



BANK *of* ZAMBIA

**HEARING FOR INTEREST GROUPS ASSOCIATED
WITH INTERMARKET BANKING CORPORATION
ZAMBIA LIMITED (IN POSSESSION)**

TALKING NOTES PRESENTED BY

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1.0 INTRODUCTION

Today's hearing is intended to apprise all interest groups associated with Intermarket Banking Corporation (Zambia) Limited (In Possession) (IBC) on the restructuring process in line with the requirements of the Banking and Financial Services Act (BFSA). The hearing also provides a platform for all interested parties of IBC, to express their views on the proposed restructuring process.

Let me begin my address by tendering an apology on behalf of the Bank of Zambia (BoZ) on the protracted restructuring process. We regret profusely that the process has dragged since February 2017, when we announced our decision to restructure IBC. We are cognizant of the challenges and suffering that most of the depositors and employees of the bank are enduring following the closure of IBC on November 29, 2016.

However, the process of resolving a bank taken over by the BoZ on account of insolvency is complex. The restructuring process involves complying with several administrative and legal requirements. For example, following the takeover of IBC, we had to go through many processes including the following:

1. **Preparation of a statement of affairs of the assets and liabilities of IBC.** Upon taking possession of a bank, the BoZ is required by law to prepare a statement of affairs of the assets and liabilities within 90 days from the effective date of taking possession. For IBC, the 90-day period expired on February 27, 2017.
2. **Discussions with the Former Shareholders.** Immediately following the possession of IBC, the Bank received a proposal from the then shareholders to restructure the bank to restore its solvency and operations. This proposal was premised on the shareholders injecting at least US\$15 million and some major depositors converting their deposits into equity of the restructured IBC. However, the process protracted and unfortunately, did not materialize on account of the former shareholders' failure to fulfil their capital injection commitments. Accordingly, the Bank of Zambia dismissed this proposal on June 26, 2017. Overall, the engagement with the former shareholders took six months.
3. **BoZ's Consideration for Alternative Solutions (Three (3) months).** The BoZ therefore had to look at other options of proceeding with the

restructuring of the bank so as to avoid placing it into compulsory liquidation. Consequently, BoZ engaged a group of large corporate depositors for a new restructuring proposal. The BoZ's proposal gave the large corporate depositors two options:

Option 1: To consider converting their deposits into equity of the restructured bank (i.e. to take up shares in the bank in proportion to their outstanding individual deposits); or

Option 2: To consider foregoing at least 40 percent of the value of their outstanding deposit as well as to defer payment of the remaining 60 percent of their deposits once the new bank reopened (i.e. to be paid out over an extended period, at a reasonable rate of interest). The success of this option was premised on securing agreements with the bank's major depositors to defer their payments.

4. After protracted discussions and negotiations, the BoZ finally managed to secure some agreements with the majority of the large corporate depositors. The large corporate depositors that agreed to convert their deposit liabilities into equity are the National Pension Scheme Authority (NAPSA), the Madison Group and the Workers Compensation Fund Control Board. Further, the majority of the other large corporate depositors opted to forego 40 percent of the value of their outstanding deposits and to defer payment of the remaining 60 percent of their deposits once the new bank is opened.
5. To ensure solvency of IBC, the BoZ had to reach out to other potential investors who showed some interest. Fortunately, the Industrial Development Corporation (IDC) expressed strong interest to take part in the restructuring process of IBC. The Bank of Zambia engaged IDC which culminated into a new and viable restructuring proposal. The proposal has resulted in the incorporation of a new bank in the name of **Zambia Industrial Commercial Bank Limited (ZICB)**. This whole process took about 3 months to be concluded and for the financial resources to be mobilised.

2.0 MAIN PROVISIONS OF THE RESTRUCTURING PROPOSAL

Let me now provide highlights of the restructuring proposal:

A. Shareholding, Management and Capital Position

- IDC will hold a majority shareholding stake in ZICB while NAPSA, the Madison Group and the Workers Compensation Fund Control Board, are the other shareholders in that order.
- The new shareholders have already engaged part of the senior management team and are almost about to conclude the appointment of the members of the Board of ZICB.
- On opening its doors to the public, ZICB will be well-capitalized with sufficient liquidity to meet its obligations. The bank's total capital resources before taking into account the accumulated losses will stand at K296.4 million, comprising actual cash injections of K228.4 million and deposit conversions amounting to K68.0 million. The accumulated losses are on account of ZICB assuming more liabilities than assets from IBC. Therefore, this translates into a regulatory capital position of K187.5 million which is above the minimum primary capital requirement of K104 million for a locally owned bank set by the BoZ.

B. Treatment of the Assets and Liabilities in IBC

- ZICB will acquire some selected good assets and assume all the deposit liabilities of IBC. Since the other remaining assets in IBC will be mostly non-performing loans, the BoZ will place IBC under compulsory liquidation.

C. Treatment of Depositors

- IBC has a total of 66,164 deposit accounts. Under the proposed plan, up to a maximum of K200,000 will be paid on each deposit account. As the majority of IBC's depositors hold balances below this amount, it is projected that 66,063 deposit accounts or 99.8 percent of the total will be settled in full, leaving only 101 deposit accounts. Included in this number, is NAPSA, the Madison Group and the Workers Compensation Fund, whose combined total deposit holdings accounts for a significant portion of the total outstanding amount.
- Although ZICB is ready to pay the depositors their money up to K200,000, depositors are encouraged to retain part or all of their deposits in the new bank. This will not only help to consolidate the new

bank's balance sheet, but will also help the depositors to develop a new business relationship with the new bank. According to the shareholders, ZICB will be one of the significant indigenously owned banks in Zambia.

- For the depositors who will not receive the full payment on their deposit, their balances will be paid within 12 months for individuals while the corporates will be paid within a period of 36 months. The bank will pay interest on these remaining balances. This is important to ensure the long-term sustainability of the new bank.

D. Treatment of Other Creditors

- Through this restructuring process, a significant portion of other creditors, which includes all staff related liabilities, will also be settled.

E. Treatment of Employees

- ZICB has indicated that it may employ some of the former staff of IBC depending on its business needs.

F. Restructuring Plan

- After the two hearing sessions, BOZ will finalise a Restructuring Plan which will be sent to each depositor and other creditors who will not receive full payment under the plan, giving them time to react to the plan. If the plan is supported by all interested parties, **particularly if two-thirds of the depositors and creditors by value, then ZICB will immediately finalise the arrangements for opening.**

G. Opening of the New Bank

- The opening process of the new bank will be done in a phased approach as follows:
 - ZICB will make payments to the depositors once the hearing and attendant processes explained above are fulfilled. We expect this to happen as soon as we obtain acceptance of the Plan by at least two-thirds of the depositors and creditors by value.

- ZICB management will in due course announce the official opening of the bank once all the logistical arrangements are completed as this is a new bank.

3.0 MAIN OBJECTIVE OF THE RESTRUCTURING

- The main objective of the restructuring is to ensure the solvency and financial viability and sustainability of the new bank once opened. Based on the cash injections and deposits converted into equity, ZICB fully meets the BoZ capital requirements.

4.0 EXPECTATIONS OF THE BANK OF ZAMBIA AND APPEAL TO INTERESTED PARTIES

- It is our expectation that all interested parties will fully cooperate with the BoZ for the success of the restructuring process. In particular, the large depositors of the bank who are a critical stakeholder in this process.
- Given the amount of resources already mobilised, it is in the best interest of all the interested parties to ensure that this plan succeeds in order to avoid the default option of compulsory liquidation of the bank. It is therefore important for all stakeholders to bear in mind that this restructuring process offers an opportunity to turn around what would otherwise have been permanent losses for all affected parties.

5.0 INVITATION TO THE INTERESTED PARTIES TO MAKE THEIR SUBMISSIONS

- We shall now proceed with the hearing. This will be a ‘closed hearing’, to be conducted on a one-to-one basis with all the interested parties. Interested parties include depositors, employees and the shareholders of IDC. Unless otherwise, interested parties will be attended to according to these categories in order to make the process more efficient.
- We advise that submissions should be limited to issues concerning the subject of this hearing. While this is not a meeting, the panel may question anyone making presentations to the extent deemed appropriate. It is the Bank’s expectation, that as interested parties in IBC, you will present your submissions as guided.

- For the Press, please note that I will not take questions now, but a Press Release shall be issued once the two hearing sessions are concluded and will be done by the Bank of Zambia's Head of Communications as per usual custom.

I thank you.