COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA

Case No: 31/LM/May01

In the large merger between:

PSG Investment Bank Holdings Ltd

and

Real Africa Durolink Holdings Ltd

REASONS FOR THE TRIBUNAL'S DECISION

Approval

The Competition Tribunal issued a Merger Clearance Certificate on 21 June 2001 approving the merger between PSG Investment Bank Holdings Ltd and Real Africa Durolink Holdings Ltd without conditions. The reasons for approving the merger are set out below.

The merger transaction

PSG will purchase 100% of the shares in Real Africa Durolink Holdings Ltd ("RAD") after which RAD will become a wholly owned subsidiary of PSG. It will be delisted from the JSE.

The parties allege that the proposed transaction presents the opportunity to achieve the critical mass required to become more competitive. They explain that in order to compete with larger banks and to restore confidence after the demise of small banks such as New Republic Bank, smaller players need to gain an adequate capital base and increase efficiencies. This has placed pressure on the smaller players to consolidate and to strengthen their credit ratings and to protect their deposit base.

Evaluating the merger

The relevant market

The Commission has identified the following product markets in which there is product overlap between the merging parties: Corporate Finance, Investment Banking/Proprietary Investment, Structured Finance, Treasury, Asset Management and Stock Broking Services. These services are rendered on a national basis.

Impact on competition

The Banking and financial services sector is a broad market with a substantial number of players. According to the 1999 Banking Survey the players in South Africa can be divided into three groups:

1) The large South African commercial banks such as ABSA, Nedcor, First Rand and Stanbic and in respect of corporate, investment and merchant banking services BOE and Investec.
2) Foreign controlled entities or branches of foreign banks such as Citibank, Deutsche Bank and JP Morgan.
3) The second tier of smaller niche banks and financial service providers into which category both PSG and RAD fall.

According to the figures quoted in the Competition Commission Report to the South African Reserve Bank on the Nedcor/Stanbic merger of 14 April 2000, the five largest banks, i.e. category 1) mentioned above, account for 95% of the treasury services market with the remainder of the banks, including the new entity, competing for 5% of the market.

The Commission has indicated that the combined market share of the merged entity in respect of all the relevant product markets would be less than 15% and the increase in concentration, i.e. the change in the HHI after the merger, will be less than 50 points.

We, therefore, find that competition will not be substantially prevented or lessened.

Public interest consideration

Although the Commission had not in its recommendation determined whether the merger could be justified on any public interest grounds, it did indicate at the hearing that it had considered the ability of the small banks to grow and to become competitive, as well as the fact that smaller banks have black economic empowerment components. For these reasons it supports the transaction.

The parties added to this the fact that RAD had recently suffered substantial trading losses, which would cause a ripple effect in various industries as well as adversely affect investor confidence should the bank exit the market. The parties also said that smaller banks serviced the needs of clients that want personal attention and should, therefore, remain in the market.

With regard to the effect of the merger on employment the Commission indicated that the parties will provide it with the necessary information as soon as they have completed a due diligence investigation.

17 July 2001

D.H. Lewis

Concurring: S. Zilwa and D. Terblanche