COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA

Case No: 07/LM/Jan02

In the large merger between:

Caixa Geral de Depositos S. A.

and

Mercantile Lisbon Bank Holdings Ltd

Reasons for Decision

APPROVAL

On 13 February 2002 the Competition Tribunal issued a Merger Clearance Certificate approving the merger between Mercantile Lisbon Bank Holdings and Caixa Geral de Depositos S. A. in terms of section 16(2)(a). The reasons for the approval of the merger appear below.

The parties

The acquiring firm, Caixa Geral de Depositos S. A. ("CGD"), is a large Portuguese financial group, a wholly-owned subsidiary of the government of Portugal.[1] It has a network of some 1000 branches across Africa, Europe, America and Asia. The parties have informed us that CGD has no interest in South Africa other than its existing 28.14% shareholding in MBHL.

The target firm is Mercantile Lisbon Bank Holdings ("MLBHL"), a company engaged in the financial services industry providing retail banking and financial services.

The merger transaction

Caixa Geral de Deposito S. A. ("CGD") is acquiring a 64.14% interest in Mercantile Lisbon Bank Holdings ("MLBHL"). This is being effected by means of an injection of R120 million of new capital into MBHL by way of an issue of new MBHL shares to CGD. Prior to the recapitalisation CGD held 28.14% of the shareholding in MBHL. The division of shareholding was as follows:

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[1] Memo to Registrar of Banks dated 27 November 2001.

Caixa Geral de Depósitos, SA	*28.1*
Crewler Investments (Proprietary) Limited	*14.2*
Genbel Securities Limited	*11.1*
Goldrush Investments No.8 (Proprietary) Limited	*3.8*
Goldrush Investments No.8 (Proprietary) Limited	*3.7*

Post-merger, the share structure will be:

Caixa Geral de Depósitos, SA	*64.1*
Crewler Investments (Proprietary) Limited[2]	*7.1*
Genbel Securities Limited	*5.6*
Goldrush Investments No.8 (Proprietary) Limited[3]	*1.9*
Goldrush Investments No.8 (Proprietary) Limited[3]	*1.8*

Rationale for the Transaction

MLBHL has been suffering losses over the past year and its capital adequacy ratio as required by the Registrar of Banks falls far below the required level[4]. The parties maintain that this recaptilisation effectively "rescues" MLBHL by injecting R120 million of new capital into MLBHL. It will also enable the return to profitability of MLBHL.[5]

[2] Pre and post merger, controlled by Hollard Holdings (Pty) Ltd
[3] Pre and post merger, controlled by the South African Railway and Harbours Workers' Union

[4] In terms of the capital adequacy requirements of the Banks Act, 94 of 1990.
[5] Mercantile's registry and share dealing business is also being sold. This is the subject of a separate notification.

The relevant product market

The acquiring firm is engaged in the banking and financial services sector. Its range of services include commercial banking, insurance, capital markets, specialized credit, advisory services, venture capital and investment banking. Its activity in South Africa, however, is limited to the interest it already holds in MLBHL. It does not directly provide any products or services in South Africa.

MLBHL has recently refocused its business into five areas, namely Alliance Banking; Branch Banking; Securities Banking; Treasury and Specialized Finance. The merging parties estimate that it has a 0.29% market share of the banking industry generally.[6]

The Commission determined that insofar as CGD does not conduct any financial or banking activities in South Africa, no further analysis was required.

Geographical Market

There is no product overlap since CGD's business activities do not extend to South Africa.

Public Interest Issues

Although the parties have submitted that future retrenchments may result from a new strategic direction, there would be none flowing from this transaction. Indeed previous rationalization efforts illustrate that same is not unique to this transaction. The parties have assured that should the transaction not proceed, more retrenchments would follow as a result of MLBHL's inevitable cessation of its operations.

The SARB is of the view that the proposed transaction will not be detrimental to the public interest and will in fact enhance the services to depositors. Insofar as the transaction willl improve MLBHL's financial position, it will maintain the stability of the financial system as a whole. It further facilitates the inflow into the country of foreign funds.

[6] Annexure A to Competititveness Report (as at November 2001)

Conclusion

The Tribunal endorses the Commission's finding that this transaction will not substantially lessen or prevent competition in the relevant market and accordingly approves the transaction unconditionally.

____________	**<u>19 February 2002</u>**
N.M. Manoim	**Date**

Concurring: M. Holden, P. Maponya