

CAPITEC BANK HOLDINGS LIMITED  
Registration number: 1999/025903/06  
Incorporated in the Republic of South Africa  
Registered bank controlling company  
JSE share code: CPI ISIN: ZAE000035861  
JSE preference share code: CPIP ISIN: ZAE000083838  
"Capitec"

CAPITEC BANK LIMITED  
Registration number 1980/003695/06  
Incorporated in the Republic of South Africa  
Registered bank  
Company code: BICAP  
Stock Code: CBL29, ISIN: ZAG000158874  
Stock Code: CBL30, ISIN: ZAG000180977  
"Capitec Bank"

### **CAPITEC SPECIFIC ISSUE OF SHARES FOR CASH**

Shareholders are referred to the Stock Exchange News Service ("SENS") announcement published on 19 January 2022, wherein Capitec informed shareholders of a broad-based black economic empowerment ("B-BBEE") transaction involving the specific issue of Capitec ordinary shares ("Shares") to the value of R1 000 000 000 to employees ("Specific Issue") ("Transaction").

Shareholders are also referred to the SENS announcement published on 24 January 2022 regarding the general meeting of shareholders to be held on 22 February 2022 to consider the relevant resolutions relating to the Specific Issue ("General Meeting") and in which announcement matters relating to the impact of the Specific Issue on shareholders were explained.

The Specific Issue aims to reward employees for supporting the performance of Capitec over the years by giving them the opportunity to become shareholders and to improve Capitec's B-BBEE ownership status. Aligning employees' interests with those of shareholders will further incentivise employees to serve the best interests of the Capitec group of companies ("Group").

The boards of Capitec and its wholly-owned subsidiary, Capitec Bank, have approved adjustments to the Transaction structure with the aim of optimising the Transaction for all stakeholders. It is important to note that the adjustments to the Transaction structure will not have any significant impact on shareholders whilst Capitec and employees will be in a better position.

It is important that the Transaction be approved and implemented by no later than Capitec Bank's financial year-end on 28 February 2022, to allow the increased black ownership to be taken into account for Capitec Bank's next B-BBEE scorecard.

## **PROPOSED CHANGES AND RATIONALE**

### **Original transaction structure**

The original Transaction structure is detailed in the circular to shareholders dated 24 January 2022 ("Circular") and would have involved the following:

- new Capitec Shares would be issued to several thousand participating Capitec group employees. The intention is to reward and incentivise employees and also to increase Capitec's B-BBEE ownership (and that of its wholly-owned subsidiary, Capitec Bank;
- if approved by shareholders, the Shares would be issued in terms of a specific issue authority to each participating employee at a 50% discount to the Opening Price (as defined in the Circular), being the opening price of the Shares on the JSE stock exchange on 22 February 2022, the date of the General Meeting;
- the 50% subscription price would be funded by a loan granted by Capitec to the participating employees ("Loan");
- at the end of a 5-year lock-in period, the participating employees would be required to repay the Loan and interest thereon; an
- it is anticipated that participating employees would need to sell a portion of their shares at that point to fund the Loan repayment as well as the applicable income tax liability.

### **Proposed new transaction structure ("New Transaction Structure")**

Capitec proposes adjusting the Transaction structure to optimise it for all stakeholders. Instead of issuing the Shares to participating employees at a 50% discount to the Opening Price, the Shares will be issued to participating employees at the full Opening Price of the Shares. Participating employees will still pay 50% of the subscription price utilising the Loan proceeds, whilst the remaining 50% of the subscription price will be settled by Capitec Bank on behalf of the participating employees. While the details of the Transaction structure would change, the commercial essence remains exactly the same.

Under the original Transaction structure, since participating employees are restricted from disposing of the Shares for 5 years, the Shares are "restricted equity instruments" for the purposes of section 8C of the Income Tax Act, No 58 of 1962. In the circumstances, employees will have an employees' tax liability at the end of the 5-year lock-in period, should the market value of the Shares at that time exceed their cost.

Under the New Transaction Structure, an upfront taxable fringe benefit will arise in the hands of participating employees when Capitec Bank pays 50% of the subscription price on their behalf, but they will be exposed to a smaller tax liability when the restriction on the disposal of their Shares is lifted. In terms of the New Transaction Structure Capitec Bank will furthermore fund the upfront employee taxes that arise from the New Transaction Structure and will not seek to recover the funding from the employee.

The New Transaction Structure is considered preferable for the employees as it provides them with a more predictable cash flow requirement, while simultaneously providing Capitec with a more favourable outlook on its B-BBEE and employee ownership upon expiry of the lock-in period. This is because the New Transaction Structure allows for a greater shareholding by employees post the lock-in period as employees will be required to sell fewer Capitec shares than they would otherwise have had to under the original Transaction structure.

The change to the New Transaction Structure has no banking regulatory impact.

### **Commercial Impact**

While certain details of the Transaction structure would change, the commercial essence remains exactly the same. In this regard:

- The Opening Price on 22 February 2022 will remain the reference point for determining the subscription price and number of Shares issued. In light of this and as the maximum aggregate Transaction value remains R1 billion, the number of Shares issued in terms of the New Transaction Structure will be identical to the number of Shares that would have been issued in terms of the original Transaction structure, meaning that the change in structure will not result in a change in dilution for existing shareholders;
- Where Capitec would issue the Shares at a 50% discount under the original Transaction structure with the expense recorded in Capitec Bank's accounts for accounting purposes, under the New Transaction Structure, Capitec will issue the Shares at the full Opening Price with Capitec Bank paying 50% thereof and the expense still being recorded in Capitec Bank's accounts. In the circumstances, employees will still only be liable to pay 50% of the Opening Price and the exposure for the Group remains unchanged;
- Capitec will continue to provide the Loans to employees in respect of the 50% portion of the subscription price for which they are liable;
- The 5-year lock-in remains in place and the New Transaction Structure has no impact on the pledge and cession to be held by Capitec over the Shares as security for the Loans; and
- The impact on the previously communicated *pro forma* financial effects is as set out below. The said impact is not significant. There will continue to be an IFRS 2 charge in respect of the New Transaction Structure, and the expense of R524 million will reduce to R491 million under the New Transaction Structure (a 6.3% reduction), which is positive. This, in turn, has the following impact on the earnings reflected in the *pro forma* condensed consolidated income statement set out in Circular, in respect of the 6 months ended 31 August 2021:

	Unaudited pro forma after the effect of the Specific Issue and Loans (as reflected in the Circular, based on the original Transaction structure)	Unaudited pro forma after the effect of the Specific Issue and Loans (based on the New Transaction Structure)	% difference between the original Transaction and New Transaction Structure
Basic earnings per Share (cents)	2 934	2 962	0.95%
Diluted earnings per Share (cents)	2 925	2 953	0.96%
Basic headline earnings per Share (cents)	2 995	3 024	0.97%
Diluted headline earnings per Share (cents)	2 986	3 015	0.97%

The above must be read in conjunction with the pro forma financial effects and the notes and qualifications thereto, as contained in the Circular and in Capitec's SENS announcement dated 19 January 2022 and the further explanations included in the SENS announcement dated 24 January 2022. It was prepared for illustrative purposes only and is the responsibility of Capitec's directors.

#### **Template agreements**

The proposed New Transaction Structure will require some consequential adjustments to the template Transaction Participation Agreements (as defined in the Circular), which are due to be concluded with participating employees following receipt of shareholder approval and prior to implementation of the New Transaction Structure. The updated Transaction Participation Agreements are available for inspection by Shareholders on the Company's website ([www.capitecbank.co.za](http://www.capitecbank.co.za)) and at the registered office of Capitec and at the offices of PSG Capital, during normal office hours.

#### **Impact on the resolutions proposed in the Notice of General Meeting contained in the Circular ("Notice")**

In terms of the Notice, the General Meeting was convened to, inter alia, consider and, if deemed fit, pass with or without modification, the shareholders' resolutions contained therein.

Pursuant to the above-mentioned changes to the Transaction structure, in terms of which Capitec will now issue the Specific Issue Shares (as defined in the Circular) at the full Opening Price with Capitec Bank settling 50% of this price and participating employees still paying 50% of the said Opening Price utilising the Loan provided by Capitec, Ordinary Resolution 1 is required to be modified accordingly. In the circumstances, shareholders are hereby notified that the following modified Ordinary Resolution 1 (with capitalised words and terms bearing

the meaning ascribed thereto in the Circular) will be proposed at the General Meeting:

**Ordinary Resolution 1 as modified**

"RESOLVED THAT the Directors of the Company be and are hereby authorised, by way of a specific authority in terms of paragraph 5.51 of the Listings Requirements, to issue and allot up to 625 000 Specific Issue Shares out of the unissued but authorised Shares in the share capital of the Company to Participating Employees, for cash, at the subscription price payable per Specific Issue Share of an amount equal to the Opening Price, as detailed in the Circular to which the Notice of General Meeting is attached and modified in terms of the SENS announcement published by the Company on 21 February 2022."

For Ordinary Resolution 1 to be adopted, a 75% majority of the voting rights exercised on Ordinary Resolution 1, as modified herewith, by shareholders present in person or represented by proxy and entitled to vote on this resolution at the General Meeting must be cast in favour of Ordinary Resolution 1, excluding all participating employees and their associates who shall not be entitled to vote hereon. The reason for Ordinary Resolution 1 is to approve the Specific Issue in terms of paragraph 5.51(g) of the JSE Listings Requirements. The effect of Ordinary Resolution 1, if passed, is that the Specific Issue will be approved and, if the Transaction becomes operative, Capitec will issue the Specific Issue Shares to the participating employees in accordance with the New Transaction Structure.

The General Meeting will continue to be held on Tuesday, 22 February 2022 at 14:00 and will occur entirely by electronic communication. Shareholders are referred to the guidance in the Circular and Notice on how to attend, participate in and vote at the General Meeting, which remains unchanged.

Since the nature of the Transaction remains substantially the same, Capitec will treat all proxies received prior to the SENS announcement as valid and effective for purposes of the General Meeting. Shareholders who have submitted their proxies prior to the SENS are however reminded that should they wish to change their votes on the resolutions they may do so by withdrawing their proxy forms and submitting an updated proxy form at any time prior to the voting on any resolution proposed at the General Meeting. Such updated proxy forms are to be submitted in accordance with the instructions in the Notice and proxy form annexed thereto, and also dealt with in the "Action required by Shareholders" section of the Circular.

Shareholders that have questions relating to the New Transaction Structure must please send their queries to investorrelations@capitecbank.co.za.

Stellenbosch  
21 February 2022

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