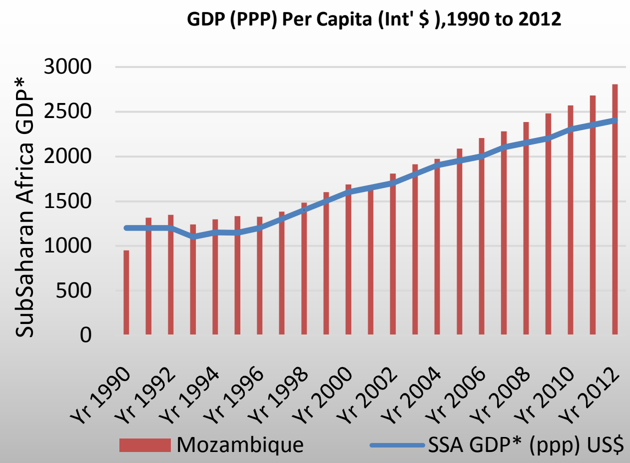
GDP per Capita (GDP*) US$	**5,705**
Banks	**5**
Banks to GDP*(The greater the Number the More Banked the Population)	**1,141**
Bank Loans /GDP (%)	**47.82**
Deposits/GDP (%)	**42.79**
Deposit Accounts per 1000 Individuals	**739.56**
Bank Branches/100 000 Individuals	**7.19**
WEF Soundness of Banks (Score 1-7, Most Preferable = 7)	**5.9**

Source: World Economic Forum and IMF

Mozambique

- Mozambique is a member of World Trade Organisation (WTO). It is categorised as a "Low income" country by the IMF, and has an estimated population of 25.2 million. Despite weak ranking at 137 in a list of 148 countries in the World Economic Forum Global Competitive Index 2013 -2014, and also the lowest human development indexes in the world (ranked 184th out of 187 countries in the United Nations Development Programme Human Development Index); the country is one of the rising economies in the African continent. It's GDP averaged 7.2% over the last decade.

- Real GDP is forecasted to average 8.1% in the period between 2013 and 2017 prior to the progressive increase in coal production and the implementation of large infrastructure projects, coupled with credit expansion.



Sources: World Economic Forum and IMF

.....Soundness of the sector is compromised by little competition in-as-much about 85% of the total financial sector's assets are concentrated in the three largest banks.......

Banking System

- Mozambique's banking sector is made up of 18 Banks. However, the soundness of the sector is compromised by little competition in-as-much about 85% of the total financial sector's assets are concentrated in the three largest banks; which are closely linked to the Portuguese banking industry. Soundness of banks in Mozambique was ranked 77 out of 148 countries in the World Economic Forum Global Competitive Index 2013 - 2014, but however, the Mozambican Banking Sector as a whole has remained well capitalised.

Fig 6: Mozambique's banking sector development

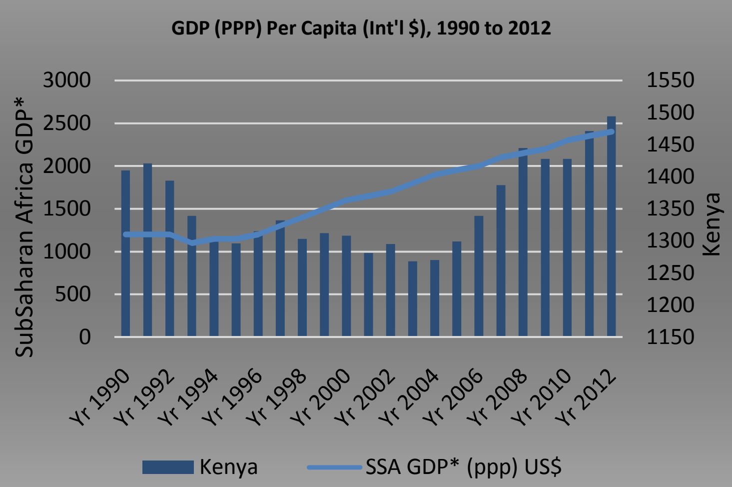
GDP per Capita (GDP*) US$	**579**
Banks	**18**
GDP* to Banks (The greater the Number the Less Banked the Population, relative to other comparable)	**32.17**
Bank Loans /GDP (%)	**27.50**
Deposits/GDP (%)	**39.65**
Deposit Accounts per 1000 Individuals	**171.36**
Bank Branches/100 000 Individuals	**3.78**
WEF Soundness of Banks (Score 1-7) (Score 1-7, Most Preferable = 7)	**4.9**

Source: World Economic Forum and IMF

......we anticipate a period of improved stable governance and strong growth following the election of Kenyatta, as the new president for Kenya.........

Kenya

- Kenya is a sovereign state in East Africa lying on the Equator with the Indian Ocean to the South-east. The economy covers ~581,309 square kilometres with a total population of 43.4 million in 2012. Its average GDP growth rate was 4.8% between the period 2004 and 2012. GDP growth is forecast to accelerate to an average rate of 6.5% between 2013 and 2017. In our view, we anticipate a period of improved stable governance and strong growth following the election of Kenyatta, as the new president for Kenya.
- The economy is expected to gain significant traction from recent discoveries of oil and gas. The sector (oil and gas) is expected to contribute 3% to GDP within 48 months, but however this is subject to the ability of the economy to mobilise the required capital and human resources. Despite being one of the major drivers for GDP growth in the SSA region, the country is classified as a "Low Income" country by the World Bank, with per capita GDP of around $865. It was ranked 96 in the World Economic Forum Global Competitive Index 2013 -2014.



Source: *World Economic Forum and IMF*

Banking Sector

- The Kenyan banking sector comprises 47 banks mainly located in major towns. While the economy has a population of around 43.4 million, 32% of the bankable population is excluded from financial services. However, by regional standards Kenya's financial system is relatively well developed and diversified.
- The sector was ranked 67 out of 184 countries in-terms of the soundness of banks in the World Economic Forum Global Competitive index 2013-2014. The Banking sector accounts for 40% of the country's GDP. Fig 7 below explains the banking sector development in Kenya.

....Economy is one of Africa's poorer and is categorised as a "Low Income" country by the World Bank.....

Fig 7: Kenya's banking sector development

GDP per Capita (GDP*) US$	865
Banks	47
GDP* to Banks (The greater the Number the Less Banked the Population, relative to other comparable)	18.4
Bank Loans /GDP (%)	44.56
Deposits/GDP (%)	59.81
Deposit Accounts per 1000 Individuals	662.26
Bank Branches/100 000 Individuals	5.49
WEF Soundness of Banks (Score 1-7, Most Preferable = 7)	5.1

Source: World Economic Forum and IMF

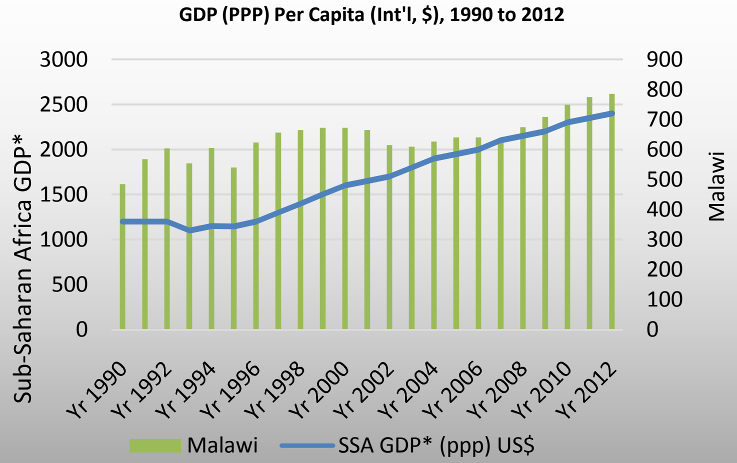
Malawi

- Malawi is one of Africa's poorest and is categorised as a "Low Income" country by the World Bank. It was ranked 136 out 148 countries in the World Economic Forum Global Competitive index 2013-2014. It's average GDP growth rate was 4.7% in the period between 2004 and 2012. Economic growth acceleration is forecasted to average at 5.3% in the period 2013 through 2017. Due to poor economic management, the country was ranked 157 out of 185 for Ease of Doing Business.

- Malawi has an estimated population of 15.9 million, and a total GDP of 4.3 billion, translating to Per Capita GDP of $268; the lowest in the region. With a current 2.8% annual growth, the Malawian population is expected to triple by 2040. Implications are astounding against the current status quo that the country is already densely populated with 139 persons/square kilometre while half of the population is living below the poverty datum line and more than one third consumes less than the required caloric intake.

- The swearing in of Joyce Banda, as the president of Malawi is expected to take the economy to its next level of growth, aback a quick introduction of economic and political reforms.

....Banking sector comprise banks which are well capitalised and profitable....



Source: *World Economic Forum and IMF*

Banking Sector

- The country's banking sector is made up of 12 banks, which are well capitalised and profitable. However, the sector lacks competition, with three major banks accounting for more than 70% of total market assets and deposits. The access of financial services remains very limited with most banks concentrated in major towns, implying that there is scope to attract the unbanked population living in the rural areas where entrenched land tenure traditions complicate both property rights and the use of land as collateral. It should be noted that around 85% of total population lives in rural areas. The sector was ranked 68 out of 148 in terms of the soundness of banks in the World Economic Forum Global Competitive index2013-2014.

Fig 8: Malawi's banking sector architecture

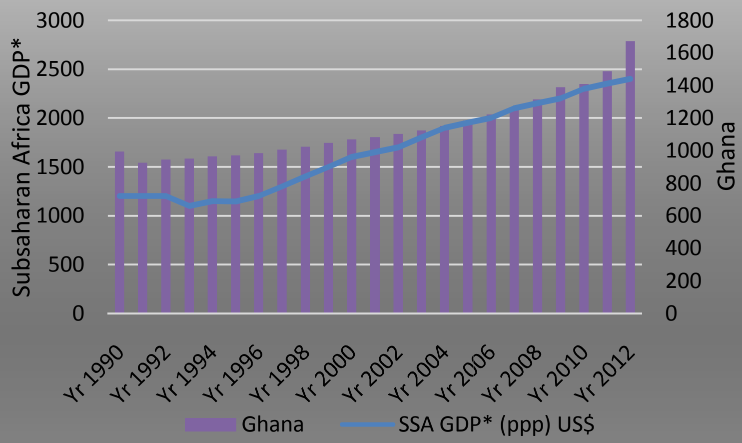
GDP per Capita (GDP*) US$	**268**
Banks	**12**
GDP* to Banks (The greater the Number the Less Banked the Population, relative to other comparable)	**22.33**
Bank Loans /GDP (%)	**28.58**
Deposits/GDP (%)	**39.45**
Deposit Accounts per 1000 Individuals	**242.67**
Bank Branches/100 000 Individuals	**3.35**
WEF Soundness of Banks (Score 1-7) (Score 1-7, Most Preferable = 7)	**5.1**

Source: World Economic Forum and IMF

.......Economic growth prospects are very strong with real GDP forecast averaged 5.7% in the period between 2013 and 2017, attainable through sound macroeconomic management........

Ghana

- Ghana is a "Lower Middle Income" country with an estimated population of 25.4 million(2012). The economy is predominantly agriculture, with 60% of the total population engaged in subsistence agriculture. Its GDP growth rate averaged 7.1% in the period between 2004 -2012, reaching its all-time high of xxx in 2011, following the start-up of oil production in the last quarter of 2010. Economic growth prospects are very strong with real GDP forecast averaging 5.7% in the period between 2013 and 2017, attainable through sound macroeconomic management. The country was ranked 114 out of 148 countries in the World Economic Forum Global Competitive index 2013-2014.



Source: *World Economic Forum and IMF*

Banking Sector

- 25 Commercial Banks operate in the economy of Ghana. The economy is relatively under-banked with 479 people with deposits account per 1000 individuals. Number of Bank branches per 1000 individuals stood at 5.7.

GDP per Capita (GDP*) US$	**1562**
No. of Banks	**25**
GDP* to Banks(The greater the Number the less Banked the Population relative to other comparables)	**62.48**
Bank Loans /GDP (%)	**17.82**
Deposits/GDP (%)	**23.94**
Deposit Accounts /1000 Individuals	**479.47**
Bank Branches/100 000 Individuals	**5.73**
WEF Soundness of Banks (Score 1-7) (Score 1-7, Most Preferable = 7)	**5.5**

Source: World Economic Forum and IMF

.............Only 14% of the Zimbabwean population have access to formal banking services.......

Zimbabwe Over/Under Banked? - Conclusion

- In a country with a population of ~13.7 million at a GDP of 10.81 billion housing 22 Banks and over one hundred micro-finance institutions, one could easily jump to the conclusion that Zimbabwe is overbanked; however, our estimates have revealed; that only 14% of the total population have access to the formal banking services. This is possibly attributed to limited penetration of Banks in capturing the unbanked rural population and the thriving informal sector.

- In Zimbabwe, most banks are located in major towns and cities due to the traditional view that towns and cities offer better business compared to the rural areas, thereby leaving the rural community excluded from financial services. Against this background, there is scope for underwriting more business in rural areas if banks think strategically to mobilise the agricultural based deposits. Rural population in Zimbabwe accounts for 62% of the total population. Zimbabwe's rural population still yearns for financial inclusion like in the Case of Bangladesh (Grameen Bank) and Kenya (Equity Bank) which transformed the landscape of financial services development in those respective countries. Meanwhile, the bulk of the urban population is involved in the informal sector (estimated at around 25% of GDP) and remains largely unbanked to date.

- On comparable basis, Zimbabwe in the pack of the selected SSA countries is positioned the least in terms of Deposits Accounts per 1,000 individuals at 139. Point in case being, on average only 139 individuals out of 1,000 people have Bank deposit accounts thus leaving 861 people excluded in the banking system.

- Relative to the selected countries, Per Capita GDP to number of banks at 34.38 indicates that one bank on average captures a potential maximum income of $34.38 per individual. Compared to Namibia where one bank has the potential to capture the maximum of $1,114 it would seem there is more room for more banks in Namibia than in Zimbabwe. However, coming off a low base we see immense potential to grow the pie (Per Capita GDP), creating justification for further investment in the sector.

- All in all, the Zimbabwean economy is under-banked in the sense that the larger population is unbanked (excluded from the financial system) and a significant portion of those with access to financial services only participate in the very basic forms of financial services-limited use of plastic money, mobile banking and other advanced ancillary services.

.....A less aggressive approach on the empowerment and indigenisation proposed across sectors ......

.........Zimbabwe Banks compete aggressively to earn revenue give the nature of competition in the market..........

Zimbabwe Banking Sector:

Investment Case: Positives

- There is a large number of unbanked people, creating scope for more business and higher margins
- Room to increase the assortment and scope of available services thereby opening diversified revenue streams for the sector e.g. mobile banking, plastic money and other ancillary services.
- Rationalisation of regulatory landscape with regards to indigenisation and empowerment law is expected to easy uncertainty in the sector.
- Key sectors remain unfunded despite displaying immense potential for profitability given adequate support; this profitability of key sectors will have positive spill-over effects in the banking system.

Investment Negatives

- Potential populist policies to placate political expectations citing the cancellation of local authority assets (amounts owed) and potential freezing of debts for farmers could have ripple effects across key economic sectors and the banking sector is not spared
- Continued funding constrains could hamper economic growth prospects thereby affecting the credit creation role of the banking sector.

Banking Sector Overview

- Zimbabwe's banking sector is comprised of 22 Commercial Banks, 4 Building societies, 2 Merchant Banks and one savings bank. Approximately 70% of the market share is accounted for by the first 5 banks. For banks to earn revenue they need to compete aggressively given a blend of a monopolistic and oligopolistic competition market structures. The graph below depicts the architecture of Zimbabwe's financial system.

Listed Banks	Unlisted Banks	Merchant Banks	Building Societies	Savings Bank
BancABC	AGRI-BANK	Capital BANK	CABS	POSB
BARCLAYS	STANCHART	TETRADE	FBC	
CBZ	STANBIC		CBZ	
FBCH	MBCA		ZB	
NMB	METBANK			
ZB	ZABG			
	AFRASIA			
Suspended	ECOBANK			
TRUST	STEWARD	Micro Finance Institutions :172		

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......Over the last 6 months the banking sector along with the economy at large battled with a myriad of economic and operational challenges prompting a series of changes for the quest of adaptation. Recent legislation in the Sector, includes the Memorandum of Understanding which stipulated changes to fees and commission charges as well as interest on deposits, this piled pressure on the Banks which were still making efforts to comply with Capitalization requirements........

Sector Developments

- RBZ signs MoU with Financial Institutions.
- Trust Bank is suspended from the ZSE, struggles to find strategic Equity partners.
- TN Bank is acquired by Econet consequently changing to Steward Bank.
- Non Performing Loans escalate to 13% justifying the need for cautionary lending practices.
- FBC proposes to merge the Bank and the Building society, NSSA gives up stake in FBC Building Society for more shareholding in FBCH,
- NMB secures strategic foreign investors who take up 26.85% in efforts to boost the capital base.
- AfraAsia Group buys out Kingdom bank founder Nigel Chanakira to acquire controlling stake in the Financial services group and rebrand to AfraAsia Holdings
- Enforcement of the empowerment and Indigenization law in the banking sector sparks controversial debate in economic and political circles.
- Lines of credit remain confined to the conservative regional facilities as the economic climate shrinks in the shadow of political uncertainties with most foreign Institutional Investors taking an extended cautionary stance.

Operational Environment

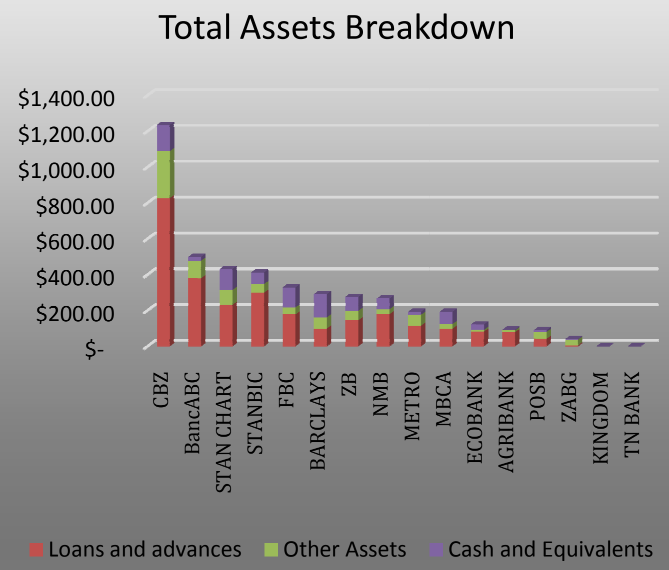
- Developments in the First half pointed to sings of a stagnating economy envisaged through under performance in key sectors particularly Agriculture and Mining.
- Growth in key sectors has been confronted by easing international commodity prices, squat investment, constricted credit conditions and extended policy uncertainty in the post-election environment.
- Private investment is projected at 6.3% of GDP in 2013 while public investment remains low at 4.4% due to the overcrowding effect of recurring expenditure.
- The trade deficit is expected to widen under pressure from volatile global commodity prices and lack of competitiveness and downside risks associated with the fragile global economy and limited capacity in key sectors.
- The Mining and Agriculture sector are expected to continue as the leading contributors to exports and national output
- Implementation of the staff monitored program with IMF and the World Bank is expected to aid in external debt relief despite signs of the process stagnating largely due to the political processes. Proper implementation will have profound effect on the ability to source external financial and technical support.

....Total Banking Assets grew 10%.....

Sector Performance: Half Year 31 June 2013

Total Assets

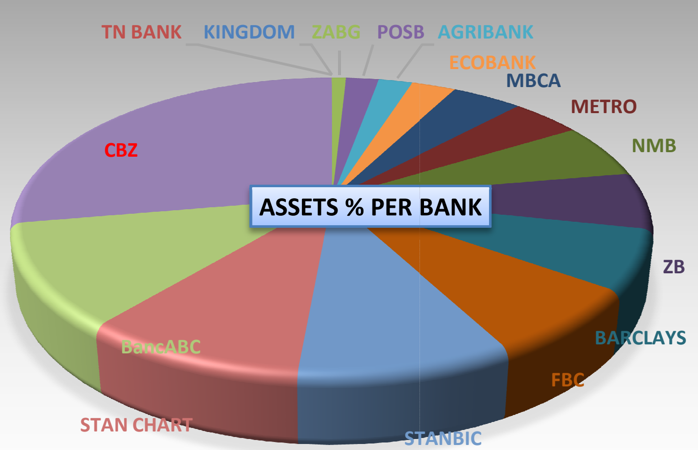
- Total Banking Assets grew 10% from US$4 billion reported at the same time last year to US$4.45 billion as at June 2013. Deposits continue to constitute most of the banking sector assets at 80% while Loans anchor at 61.5% of Total Assets.



Source: Various Banks Financials

Share of Assets

- The top five Banks in terms of Assets account for more than 65% of the Total Banking Sector Assets at US$2.9 billion leaving room for mergers and acquisitions at the lower end of the command chain in efforts to consolidate capacity and capitalization.

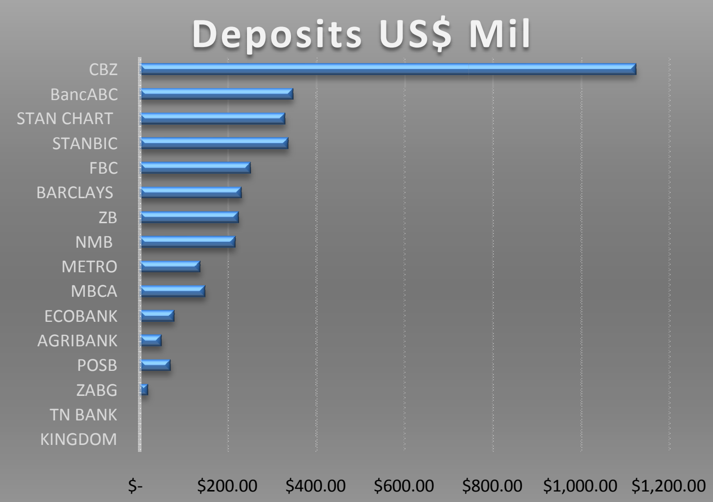


Source: FBC Databases

......With market wide liquidity constrains deposit base is expected to remain below the $4.5 billion mark..........

Total Deposits

- Total deposits for the period at US$3.558 bil were slightly lower than the US$3.281 bil at the close of June 2012.
- YTD total deposits have declined 19.3% from December 2012's US$4.410 bil to US$3.558 bil as at June 2013.
- Deposit sources remain largely skewed to corporate accounts which accounted for 50.65% of deposits, trailed by banking institutions at 16.33% and Individuals at 14.3%.
- With the economy grilling in liquidity constraints in its recovery mode, the Deposit base is expected to remain below the US$4.5 billion mark with the bulk of deposits remaining transitory in nature.
- In terms of deposit mobilization capabilities, CBZ Bank had the lion's share of deposits with 31.58% followed by BancABC with9.75%, Stanbic 9.75%, Stanchart 9.25% and FBC with 7.04%.



Source: FBC Databases

Loans and Advances

- Total loans and advances in the sector grew by 15.5% to close the Half year at US$2.74 bil from US$2.37 bil in the prior year.
- The Loan to Deposit ratio for the Industry shed 2.42% to close at 77% against 79.42% achieved last year. The decline in the ratio is indicative of the cautious approach that is being adopted by many Banks in the wake of escalating credit risk concerns.
- Incumbent liquidity constraints fuelled by the lack of long term reasonably priced facilities owing to a plethora of country and sector specific Risk concerns have restricted lending to short term facilities. Deposits remain transitory in nature as households and corporate barely meet operational cash flow requirements.
- Of the 16 surveyed Banks 7 had L/D Ratios above the Average 77% while the other 7 pursued a more conservative approach with L/D ratios below the average. Despite accounting for only 1.8%, 2%

......key sectors continue to battle for recovery in the wake of working capital constraints, operational redundancies and competition from lower cost structure regional players.....

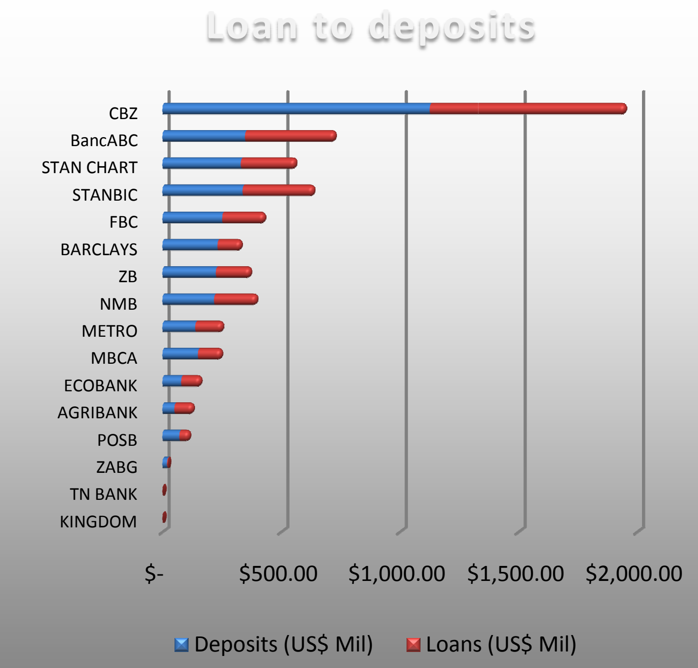
Cont'd...

and 2.2% of total Deposits respectively, Agribank, POSB and Ecobank had L/D ratios above 100% as they drew down on advanced facilities.

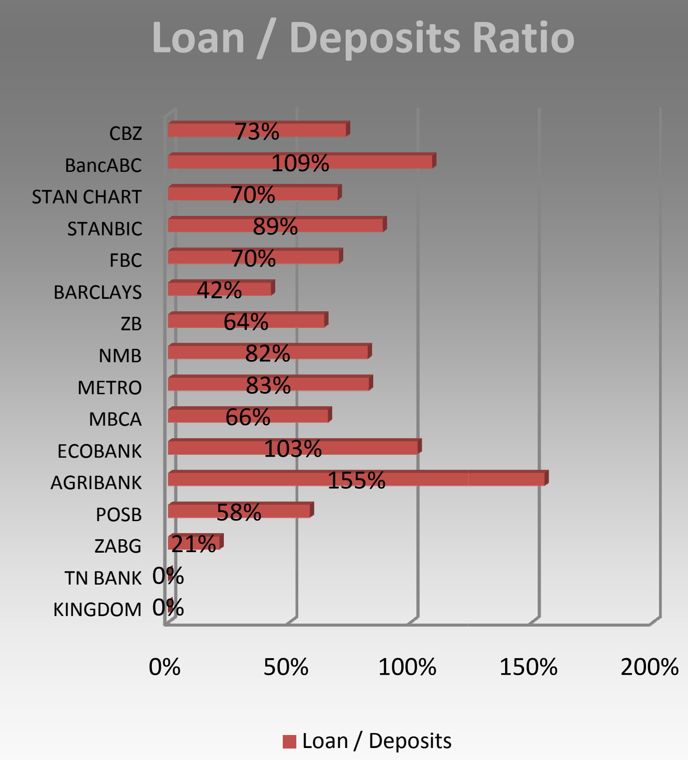
- Barclays bank remained true to its conservative philosophy in the volatile operating environment with a L/D ratio of 42% against a 6.5% share of total Deposits while Allied Bank recorded the least activity on both fronts with the least L/D ratio of 21% riding on 0.5% share of deposits.
- Save for Stanbic Bank, the remaining Foreign Banks had a more conservative approach to lending, in a view this was in response to empowerment law pressure and re-priced country risk status.
- Stanchart had a L/D ratio below average (70%) despite commanding a significant share of deposits (9.2%). MBCA had a L/D ratio of 66% against a 4.2% share of Deposits.

Sector Lending Spread

- Still haunted by the misfortunes of the former decade of economic decline, key sectors continue to battle for recovery in the wake of working capital constraints, operational redundancies and competition from lower cost structure regional players.
- Funding to key sectors has remained inadequate to fully suffice the desired funding needs.
- The source of funds coupled with the operational risk attached to the real sectors and the huge recapitalization gap all together present causes for concern for institutions funding Real Sector players.
- The Agriculture sector took home the most funding with over US$494.5 mil while the Distribution sector took home US$439.7 mil, the Manufacturing sector borrowed slightly more than the services sector at US$364.8 mil and US$353.3 mil respectively.
- Key sectors remain starved of the much needed funding as lines of credit remain short term and vulnerability risk factors continue to keep Investors at bay.
- The escalating deterioration of asset quality across the sector evidenced by last year's growth in none performing loans (13%) prompted lenders to adopt more prudent lending and credit management procedures and more rigorous collection efforts, consequently seeing the Ratio of Loan loss provisions to Total loans declining 0.19% from 0.61% to 0.42%. POSB had the highest ratio of Impairment charges to Loans at 3.34% trailed by Agri-lender Agribank with 2.24% in the wake of a poor farming season which affected yields. BancABC recorded 1.33% after a court ruling went against their fortunes in an outstanding non performing loan case.



Source : FBC Databases

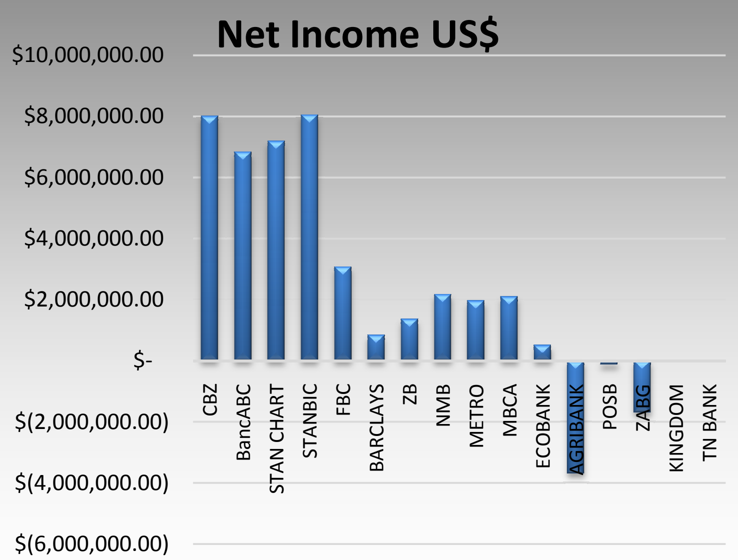


Source: FBC Databases

.....Sector profitability tumbled in the wake of revenue restricting developments in the overall economy due to both economic and political events that affected H1 2013.....

Profitability

- Overall sector profitability tumbled in the wake of revenue restricting developments in the overall economy due to both economic and political events that affected H1 2013.
- Profit before taxation was down 14% at US$54.2 mil vs US$63.3 mil attained in H1 of 2012, inevitably after tax profits plummeted 21% at US$36.6 mil compared to US$46.3 mil for the same period last year.
- Foreign Banks registered the most significant growth in profits over the six months period, with the strongest growth in profitability being recorded in Ecobank which registered a 2370% jump in PAT from US$ 47 000 to US$1.16 million, Barclays bank which had in the past adopted a more than conservative approach is showing signs of interest to fully commit its resources in the Zimbabwean financial services sector after posting a 37.2% increase in PAT to US$1.14 mil vs a prior year US$0.83 mil.
- Average PAT for the Industry for the 14 Institutions in the review was at US$2.62mil vs US$3.31 mil for last year while Total ROA settled at 0.82% against 1.15% for the same period last year. Average ROA for the period was at 0.29% indicative of the inability of many Banks to fully sweat their Assets and maximize return; pulling down the average were losses in Allied Bank, Agribank and POSB. The average ROE was at 3.73%.
- Weighing down on after tax sector profits was the 13% growth in operating expenses which more than offset the 24% increase in Net Interest Income after impairment charge. The overall effect of the MoU on charges and fee income was offset by other Non Interest income avenues as Non Funded income remained flat at US$150 mil.
- The use of electronic and mobile banking services remains key in containing operational costs, while product and service ingenuity remains pivotal in supplementing revenue streams affected by the MoU.



Source: FBC Securities Databases

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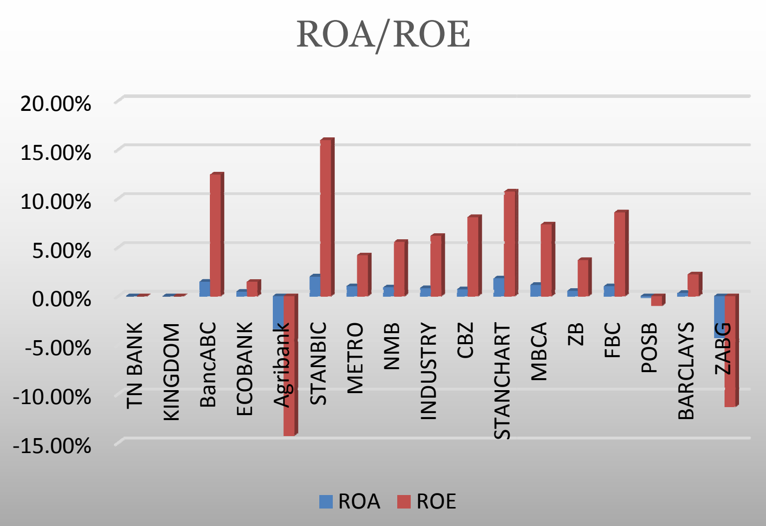
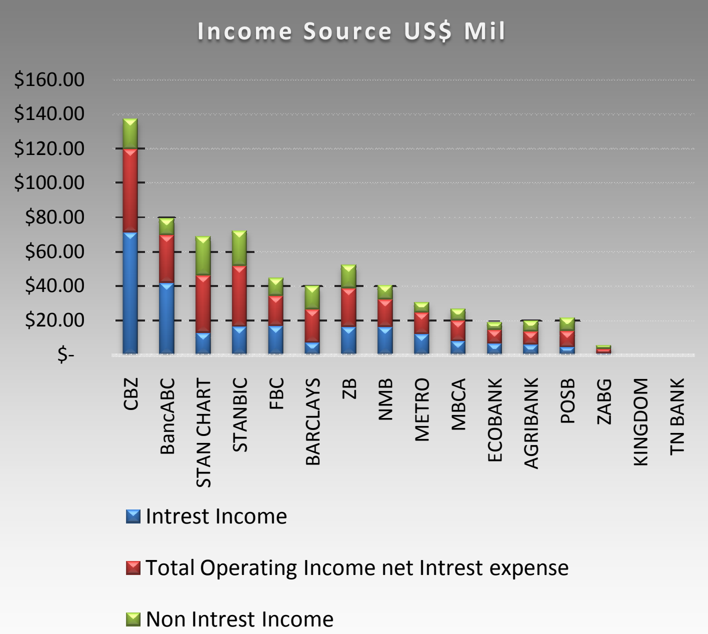


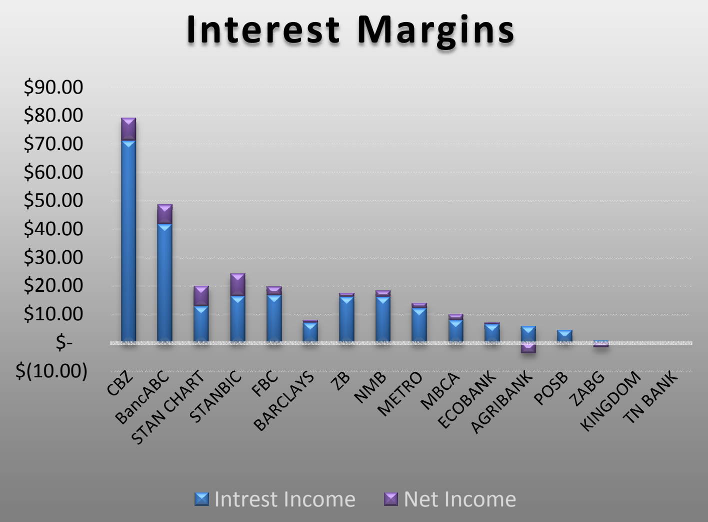
....Total Net Interest Income to Total Income which, by International Standards should be between 65% and 75% was at 51% for the Industry against 47% for the same period last year.....

Income source

- Total Net Interest Income to Total Income, which by International Standards should be between 65% and 75% was at 51% for the Industry against 47% for the same period last year.
- Sound banking practice detects that net Interest income should be the main income source for lending financial institutions. Low Interest Income to Total Income reflects the country's inability to access and increase lines of credit owing to a number of country specific factors.



- The Average Interest Margin for the sector was at 62% buoyed by high margins in Barclays (82%), Stanbic (~95%), Stanchart (94%) and the trio of Ecobank, POSB and MBCA with 70.8%, 70.7% and 70% respectively among others. Lower margins were recorded in the books of Allied (18%), FBC (44%), AgriBank (51%) and CBZ (52%) among a few other Banks.



Sector Outlook

- Going forth, as already experienced, the MoU will continue to exert pressure on margins in the form of higher cost of funds and lower fees and commission income, financial ingenuity is key in circumventing the downside effects of the MoU.

- Central Bank regulation is expected to intensify in efforts to ensure adequate capitalization levels as well as to ensure systematic stability through compliance with global Banking supervision frameworks like Basel.

- Pressure to adhere to specific lending guidelines to support economic recovery is also expected to come from various economic and political spheres.

- A less aggressive drive towards enforcement of indigenization and Empowerment law in the financial services sector is expected from the new government cognizant of the sector's sensitivity, and the role of financial intermediation to Economic recovery and growth. *(A change of face in the relevant Ministry suggests the possibility of a softer approach)*

- Industry facade is set to change as corporate finance and restructuring activity gains momentum from capitalization endeavours, mergers, acquisitions, disposals, equity partnerships and Convertible financing arrangements are expected to mark the landscape of the financial services sector in the coming period.

.....A change of face in the relevant Ministry suggests the possibility of a softer approach towards enforcement of indigenization and Empowerment law in the financial services sector.....

.....Unlocking Potential through policy transformation and integration....

Point of Argument

- By nature of its intermediary role, the banking sector is a centre piece for all economic revitalisation efforts, as such, government is expected to give precedence to capacitating the sector which by transmission mechanism will ultimately have positive spiral effects on overall sector performance.

- Incapacitated key sectors of the economy posse immense potential and demand for financial services and products. This cascades into a justifiable call for investment into the banking sector.

- Current efforts by the regulatory authorities have gone a long way in creating a sound and enabling operating environment that encourages free market forces to take their course without prejudice to stakeholders. Recent capitalisation thresholds and the MoU are all a thrust towards creating a sound banking system. Gazetted capital thresholds give the sector the muscle to prudently underwrite more business.
- Politics is now water under the bridge, at the moment, the thrust is of economic centre force creating an enabling platform for business recovery, growth and development across all sectors which proliferates a multiplier effect on the sector.

Overall, Zimbabwe's banking sector carries huge probability to reward investors with positive alpha returns at moderate risk exposures as investors seek to diversify their portfolios, citing vulnerabilities in developed markets.

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The End.........