

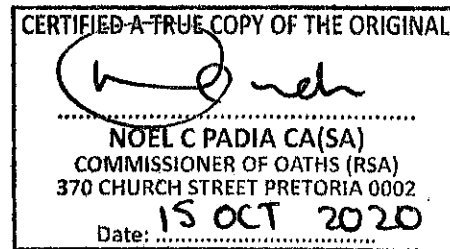


South African Reserve Bank
Prudential Authority

Confidential

Ref.: 15/1/1_CAP2797w

Mr A P Du Plessis
Financial Director
Capitec Bank Limited
P O Box 12451
Die Boord
Stellenbosch
7613



Dear Mr Du Plessis

Capitec Bank Limited: Finalisation of the acquisition Mercantile Bank Holdings Limited

1. The following correspondence bears reference:
 - 1.1. the letter from the Prudential Authority (PA) dated 9 October 2019;
 - 1.2. your letter dated 8 November 2019; and
 - 1.3. the email from your Ms Yolande Mouton dated 1 July 2020.
2. The PA hereby acknowledges receipt of your letter dated 8 November 2019 and confirms having noted that the transaction to acquire 100% of the issued share capital of Mercantile Bank Holdings Limited by Capitec Bank Limited (Capitec) had been concluded.
3. Furthermore, the PA confirms that the Minister of Finance has consented in terms of section 54(1) of the Banks Act 94 of 1990 (the Banks Act) to the transfer of 100% of the assets and liabilities of Mercantile Bank Limited to Capitec within a period of 24 months following the acquisition of Mercantile Bank Holdings Limited by Capitec.
4. In this regard, your attention is drawn to the provisions of section 54(8) of the Banks Act which stipulates that:

"The Commissioner, every Master of the High Court and every officer or person in charge of a deeds registry or any other office, if, in the office of such Commissioner, Master, officer or person or any register under the control of such Commissioner, Master, officer or person there-

- (a) *is registered any title to property belonging to, or any bond or other right in favour of, or any appointment of or by;*
- (aA) *is registered any share, stock, debenture or other marketable security in favour of; or*
- (b) *has been issued any licence to or in favour of,*

any bank which has amalgamated with any other bank, or any bank which has transferred all or part of its assets, liabilities or assets and liabilities referred to in subsection (1) or (1B), to any other bank or person shall [emphasis], if satisfied

- (i) *that the Minister has consented in terms of subsection (1) to the amalgamation or transfer or that the Authority has consented in terms of subsection (1B) to the transfer; and*
- (ii) *that such amalgamation or transfer has been duly effected,*

and upon production to such Commissioner, Master, officer or person of any relevant deed, bond, share, stock, debenture, certificate, letter of appointment, licence or other document, make such endorsements thereon and effect such alterations in the registers of such Commissioner, Master, officer or person as may be necessary to record the transfer of the relevant property, bond or other right, share, stock, debenture, marketable security, letter of appointment or licence and of any rights thereunder to the amalgamated bank or, as the case may be, to the bank or person that has taken transfer of the said assets, liabilities or assets and liabilities in question."

5. The PA accordingly has no objection to the Registrar of Deeds endorsing all relevant deeds and bonds as contemplated by section 54(8) of the Banks Act and effecting such alterations in the registers as may be necessary to effect the transfer of assets and liabilities of Mercantile Bank Limited to Capitec in accordance with the approval granted by the Minister terms of the section 54 of the Banks Act.

Yours sincerely

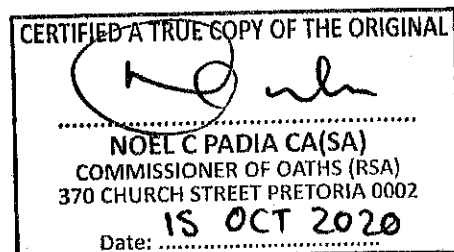
Signed by: Kerwin Riaan Martin
Signed at: 2020-07-09 10:50:07 +02:00
Reason: I approve this document

K Martin

K R Martin

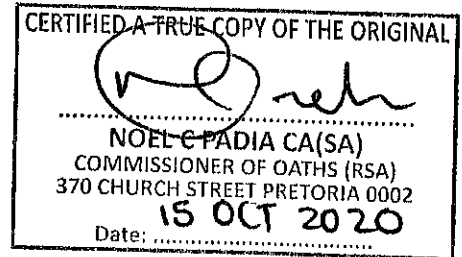
Divisional Head: Financial Conglomerate Supervision Department

Date: 09/07/20





South African Reserve Bank
Prudential Authority



Confidential

Ref.: 15/1/1_CAP5510v
5511v
5512v

Mr G M Fourie
Chief Executive Officer
Capitec Bank Limited
P O Box 12451
Die Boord
Stellenbosch
7613

Dear Mr Fourie

Capitec Bank Limited: application in terms of section 37(2)(a)(iv) read with section 37(2)(c) of the Banks Act 94 of 1990 for permission for Capitec Bank Limited to acquire more than 74% of the issued share capital in Mercantile Bank Holdings Limited;

Capitec Bank Limited: application in terms of section 52(1)(a) read with section 52(5) of the Banks Act 94 of 1990 for permission to acquire 100% of the shareholding in Mercantile Bank Holdings Limited, as a subsidiary of Capitec Bank Limited; and

Capitec Bank Limited: application in terms of section 54(1)(b) of the Banks Act 94 of 1990 for permission to transfer 100% of the assets and liabilities of Mercantile Bank Limited to Capitec Bank Limited, within a period of 24 months, following the acquisition of Mercantile Holdings Limited by Capitec Bank Limited

Reference is made your applications, co-signed by your Mr Jan-Hendrik de Beer, dated 19 February 2019.

Following the necessary consultation with the Minister of Finance, approval is hereby granted, in terms of section 37, 52 and 54 of the Banks Act 94 of 1990 to acquire 100% of the shareholding in Mercantile Bank Holdings Limited (Mercantile Holdings), as a subsidiary of Capitec Bank Limited (Capitec) and to transfer 100% of the assets and liabilities of Mercantile Bank Limited to Capitec, within a period of 24 months, following the acquisition of Mercantile Holdings by Capitec.

The above-mentioned authorisation is subject to the conditions stipulated in the document attached hereto as Annexure A. The PA reserves the right to reconsider and/or amend the aforementioned conditions should circumstances so warrant.

Finally, the PA wishes to confirm having received the fee of R6 900.00, payable in terms of the Regulations relating to Banks, in respect of the section 52 application. Please find enclosed the relevant tax invoice.

Should you have any queries in this regard, please do not hesitate to contact Mr Prince Khandabila at telephone number 012 399 7129.

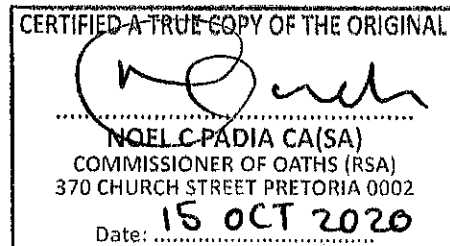
Yours sincerely



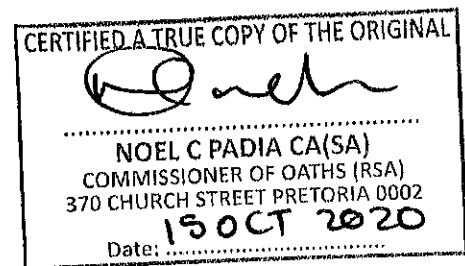
Kuben Naidoo
Deputy Governor and CEO: Prudential Authority

Date: 9 October 2019

Encl. 2



Annexure A
General conditions



A. General

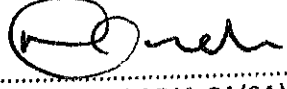
1. This approval is only for the acquisition of 100% of the issued share capital of Mercantile Bank Holdings Limited (Mercantile Holdings) by Capitec Bank Limited (Capitec) and the transfer of the assets and liabilities of Mercantile Bank Limited (Mercantile Bank) to Capitec. The establishment and/or acquisition of any further local and foreign subsidiaries or interests in foreign undertakings by Capitec and Mercantile Holdings will require the prior written approval of the Prudential Authority (PA) of the South African Reserve Bank.
2. This approval is subject to the approval of, and continued compliance with, all the requirements specified by all the relevant regulatory and/or supervisory authorities.
3. The structure of Capitec, post the transfer of all the assets and liabilities of Mercantile Bank to Capitec, must to be restricted to the structure set out in the applications and related annexures dated 19 February 2019 received from Capitec. In the event of any change to the proposed structure of Capitec, the prior written approval of the PA is required. Furthermore, any change in control (as defined in International Financial Reporting Standard 10) that gives rise to a change in management control of Capitec shall be subject to the prior written approval of the PA.

The activities of Mercantile Holdings, post the acquisition of 100% of its issued share capital by Capitec, must be restricted to those set out in the applications and related annexures dated 19 February 2019 received from Capitec.

4. The PA reserves the right to:
 - 4.1 request any further information that it may deem necessary;
 - 4.2 revoke the authority granted should there be non-compliance with the conditions set out in this annexure, or should the activities of Capitec be changed in any way without the prior written approval of the PA; and
 - 4.3 impose such further conditions in respect of Capitec and Mercantile Holdings, as the PA deems reasonably appropriate, to ensure the PA's continued compliance with the evolving internationally agreed standards and requirements in respect of the regulation and supervision of banks and banking groups.

5. Should the acquisition of the 100% issued share capital of Mercantile Holdings not be finalised within six months of the date of the covering letter to this annexure, the aforesaid authorisation will lapse. The PA has to be advised in writing of such an instance.
6. The PA must be informed in writing once the acquisition of Mercantile Holdings has been finalised. Furthermore, the transfer of the assets and liabilities from Mercantile Bank to Capitec should take place within a period of 24 months from the date of the covering letter to this annexure.
7. Capitec is requested to provide the PA with one month's written notice prior to the assets and liabilities of Mercantile Bank being transferred to Capitec.

CERTIFIED A TRUE COPY OF THE ORIGINAL



.....
NOEL C PADIA CA(SA)
COMMISSIONER OF OATHS (RSA)
370 CHURCH STREET PRETORIA 0002
Date: 15 OCT 2020

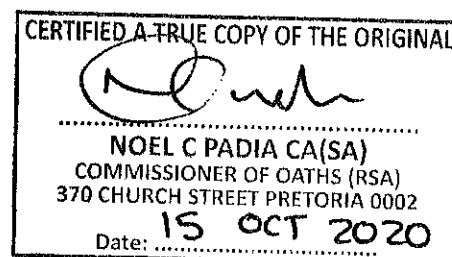
B. Regulatory

1. Capitec shall at all times comply with the requirements imposed by any relevant regulatory authority.
2. For reporting purposes, Capitec has to comply with the requirements of regulation 36 of the Regulations relating to Banks (Regulations).
3. Mercantile Bank has to furnish the PA with all relevant statutory returns as prescribed in terms of regulation 7 of the Regulations, until the date on which the assets and liabilities of Mercantile Bank are transferred to Capitec and Mercantile Bank's registration as a bank is cancelled.
4. Form BA 020, as prescribed by regulation 42 of the Regulations in respect of the appointment of prospective directors or executive officers of Mercantile Bank/Mercantile Holdings, has to be submitted to the PA at least 30 days prior to such appointments becoming effective.
5. Capitec must at all times apply anti-money laundering and combating the financing of terrorism (AML/CFT) measures, consistent with relevant/applicable Financial Action Task Force Recommendations.

Capitec must always apply AML/CFT standards as per regulation 36(17)(b)(ii) of the Regulations.

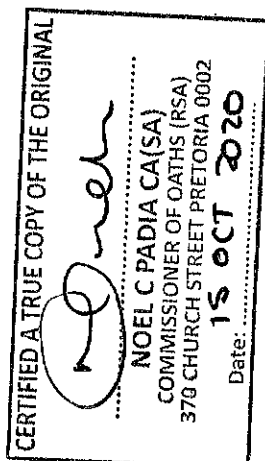
Capitec must continue to assess money laundering and terrorist financing (ML/TF) risks and have in place approved board policies as well as comprehensive risk management processes and procedures to mitigate the identified ML/TF risks.

6. In terms of regulation 56(2)(a)(ix)(C) of the Regulations, a detailed group structure of Capitec as at 31 May and 30 November of each year, or in the event of any major change in the group structure, is to be submitted to the PA within 30 days of the aforementioned dates or of such change, clearly setting out the following:
 - 6.1. banking business;
 - 6.2. insurance business;
 - 6.3. securities trading;
 - 6.4. portfolio management; and
 - 6.5. other.



Financial Intermediaries that conduct more than one of the forms of business mentioned above should be placed in the category that correctly reflects the major part of the business conducted. The nature of the business conducted by the institutions referred to in 6.1 to 6.5 above has to be described.

7. Within 12 months from the date on which approval for the acquisition of Mercantile Holdings is granted to Capitec by the PA, all subsidiaries within the Capitec Bank Holdings Limited group, which are either dormant or in voluntary liquidation, are required to be deregistered. In this regard, a revised group structure must be submitted to the PA within 12 months from the date on which approval for the said acquisition is granted.
8. During the prudential meetings that are held between Capitec and the PA, the PA shall have access to the appropriate person(s) who are qualified to discuss the business of Mercantile Holdings.
9. Capitec is required to appoint dual/joint auditors. It is expected that there would be some degree of mutual cross-checks or verification performed by the auditors on each other's work.
10. With regard to operational risk, post-acquisition and prior to the transfer of the assets, Mercantile Bank's operational risk-weighted assets (RWA) as a percentage of Capitec's total RWA will be subject to a floor of 12%. For the purpose of this exercise, Mercantile Bank's RWA for operational risk may be combined with Capitec's RWA for operational risk. The 12% floor must be calculated using Capitec's total RWA. This minimum operational risk floor will also be applicable to the merged bank (i.e. post the transfer of assets and liabilities) as well as at a Capitec Bank Holdings Limited level.
11. The PA determines a bank's individual capital requirement (ICR) to reflect the minimum amount and quality of capital that is required for a bank to meet the requirements in terms of the Regulations.



The ICR has been determined as part of this approval evaluation process observed by the PA, in which the setting of an ICR is one of the tools at the PA's disposal to address potential specific risks identified in respect of a particular bank. Other tools may also be considered depending on the risks identified.

The PA has determined that, in terms of regulation 38(4) of the Regulations, the ICR that would be applicable to Capitec and Capitec

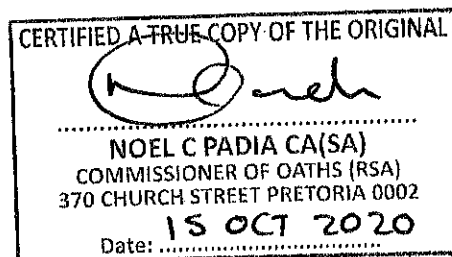
Bank Holdings Limited is 12.24%. This will be applicable from the date on which Capitec acquires Mercantile Holdings (the date of acquisition). This percentage shall be reported in line item 12 of the form BA 700. Furthermore, at least 50% of the said percentage shall be met by common equity tier 1 capital, at least 75% by tier 1 capital and 100% by total capital.

In terms of Directive 6 of 2016, the total minimum required capital ratio for Capitec with effect from the date of acquisition will be 24.24%, including the capital conservation buffer (2.50%) and higher loss-absorbency requirement (0.50%).

12. With regard to the calculation of its Pillar 1 risk exposure, Capitec will be required to adopt the following approaches, as specified in the Banks Act and Regulations:

- a. credit risk: standardised approach;
- b. market risk: standardised approach;
- c. with regard to operational risk, a distinction needs to be made, post-acquisition, between the Capitec retail portfolio (current Capitec balance sheet) and the Mercantile Bank business-banking portfolio (current Mercantile Bank balance sheet). The alternative standardised approach will apply to all exposures forming part of the Capitec retail portfolio, while the standardised approach will apply to the Mercantile Bank business-banking portfolio. Following the acquisition of Mercantile Holdings by Capitec, regulatory capital for operational risk purposes will be determined through the application of the operational risk capital approach applicable to each of the respective portfolios.

Any deviation from the above-mentioned approaches will be subject to the prior written approval of the PA, as prescribed by the Banks Act and the Regulations.





South African Reserve Bank

Prudential Authority

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NOEL C PADIA CA(SA)
COMMISSIONER OF OATHS (RSA)
370 CHURCH STREET PRETORIA 0002

Date: 15 OCT 2020

TAX INVOICE

Capitec Bank Limited
PO Box 12451
Die Boord
STELLENBOSCH 7613
South Africa

370 Helen Joseph Street
Pretoria
0001
PO BOX 427
Pretoria
0001

Payment Terms: IMMEDIATE
SARB VAT No: 4680 1158 72

Due Date: 2019-06-19
Customer VAT No: 4680173723

Invoice No: 10000755
Invoice Date: 2019-06-19

	Description	Qty	Selling Price	Amount
1	Sec 52 - Acquisition of Mercantile Holdings Limited	1	R 6,000.00	R 6,000.00
Bank Name: South African Reserve Bank - Branch Code: 900 145			Total Excl VAT	R 6,000.00
Account Name: SARB: Bank Supervision Remittance Account			VAT	R 900.00
Account Number: 8060 1170 - Account Type: Current			Total	R 6,900.00



**MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA**

Private Bag X115, Pretoria, 0001 Tel: +27 12 323 8911 Fax: +27 12 323 3262
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Website : www.treasury.gov.za , email : minreg@treasury.gov.za

Ref: M3/10/1(901/19)

Mr Kuben Naidoo
Deputy Governor and CEO: Prudential Authority
South African Reserve Bank
P O Box 427
PRETORIA
0001

Dear Deputy Governor

**APPLICATION BY CAPITEC BANK LIMITED FOR APPROVAL TO ACQUIRE SHARES IN
MERCANTILE HOLDING LIMITED IN TERMS OF SECTION 37 OF THE BANKS ACT; AND
THE TRANSFER OF ASSETS AND LIABILITIES IN TERMS OF SECTION 54 OF THE
BANKS ACT, 1990**

Reference is made to your letter dated 16 August 2019 regarding the above-mentioned matter, which has been forwarded to the National Treasury for my consideration.

I note the request by Capitec Bank Limited (Capitec), for:

- i) permission to acquire more than 74 per cent of the issued share capital in Mercantile Bank Holdings Limited (Mercantile Holdings) in terms of the section 37(2)(a)(iv) of the Banks Act, 1990, (Banks Act); and
- ii) the transfer of 100 per cent of the assets and liabilities of Mercantile Holdings to Capitec in terms of section 54(1)(b) of the Banks Act.

In the interest of financial stability, financial inclusion and ensuring the long-term sustainability of Capitec specifically and the banking system as a whole, in principle, I am in support of the transaction. It is my considered view that the transaction will not be contrary to public interest, the interest of the bank or that of depositors.

Therefore, in terms of section 37(2)(a)(iv) of the Banks Act, I approve the acquisition by Capitec of more than 74 per cent of the issued share capital in Mercantile Holdings. Furthermore, I consent to the transfer of 100 per cent of assets and liabilities from Mercantile Holding to Capitec in terms of section 54(1)(b) of the Banks Act subject to the conditions imposed by the Prudential Authority.

Please accept the assurance of my highest consideration and best wishes.

I remain,

Yours sincerely

**TT MBOWENI, MP
MINISTER OF FINANCE**

Date: 1/10/2019

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JvB LOUW 79658
CONVEYANCER
COMMISSIONER OF OATHS
4th FLOOR 14 LONG STREET, CAPE TOWN

JOHN VAN BREDA LOUW