South African Reserve Bank

EMBARGOED AGAINST DELIVERY

Remarks by the Governor of the South African Reserve Bank, Gill Marcus

Press Conference August 10th, 2014: African Bank Limited

Members of the media,

Ladies and Gentlemen,

Thank you all for being here today.

As you are aware from our invitation, we have called today's press conference in connection with African Bank Limited.

Against the backdrop of African Bank's parent company African Bank Investment Limited's (ABIL's) trading update on Wednesday, 6th August, 2014, the SARB, in consultation with the Minister of Finance, has decided to implement a number of support measures.

These will further strengthen the resilience of the banking system as a whole, and, importantly, they will provide African Bank with the best chance of a viable future.

As you are all aware, African Bank has received considerable media coverage for some time now. The Registrar of Banks and his team intensified their active engagement with the management and board of African Bank towards the end of 2012. The concerns they expressed particularly focussed on African Bank's impairment and provisioning policy, their rapid credit growth, and the need for a strategic rethink of their business model.

Given these concerns, regular discussions were held by the Governors with the Banking Supervision Department to ensure closer monitoring of developments affecting African Bank. These meetings commenced in May 2013, and the Governors received regular reports on measures taken by the Bank Supervision Department on the steps they required African Bank to take in addressing the concerns.

At that stage, African Bank had a capital adequacy ratio of 32%, which is above the minimum requirement.

The measures taken by African Bank as a result of this engagement included a higher level of provisioning for non-performing loans, a review of their provisioning policy, and a rights issue that raised R 5.5-billion in December 2013. The management was also requested to dispose of Ellerine Holdings Limited.

At the initiative of the SARB, discussions were also held with ABIL's board to appoint a specialist team to assist with restructuring options.

In the six month period to March 2014, ABIL posted a headline loss of R 3.1-billion. However, they assured the market that the book written after June 2013 was significantly better and forecast that they would return to profitability in the second half of the year. ABIL's trading statement for the third quarter released on August 6th 2014 was markedly worse than what the market expected, with an estimated headline loss for the full year to September 2014 financial year of R 6.4-billion.

Ellerine Holdings Ltd, like African Bank, is a wholly owned subsidiary of ABIL. Ellerine Furnishers has been a significant drain on ABIL, requiring funding support of a minimum of R 70 million per month.

The ABIL Board announced its decision to sell Ellerine and endeavoured to find a buyer. African Bank is the only South African bank exposed in this way to a furniture chain. Ellerine Furnishers was placed into a business rescue process on 7th August 2014. One of the outcomes of this is that the significant monthly financial support required from ABIL and African Bank has ended.

The problems that have beset African Bank are, in our view, largely specific to their current business model, which does not include a diversified set of products and income streams, nor does it offer transactional banking services. This has made African Bank and the ABIL Group uniquely vulnerable to a changing or challenging business environment, such as currently prevails.

It is against this backdrop that the decision has been taken to introduce a range of support measures for African Bank.

The first important measure has been the conclusion reached by the Registrar of Banks and the decision by the Minister of Finance to place African Bank under curatorship with effect from 16.00 today, 10th August 2014.

African Bank Limited’s Board has, after due consideration, advised the Registrar that it does not oppose curatorship and has taken the appropriate resolutions to facilitate the process.

The curatorship provides the legal framework within which the necessary initiatives to enable resolution can take place. The Minister has appointed Mr Tom Winterboer as the curator. He will be responsible for African Bank with immediate effect, with the full authority the law confers on the curator.

Tom Winterboer is the financial services industry leader for Africa and a member of the global financial services leadership team at PwC. You will be provided with his CV as part of the press pack and I would like to introduce him to you now. Mr Winterboer will be assisted in his task of securing a viable future for African Bank by a team of experts, including Mr Peter Spratt and Mr David Gard from PwC London. Mr Gard, who has been appointed as Senior Advisor, Business Restructuring, has been working with African Bank for the past four weeks. He will take particular responsibility for assisting the curator on the restructuring plan. Mr Spratt has been appointed as Special Advisor to the curator. Other members of the team will be announced by Mr Winterboer in due course. He will also ensure that there is a specific help line to answer questions that clients of African Bank may have.

The curatorship is a protection procedure which gives the SARB the legal means to create the necessary space to implement a resolution plan capable of ensuring that the business of African Bank gains a secure perspective for the future as a lending institution with a transformed business model.

The curatorship and resolution process will:

- ensure that the regular operations and collections of African Bank continue effectively and efficiently
- identify performing loans and assets to be maintained in a good bank
- involve the purchase by the SARB of a substantial portion of the non- and under-performing assets and other high risk loans from African Bank in order to separate them from the good bank, and also as a first step towards resolution of the challenges associated with these assets and loans

- recapitalise the new entity by a capital raising of some R10-billion underwritten by a consortium
- provide current shareholders an opportunity to participate in the recapitalisation of the new entity and thereby of good bank

The measures that have been taken are, in our view, in the best interest of all stakeholders, whether depositors, shareholders, creditors, or clients.

I would now like to turn to the package of proposals that will guide Mr Winterboer in his endeavours to find resolution.

Firstly, I want to emphasise that African Bank continues to operate during the curatorship and that Mr Winterboer will make decisions regarding the continued granting of loans and sound banking activities generally. African Bank continues to be open for business.

Secondly, retail depositors represent less than 1% of African Bank's creditors. We are therefore able to make an unequivocal commitment to all existing **retail** depositors that their money is safe, and that they can continue with African Bank as their bank without fear that their deposits will be frozen or lost. They will have full access to their money in the ordinary course of business.

Thirdly, the resolution will see a private/public sector partnership. A consortium has been put together by the private sector. The consortium comprises Absa Bank Limited, Capitec Bank, FirstRand Bank Limited, Investec Bank Limited, Nedbank Limited, Standard Bank Limited, and the Public Investment Corporation (PIC). The consortium has committed to underwrite a R 10-billion capital raising, and will – under the guidance of Mr Winterboer – be engaging with shareholders and other interested parties in this regard. Members of the consortium have also offered to provide management and technical support.

Resolution will see African Bank split into two parts:

- On the one hand a good bank, which will be recapitalised as indicated above. Let me emphasise here that the R10-billion recapitalisation is for the good bank, which has a book value of R 26-billion net of portfolio impairments
- On the other hand the bad book, which comprises a substantial portion of the non- and under-performing assets, will be housed in a vehicle with the support of the SARB in order to separate these from the good bank. As a result, the bad book will no longer form part of African Bank
    - the bad book currently has a book value net of specific impairments of R 17-billion for which the SARB will pay R 7-billion
    - collection against the bad book will be continued, and indeed strengthened: there is no payment holiday for anyone owing on a loan from African Bank

Every effort will be made to ensure that collections continue with the goal of avoiding any cost to the taxpayer arising out of this measure. A claw back arrangement will be put in place for the bad book to the extent that performance exceeds expectations.

The proposal for the restructuring of the liabilities of African Bank is set out below:

- existing depositors, specified sundry creditors and instrument holders will be restructured and assumed by the good bank as follows:
    - retail depositors and specified sundry creditors will be transferred at full value
    - senior debt instruments and wholesale deposits (excluding subordinated debt holders) will be transferred at 90% of face value following the restructuring (the absolute interest rate will be based on the revised face value)
    - all other liabilities will remain in African Bank
- existing ordinary shareholders and subordinated debt holders will be afforded the opportunity to participate in the good bank
- it is intended that the good bank holding company will be listed on the JSE in due course, and will include the acquisition at fair value of the various insurance entities within the ABIL Group

An important aspect of the curatorship is that the curator has the discretion to suspend payments of interest. While interest continues to accrue, he is expected to suspend interest payments generally with immediate effect except for interest payments on retail deposits.

We are greatly encouraged by the active and committed response by the private sector to partner us in seeking resolution for African Bank. We believe that the package that has been put together with the support of the consortium is workable and substantive. Shareholders will have an opportunity, by following their rights in the capital raising, to participate in the recapitalisation.

We take the opportunity to repeat what we said in our statement last week:

> South Africa's banking sector remains healthy and robust.
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> There have been no indications that other South African banks have been affected negatively by ABIL's trading update or African Bank's current situation.

This remains the case following today's announcement.

The role of banking supervisors is to make every effort to ensure that South Africa's banks have adequate capital, liquidity, and leverage ratios, as well as sound governance and appropriate policies. We are, and will remain, an active supervisor. But this can never substitute for management's role and its responsibility to manage a bank. Nor can it remove a Board's responsibility to ensure sound policies and practices in relation to corporate governance, effective risk management, as well as the strategic direction of a bank.

Notwithstanding the challenges facing African Bank, government's policy of financial inclusion is appropriate and important. This requires sound practices, appropriate lending relating to affordability and an increased effort to provide greater access to finance for entrepreneurs as well as small and medium enterprises. This will continue to be the challenge for all of us going forward as we, together, continue to maintain the strength of the banking and financial system.

Thank you and I will now take questions.