CAPITEC BANK HOLDINGS LIMITED

Integrated Annual Report 2010

With complexity,
simplicity is the ultimate achievement.

Key performance indicators

		2010	2009	Change % 2010/2009	2008	2007
Profitability						
Income from banking operations	Rm	**2 556**	1 983	29	1 315	1 010
Net loan impairment expense	Rm	**(548)**	(468)	17	(231)	(161)
Banking operating expenses	Rm	**(1 368)**	(1 065)	28	(763)	(607)
Non-banking operations	Rm	**2**	6	(67)	3	1
Tax	Rm	**(193)**	(137)	41	(95)	(76)
Preference dividend	Rm	**(14)**	(19)	(26)	(17)	(8)
Earnings attributable to ordinary shareholders						
▪ Basic	Rm	**435**	300	45	212	159
▪ Headline	Rm	**437**	302	45	212	160
Cost to income ratio banking activities	%	**54**	54		58	60
Return on ordinary shareholders' equity	%	**32**	27		22	26
Earnings per share						
▪ Attributable	cents	**525**	364	44	259	221
▪ Headline	cents	**527**	366	44	259	222
▪ Diluted attributable	cents	**509**	357	43	250	209
▪ Diluted headline	cents	**511**	359	42	251	211
Dividends per share						
▪ Interim	cents	**55**	30	83	25	20
▪ Final	cents	**155**	110	41	75	60
▪ Total	cents	**210**	140	50	100	80
Dividend cover	x	**2.5**	2.6		2.6	2.8
Assets						
Total assets	Rm	**9 488**	4 969	91	2 936	2 191
Net loans and advances	Rm	**5 225**	2 982	75	2 019	803
Cash and cash equivalents	Rm	**2 567**	1 514	70	618	1 044
Investments	Rm	**1 306**	150	771	14	112
Other	Rm	**390**	323	21	285	232
Liabilities						
Total liabilities	Rm	**7 760**	3 563	118	1 719	1 074
Deposits	Rm	**7 360**	3 317	122	1 528	897
Other	Rm	**400**	246	63	191	177
Equity						
Shareholders' funds	Rm	**1 728**	1 406	23	1 217	1 117
Capital adequacy ratio	%	**37**	43		36	79
Net asset value per ordinary share	cents	**1 896**	1 512	25	1 297	1 175
Share price	cents	**8 200**	3 001	173	3 900	3 700
Market capitalisation	Rm	**6 805**	2 485	174	3 195	3 031
Number of shares in issue	'000	**82 983**	82 798	–	81 928	81 928

		2010	2009	Change % 2010/2009	2008	2007
Equity ***(continued)***						
Share options						
• Number outstanding	'000	**5 322**	5 713	(7)	5 159	6 191
• Number outstanding to shares in issue	%	**6**	7		6	8
• Average strike price	cents	**2 888**	2 487	16	1 815	1 151
• Average time to maturity	months	**24**	25	(4)	24	24
Operations						
Branches		**401**	363	10	331	280
Employees		**4 154**	3 414	22	2 800	2 129
Active clients	'000	**2 122**	1 545	37	1 110	851
ATMs						
• Own		**417**	368	13	328	264
• Partnership		**821**	571	44	437	143
Capital expenditure	Rm	**149**	133	12	117	86
Sales						
Loans						
Value of loans advanced	Rm	**8 645**	6 273	38	5 162	3 449
Number of loans advanced	'000	**3 861**	3 536	9	3 155	2 924
Average loan amount	R	**2 239**	1 774	26	1 636	1 180
Gross loans and advances	Rm	**5 607**	3 238	73	2 192	914
Loans past due (arrears)	Rm	**350**	326	7	247	106
Arrears to gross loans and advances	%	**6.2**	10.1		11.2	11.6
Provision for doubtful debts	Rm	**382**	256	49	173	111
Provision for doubtful debts to gross loans and advances	%	**6.8**	7.9		7.9	12.1
Arrears coverage ratio	%	**109**	79		70	105
Loan revenue	Rm	**2 603**	2 032	28	1 273	993
Loan revenue to gross loans and advances	%	**46.4**	62.8		58.1	108.6
Gross loan impairment expense	Rm	**620**	514	21	265	183
Recoveries	Rm	**72**	46	57	35	22
Net loan impairment expense	Rm	**548**	468	17	231	161
Net impairment expense to loan revenue	%	**21.1**	23.0		18.1	16.2
Net impairment expense to gross loans and advances	%	**9.8**	14.5		10.6	17.6
Net impairment expense to repayments	%	**6.6**	7.2		5.1	4.1
Deposits						
Wholesale deposits	Rm	**3 669**	1 690	117	632	342
Retail call savings	Rm	**2 346**	1 306	80	842	554
Retail fixed savings	Rm	**1 148**	265	333	–	–
Net transaction fee income	Rm	**295**	160	84	89	43

Highlights

Headline earnings	45% ↑
Final dividend per share	155 cents
Return on equity	32%
Clients	2.1 million
Shareholders' funds	R1.7 billion

401 National Branch Network

50 Eastern Cape	**40** Mpumalanga
23 Free State	**12** Northern Cape
104 Gauteng	**27** North West
63 KwaZulu-Natal	**56** Western Cape
26 Limpopo	

Statement of economic value added

For the year ended 28 February 2010

Capitec contributes value to the local economy and creates wealth for its stakeholders as reflected below:

	2010 R'000	2009 R'000
Direct economic value generated		
Interest income	**1 763 966**	1 212 896
Loan fee income	**1 038 905**	897 502
Transaction fee income	**507 438**	281 548
Dividend income	**519**	1 099
Net movement in financial instruments held at fair value through profit or loss	**1 011**	2 197
Non-banking sales	**208 604**	208 915
Other income	**43**	280
Net impairment charge on loans and advances to clients	**(547 731)**	(467 727)
	2 972 755	2 136 710
Economic value distributed		
To suppliers in payment of operating expenses	**923 970**	734 193
To employees	**664 843**	476 260
To providers of funds	**641 720**	375 686
Ordinary dividends	**136 921**	86 938
Preference dividends	**14 163**	19 127
Interest paid to providers of wholesale funding	**297 260**	165 445
Interest paid to savings clients	**193 376**	104 176
To government	**343 696**	231 221
Normal tax	**186 710**	117 268
Value added tax	**132 483**	96 323
Secondary tax on companies	**15 062**	10 499
Unemployment insurance	**3 733**	2 881
Skills development levies	**5 652**	4 250
Property rates and taxes	**56**	–
To the community	**267**	333
	2 574 496	1 817 693
Economic value retained for expansion and growth	**398 259**	319 017
Retained income	**298 140**	213 267
Depreciation and amortisation	**108 759**	96 166
Deferred tax	**(8 640)**	9 584

The market

1

Everyday money management

Banking is primarily about transacting, saving and lending. In essence, banking is about everyday money management that clients need to run their lives. It entails making and receiving payments, saving money when there are money surpluses or specific savings needs and borrowing money when there are shortages of funds or specific purchase needs.

Clients making use of everyday money management have an ongoing relationship with a bank through continuous interaction, as the various clients' needs arise. In contrast to this some traditional banking products such as home loans and car finance require cumbersome initial processes, with no or little interaction with the bank thereafter. These products have largely become commodities, as a client's choice of supplier is based primarily on price and not on the ongoing service-quality and relationship with the financial institution. This trend is being driven firstly by new competitors entering the market from outside the traditional banking industry, such as mortgage bond providers and vehicle financers, and secondly by originators that have established themselves between the client and the financial providers.

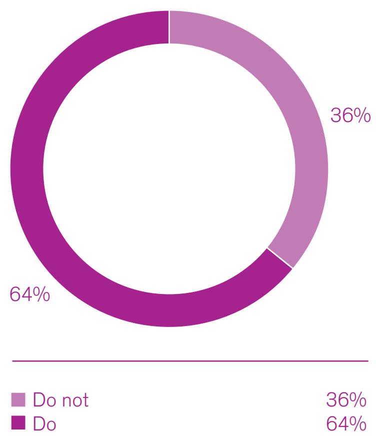
Opportunity

Successful retailing and retail banking require the nurturing of a positive, ongoing relationship with individual clients. Capitec Bank focuses on individuals only. People who are in need of simplified, value-for-money essential banking and who require personal support through an ongoing banking relationship. Capitec Bank's products and systems are therefore purpose built to address the needs of this market segment in an innovative way to deliver easy-to-use, low-cost banking.

The market Capitec Bank serves should therefore be defined in this context.

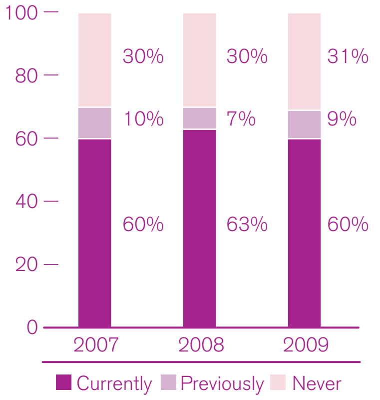
Transacting, saving and lending are money management functions not solely offered within the realms of the banking industry. Many other service providers compete in various segments of the so-called banking market. All the options offered by the various competitors must be taken into account when evaluating product relevance, market size and market potential.

South Africans who use formal financial products



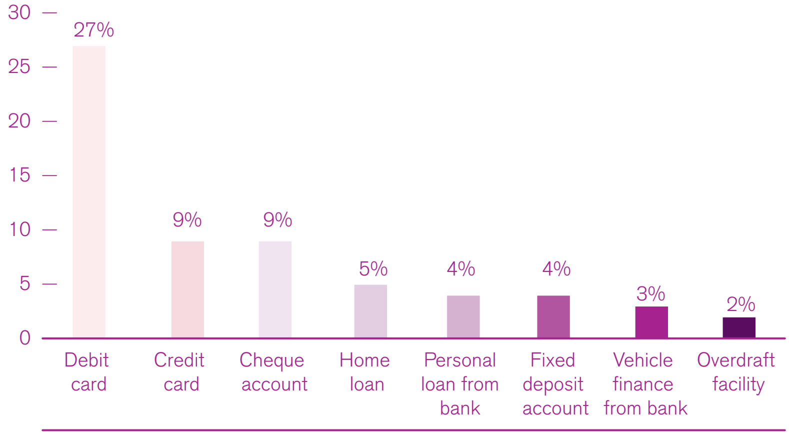
Source: Finmark Trust

Banked population



Source: Finmark Trust

Transacting services used by banked clients



Source: Finmark Trust

Transacting

Market profile

Transacting is the core need in everyday money management and is continuously being re-engineered to deliver safer, easier and more convenient solutions to consumers. There is still a significant reliance on cash as a method of payment in South Africa, yet it is a very costly and unsafe method for consumers to use. However, developments in the following areas are changing consumer behaviour:

- Cellphone transacting
- Internet transacting
- Retail money transfers
- Chip enabled credit and debit cards
- Prepaid purchase cards
- Stop orders and debit orders

Of the adult population, 64% make use of some form of formal financial product, whether it is banking, insurance or retail credit.

Through the course of this financial year the number of adults who make use of formal financial products decreased to 60% from 63% last year.

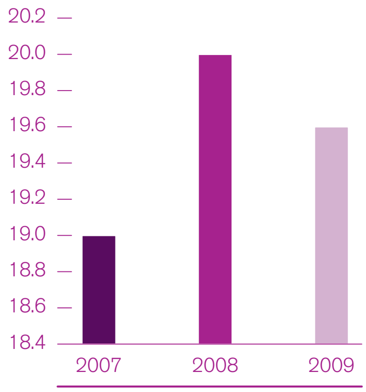
This decline can largely be attributed to the change in economic conditions and increased job losses during 2009. Consumers in lower income sectors become inactive banking clients when they lose their jobs and they tend to live from hand to mouth with what cash is available.

Opportunity

The total number of active Capitec Bank clients at the end of February 2010 was 2.1 million which is 11% of total banked individuals in South Africa. The above graph indicates the low usage of electronic transacting services in the market and similarly clients using stop orders and debit orders at Capitec Bank amounted to 11% (2009: 11%) of total Capitec Bank clientele. Clients using their debit cards to make purchases amounted to 21% (2009: 16%).

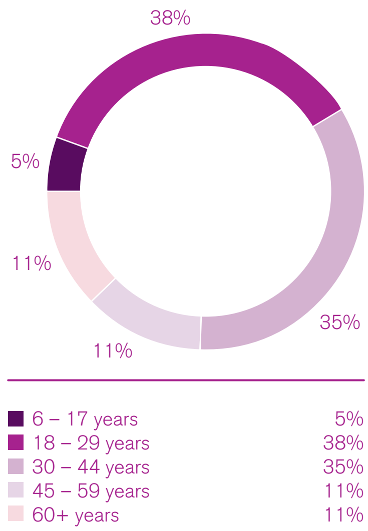
Savings plan, lending and salary clients each constitute approximately 10% (2009: 8%), 37% (2009: 44%) and 26% (2009: 25%) respectively of total clientele. While new client growth is excellent and a reflection of the acceptance of Capitec Bank's offer in the market, great opportunity exists to encourage existing clients to use all transacting, saving and lending facilities offered by Capitec Bank.

Total number of banked individuals (millions)



Source: Finmark Trust

Age of individuals using banks in 2009



Source: Finmark Trust

Saving

Market profile

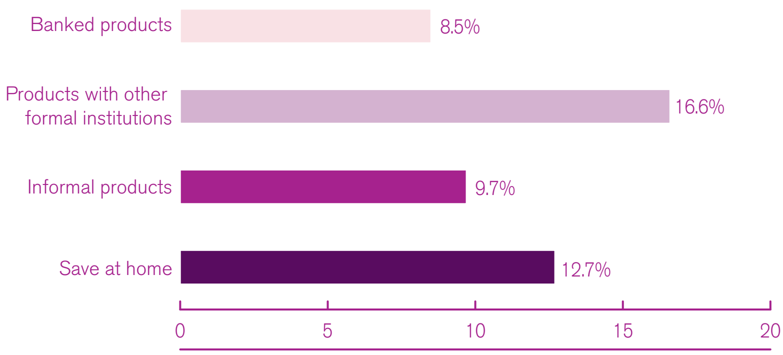
Saving, as a form of wealth accumulation for individuals, can be obtained from the following industry sources with varying risk profiles:

- Saving or investment accounts at banks (fixed or demand)
- Life endowment policies at insurance companies
- Investment in securities on the stock exchange
- Investments in unit trusts
- Savings stamps at retailers
- Savings clubs or stokvels
- Retirement investment plans from insurance companies
- Medical aid suppliers

Opportunity

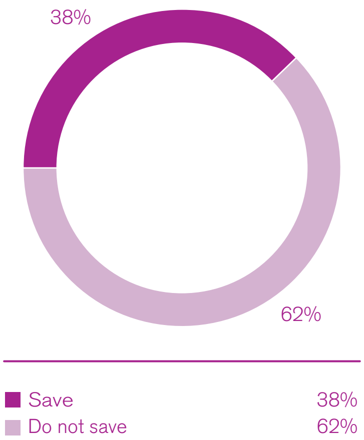
The charts indicate the low incidence of saving in South Africa, particularly in the form of bank products. The total number of savings plan clients at Capitec Bank at year end was 218 361 (2009: 115 691), which is 10% (2009: 8%) of the total number of Capitec Bank clients and 3% of the 7.4 million savings clients in South Africa. Opportunity exists for Capitec Bank to increase the number of daily demand and fixed-term savings clients, as the return on savings offered is very competitive. Present client growth is good; however, greater confidence in the Capitec Bank brand and increased awareness of the attractive savings offer will further accelerate client growth in the future.

Savings mechanisms/products used



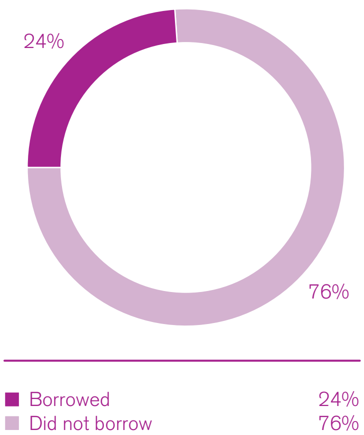
Source: Finscope

Savings behaviour in South Africa



Source: Finscope

Borrowing behaviour in the South African market



Source: Finscope

Lending

Market profile

Retail credit for individuals to fund consumption and the acquisition of assets can be sourced from the following:

- Banks offering asset finance, overdrafts, credit cards and personal loans
- Mortgage bond providers
- Vehicle finance providers
- Fast moving consumer goods retailers
- Furniture stores
- Micro financiers
- Retirement scheme providers
- Insurance providers
- Stokvels

Opportunity

The adjacent table highlights the large credit market outside the banking industry. Capitec Bank has a significant share of the unsecured credit market at 21.4%, but remains a small player in the total credit market at 3.4%. The credit provided on mortgage bonds and vehicle finance in 2009 was significantly less (-58%) than the amount disbursed in the same period in 2008, due to the international banking crisis. Unsecured credit declined by only 5% over the same period. Unsecured credit is therefore generally an even smaller part of the total credit market than reflected in the table.

The South African credit market

Capitec Bank's share of the market

Loans approved for disbursement April – June 2009

	R million	Subtotal R million	Capitec % Market share
Capitec Bank loans disbursed	1 732		
Market segments			
Market segment 1			
Unsecured credit			
Under 36 months	5 461		
Over 36 months	2 638		
Subtotal	8 099	8 099	**21.4**
Market segment 2			
Store cards – retail credit	2 198		
Credit cards	2 281		
Bank overdrafts	1 066		
Subtotal	5 545	13 644	**12.6**
Market segment 3			
Secure credit – Furniture/durable goods	1 706		
– Vehicles	15 512		
Subtotal	17 218	30 862	**5.6**
Market segment 4			
Mortgage bonds	17 661		
All other	2 402		
Subtotal	20 063	50 925	**3.4**
Total market		50 925	**3.4**

Source: NCR statistics

Opportunity exists in the short term for Capitec Bank to acquire clients in the following market segments:

- Unsecured credit over 36 months
- Furniture credit
- Store cards
- Credit cards
- Lower value vehicle finance

Chairman's letter

2

Capitec Bank.
A "Great Brand of Tomorrow"

- Credit Suisse Research Institute

Capitec Bank is a business not a bank

At Capitec Bank we focus on the needs of our clients. This is the norm in competitive businesses.

Many South Africans complain about their bank but have been with the same bank for years. Banks know that their clients are locked in and can afford to focus on their internal processes and their own needs. This is best illustrated by their operating hours: what client-focused business would close at half past three on weekdays and at eleven o'clock on Saturdays for the weekend when retailers are open for twelve hours a day, seven days a week?

Our clients have alternatives and we are continuously exposed to competitive pressure. Our primary source of income is unsecured personal loans. Every loan is a new transaction and more than half of the loans we offer are to clients who bank with a competitor. Borrowers are not locked in and remain free to go to one of our competitors for their next loan. Many of the people who have a savings account with us do just that. This keeps us humble and forces us to renew the trust of our clients every time we deal with them.

Riaan Stassen, our chief executive officer and the man who created Capitec Bank as we know it today, is keen to keep an eye on consumers and spends one week a month visiting branches and meeting and observing clients. One day he noticed that in certain areas every ATM user first made a balance enquiry. This consumes valuable time when there are long queues at an ATM at month-end. At some banks a balance enquiry is considered a transaction and costs the user a few rand. At Capitec Bank ATMs we provide a current balance on the opening screen, free of charge.

Everything happens for a reason

More than a year ago, we realised that the banking crisis meant we had to concentrate on two areas: managing bad debts and securing long-term funding.

We set stricter selection criteria for borrowers who needed a loan, and put emphasis on the quality of the employer of a prospective borrower. The results have been impressive and our bad debt ratio (technically "gross loan impairment expense less recoveries to gross loan book") decreased from 14.5% to 9.8%. We made 2.9 million short term loans that are to be repaid within a month, during the year. This enables us to constantly evaluate the effectiveness of our lending criteria and to make rapid adjustments when the behaviour of borrowers changes.

In November 2008 we offered our first fixed term retail deposit to address our funding concerns because retail deposits are the most reliable source of funding for a bank. We now have more than R1 billion of these deposits and more than R2 billion of normal savings deposits. Although savings deposits are theoretically call deposits that can be withdrawn without any warning, experience throughout the world shows that savings deposits are "sticky" and do not react as quickly to rumours as wholesale deposits.

We have also been able to obtain long-term corporate deposits, now amounting to R3 billion of which R2 billion was raised through our listed bond programme. These bonds are for three, five and seven years. We also obtained a R250 million 12 year subordinated loan that counts as secondary capital during the first 7 years. This is a red letter achievement for Capitec Bank.

In short, despite the international crisis our funding has more than doubled from R3 billion to R7 billion and is not a constraint on our growth.

Survival, with cash

In a bank liquidity refers not only to the current cash position, but also to the ability over time to survive a loss of confidence. Some large profitable international banks went down because markets lost confidence and their access to money collapsed. They were borrowing short and lending long. At Capitec Bank we do the opposite: we borrow long and lend short. Like all banks we do a theoretical exercise, liquidity gap management. This theoretical exercise assumes that all funding to the bank dries up and current funders to the bank demand their money back as soon as they are legally entitled to do so. In such a doomsday scenario, what would happen to our bank?

At year-end Capitec Bank would have been able to repay all its savings deposits immediately and on average throughout the year, within one day.

This is not a cost-free option. Holding surplus cash is expensive.

Why has Capitec Bank been so prudent? We obtained our banking licence in 2001. At the time a small banks crisis was occurring in a small country at the southern tip of Africa. Hardly anybody else remembers it, but we do. We saw how small banks failed overnight when markets lost confidence and the banks were caught in a liquidity trap. Even before that, in 1997, we saw how a financial crisis in Asia could rock banks in Africa. When we started the bank, we decided that Capitec Bank should never put itself in a position where a bad day in the markets can destroy a bank built up over a lifetime.

The international banking crisis may be over. One thing is certain: there will be more banking crises and we intend to manage our liquidity in such a manner that we will always survive.

Growth

Our foundations have been well laid and the past year was a year of expansion.

Our client numbers grew 37% to 2.1 million.

We now have 401 branches throughout South Africa compared to 363 a year ago. Not a single established branch is loss-making. We should clearly increase our branch network faster.

Our number of employees grew by more than 22% to over 4 000, although our number of branches only increased by 10% because we created additional capacity in our existing branches. Every one of our consultants is trained in

Stellenbosch before they are allowed to deal with clients. Our Firm Foundations training course was attended by 1 097 employees this year.

We advanced more than 3.8 million loans in the year, which on average equates to more than 12 000 loans per working day. After five o'clock on the afternoon of Friday 26 February, we granted 3 069 loans. On that same day we served 393 000 Capitec Bank clients who entered a branch, used their card to make a payment or used our internet service.

Still modest figures, but growing all the time.

The total value of loans granted increased by 38% to R8.6 billion. Our total book (loans outstanding at year-end) grew 73% to R5.6 billion as more clients moved to longer term loans. We increased the longest term for a loan from 36 to 48 months and the maximum size of a loan from R50 000 to R100 000.

Profitability

Our profit grew from R300 million last year to R435 million. This is an impressive performance. In the five years since 2005, our profit has grown from R67 million at a compound rate of 45% per year. Our return on ordinary shareholders' funds was 32%.

Net transaction income grew by 84% and represents 15% (against 11% last year) of our income from banking operations, the other 85% deriving from loans.

We concentrate exclusively on personal banking. We have no business clients (except to facilitate employers to pay salaries and merchant accounts to facilitate card acquiring) and do no treasury trading.

Operating expenditure grew by 28%. We opened 38 new branches and plan to open another 50 in the next twelve months.

We remain extremely cost conscious. At Capitec Bank, nobody flies business class.

Arrears, bad debts and provisions

Our net bad debts (after taking into account recoveries) grew by 17% percent from R468 million to R548 million. Last year this figure doubled, compared to the previous year. Our loan book has grown 73% in this year, while arrears on the last day of the financial year declined from 10.1% last year to 6.2% this year. From every perspective, this has been a commendable performance. It is the result of tightening our lending criteria more than a year ago and improving our operational efficiency.

The loan impairment expense as a percentage of instalments due, by product, compared as follows against last year:

	2010 %	2009 %
1 month	**1.4**	1.4
3 month	**3.8**	4.3
6 month	**5.2**	6.7
12 month	**10.9**	12.7
18 month	**10.8**	11.4
24 month	**11.5**	12.7
36 month	**14.4**	21.7
48 month	**50.8**	–
Weighted average	**7.5**	7.9
Recoveries	**(0.9)**	(0.7)
Net bad debts	**6.6**	7.2

The best measurement of arrears and impairments on the short-term products is against instalments due and not outstanding balances because a large part of the short-term loans is repaid before month-end/year-end and is therefore not reflected on the balance sheet. Computations based on the outstanding balance therefore distort this ratio on short-term products.

The 48 month loan product is only 4 months old and the level of impairment is therefore very high. The impairment charge is calculated by stretching the historical data that is available on the other longer-term loan products to produce a vintage graph. The impact of a missed instalment on a longer-term loan is more severe at the beginning of a loan repayment period, as the full loan amount may be at risk. Therefore, the provision as a percentage of instalments is higher for a new and growing loan book. Over time every new product reverts to a normal distribution. The impairment expense of the 36 month loans indicates this trend. It is expected that the level of impairment on the 36 month loans will continue to reduce as the product matures. The product is currently 28 months old but the average age of loans on this book is only 18 months.

The net loan impairment expense of R548 million for the year increased by R80 million compared to last year. Recoveries increased by R26 million to R72 million because the growing loan book and increasing loan values have led to an increase in the handed over amounts. We are expecting this trend to continue in the future.

One of the reasons for the international credit crunch was a false complacency within banks that they fully understood the risks inherent in their products. At Capitec Bank we know we can never relax. Credit risk is the major risk that we have to manage every day.

27 Great brands

What do the following brands have in common: Tiffany & Co, Amazon, Apple, Mercedes-Benz, China Merchant Bank, Mahindra, Facebook, Julius Baer, Polo, Ralph Lauren and Capitec Bank?

The Credit Suisse Research Institute has released "Great Brands of Tomorrow", an in-depth look at how a company's brand can be one of the few true competitive advantages remaining in modern industry. In it, they identified 27 great global brands of tomorrow, some old and powerful, some young with potential. Capitec is the only brand from Africa on that list.

A group of 3 000 analysts in 50 countries participated in the survey, which aimed to distinguish those brands that were likely to outperform the competition in the future and rise to the top in their respective markets. Credit Suisse rated its top brands on three main factors: innovation, aspiration and scale.

Prospects

We are proud of our people, we have good products and a niche in the market. We are confident of the future.

Michiel le Roux
Chairman

Financial director's report

Results summary

- Capitec Bank focuses on simplifying banking by offering a single solution to everyday money management. This, in combination with our advertising campaigns and expansion to 401 branches over the past year, has led to continued growth in our client base. The group now has 1 238 ATMs and employs 4 154 people.
- Net profit for the year increased by 45% to R435 million.
- Income from banking operations grew by 29% year-on-year to R2.6 billion.
- Loans to the value of R8.6 billion, representing growth of 38%, were granted during the financial year. In contrast, net loan revenue, consisting of interest, origination fees and monthly administration fees net of loan fee expenses, increased by 28% to R2.6 billion. The disparity between sales and revenue growth is attributable to a number of factors and is discussed in the loan revenue section below.
- Net transaction fee income increased by 84% to R295 million and now covers 22% of banking operating expenses (2009: 15%). The increase in net transaction fee income reflects the continued growth in client numbers and transaction volumes.

  An SMS update service was introduced during the 2009 financial year. There has been significant growth in the utilisation of this service. The number of SMSs sent to clients grew from 1.25 million for the month in February 2009 to 4.4 million in February 2010.
- Interest paid to clients on retail savings and retail fixed deposits grew to R193 million from R104 million in the 2009 financial year. The increase is a result of increased client numbers as well as an increase in the average savings balance. The retail fixed deposit product was launched in November 2008 and the balance on deposit has grown steadily from R265 million at the end of February 2009 to R1.1 billion at the end of February 2010.

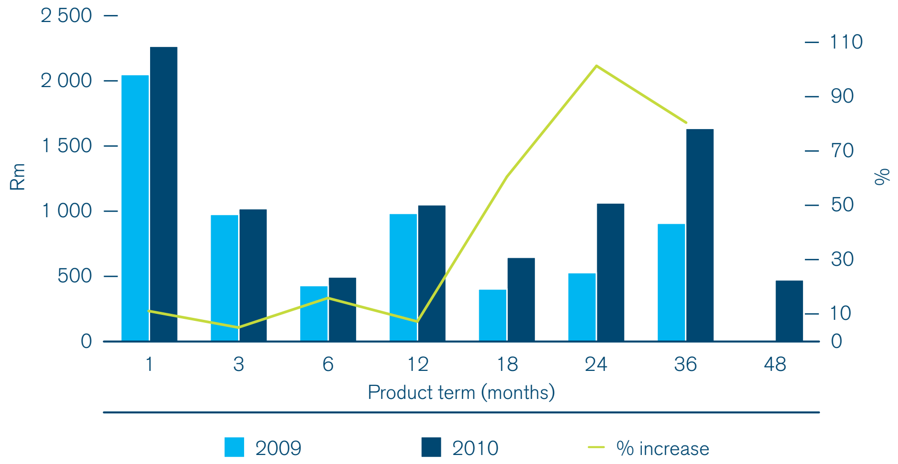
  Wholesale deposits of R2.0 billion were raised during the 2010 financial year to ensure that liquidity was maintained during the global economic crisis. As a result the interest paid on wholesale funding grew by R132 million.
- Cost management remains a key philosophy of the bank. The cost-to-income ratio of banking activities decreased slightly to 53.5% from 53.7% in the 2009 financial year. This is in spite of a change in the management incentive structure as detailed below which increased the ratio by 2.2%.
- Headline earnings attributable to ordinary shareholders increased by 45% to R437 million. The year-on-year growth in headline earnings as at the end of August 2009 was 50%; the year-on-year growth for the last six months was 41%.

Active clients

The number of active clients increased by 37% during the current financial year and totalled 2.1 million at 28 February 2010. The definition applied to calculate the number of active clients has been refined and the comparatives relating to previous financial years have been amended. Previously active clients were defined as all clients excluding clients classified as dormant on the banking system. Currently active clients are defined as clients from whom loan or transaction fee income has been earned in the last 12 months. A comparison of the trends generated by the previous and current definitions indicates that the annual increase in client numbers is roughly the same according to both definitions.

Lending business

Value of loans advanced by product



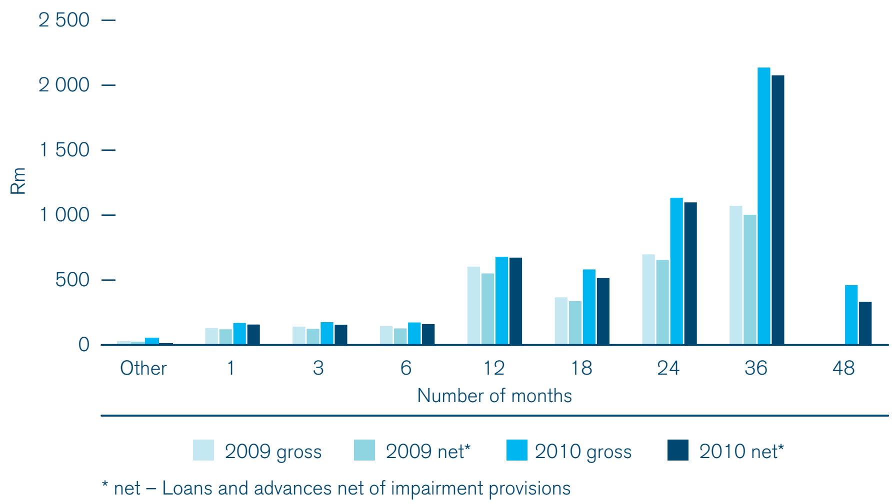
The growth in loans granted for the year was attributable mainly to the products with terms longer than 12 months. Sales of these loans grew by 108% while sales of the products with terms up to 12 months grew by 9%.

The continuous review of the loan criteria to ensure that the loan book growth and arrears remain within our risk appetite led to a tightening of our credit granting criteria in November 2008. This was done in anticipation of the impact of the global economic environment on the cost of living expenses and personal disposable income of our target market. Credit granting criteria are continuously assessed and amended based on trends that are identified.

Our philosophy of monitoring our exposure to specific employers, due to the fact that our clients' payment performance is dependent on the stability of their employers, led to the identification of employers where payment performance is above average. This contributed to the high sales growth in the products with terms longer than 12 months. Our bid to attract higher-income clients has been strengthened by the launch of a 48 month loan product with a maximum loan value of R100 000 in November 2009. Sales of this product reached R473 million for the four months ended February 2010 and continued growth in the product is expected.

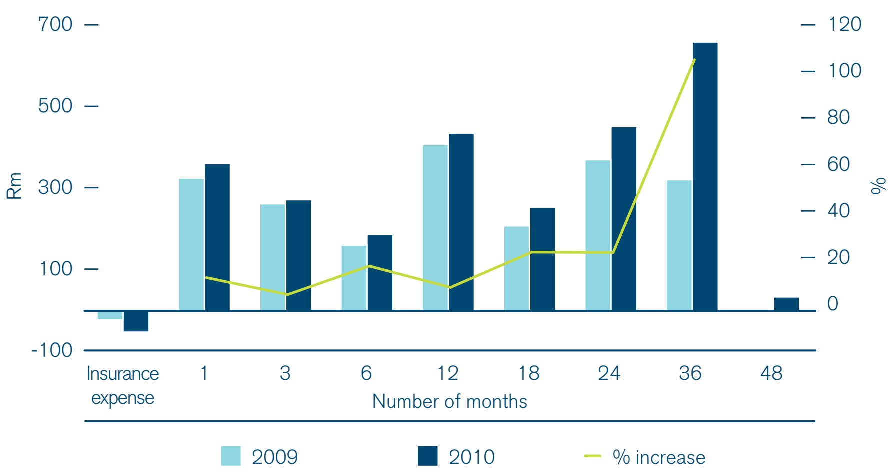
The 1 month product showed an 11% growth in loans advanced following a 21% growth for the year ended February 2009. Sales of this product represent 26% of total sales. The advantage of this short-term product is the limited exposure to high-risk clients as the product comprises a very small portion of the outstanding book while making a good contribution to loan revenue. This product, however, has a large impact on the activity levels in our branches. We continuously refine how we provide the product to make this as efficient as possible. For example, during the year functionality that enables clients to access the product via SMS, was launched.

Loan book by product



It should be noted that the above chart is not a maturity analysis, as clients repay part of the capital on each of the product types in the following month, the month thereafter and so forth. In a mature book the capital repayment for the following month will approximate the balance divided by the term. A maturity analysis is set out on page 118.

Loan revenue by product



Loan revenue

Our pricing structure remained consistent throughout the year, with interest rates decreasing in line with interest rate movements in the market. Our prices remain competitive in relation to the ceilings prescribed by the National Credit Act regulations. Loan rates are fixed which means clients are not exposed to interest rate fluctuations. Prices are inclusive of credit life and retrenchment insurance for the 6 month and longer products; i.e. we do not charge our clients for this, while most competitors continue to charge these insurance premiums on top of their loan pricing. We still plan to move towards more sophisticated price differentiation in order to target lower-risk clients.

Interest received on loans and advances to clients has been affected by declining yields on all products as a result of the 3.5% cut in lending rates by the Reserve Bank during the current financial year. Loans advanced are priced according to the National Credit Act formula and a decrease in the lending rates by the Reserve Bank results in a decrease in the interest rate of roughly twice the lending rate decrease. However, the growth in loan sales and the shift in sales to longer-term products resulted in growth of 40% in interest revenue on loans.

Origination fee income grew by only 13% due to the shift in product mix to longer-term, higher-value loans where the origination fees are capped in terms of the National Credit Act. The shift in product mix is reflected in the 26% increase in the average loan amount from R1 774 to R2 239. Sales of loans with terms longer than 12 months now comprise 44% of total sales compared to 29% in the 2009 financial year. The average outstanding loan period is 12.8 months compared to 10.9 months as at the end of February 2009.

Monthly administration fee income, which is driven by the number and term of loans, was also affected by the shift to longer-term loans and grew by 22%. This shift is clearly evident in the increase of only 9% in the number of loans granted to 3.9 million as opposed to the 38% growth in loans advanced.

Commencing July 2009 the loan book has been insured against retrenchment risk in addition to the life insurance which has been in place for several years. This additional insurance will mitigate the impact of increased retrenchments that is being experienced as a result of the global economic climate and will decrease the bad debt expense over time. It is not yet possible to quantify the impact of the retrenchment insurance on bad debts.

Income recognition

International Financial Reporting Standards require that revenue from services rendered should be recognised based on the stage of completion of the services. Revenue from the creation of financial assets such as loans and advances should be recognised based on the yield-to-maturity basis over the term of the loan. Loan fee income is therefore partially reflected in the month that the transacting services are rendered and the remainder reflected over the term of the loan taking into account the relative activity levels and costs related to the respective services.

Loan book, arrears and provision for doubtful debts

Loans past due (arrears) comprise the full outstanding balance at risk on loans and advances that are in arrears from one day to three months; i.e. if a payment of R1 000 is missed on a loan with an outstanding balance of R30 000, the full outstanding balance of R30 000 is considered to be in arrears.

The gross loan book at the end of February 2010 has grown by R2.4 billion compared to the book at the end of February 2009 while arrears has only grown by R24 million in the same period. Loans and advances more than three months in arrears which were written off amounted to R494 million compared to R430 million in 2009. Despite difficult economic conditions, an improvement in default rates has been achieved through our focus on credit granting criteria, operational efficiency and collections.

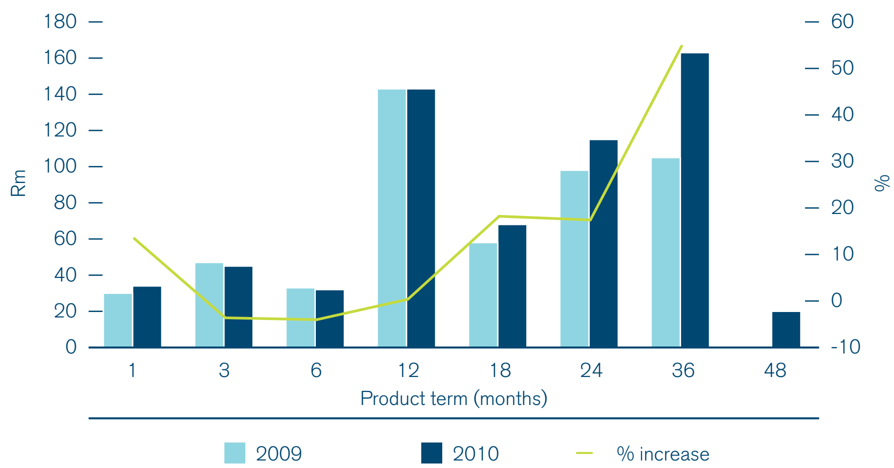
While the provision/arrears coverage ratio gives an indication of the performance of the loan book it must not be considered in isolation. The ratio expresses the provision for doubtful debts as a percentage of the loans in arrears. The ratio is affected by the arrears performance of the month in which it is measured while the impairment model is used to determine the provision for doubtful debts over the loan period utilising the vintage graphs.

		Feb 2010	Aug 2009	Feb 2009	Aug 2008
Gross loans and advances	Rm	**5 607**	3 958	3 238	2 898
Loans past due (arrears)	Rm	**350**	299	326	288
Arrears to gross loans and advances	%	**6.2**	7.6	10.1	9.9
Provision for doubtful debts	Rm	**382**	278	256	236
Provision for doubtful debts to gross loan and advances	%	**6.8**	7.0	7.9	8.1
Provision/arrears coverage ratio	%	**109**	93	79	82

Loan impairment expense

The net loan impairment expense of R548 million for the year increased by R80 million compared to last year. Recoveries increased by R26 million to R72 million because the growing loan book and increasing loan values have led to an increase in the handed over amounts. We are expecting this trend to continue in the future.

Gross loan impairment expense (before recoveries)



The gross loan impairment expense (before recoveries) increased by R106 million. The increase includes a R178 million increase due to loan book growth and a decrease of R4 million in the income due to the additional valuation placed on handed over loans. The gross loan impairment expense before book growth decreased by R76 million due to an improvement in default rates.

The loan impairment expense in the second half of the financial year increased by R32 million compared to the first half of the year. The net increase comprised a R99 million increase due to loan book growth and a R67 million decrease due to the improvement in default rates.

All loan impairments are calculated at an account level based on historical data. We are aware that past performance cannot predict future performance in a rapidly changing economic environment. For this reason trends are closely monitored and recent patterns and events are given the appropriate consideration.

The improvement in default rates was achieved through strict monitoring of credit granting criteria, operational efficiencies and a focus on collections.

The breakdown of the loan book between current loans, loans in arrears and estimated incurred but not reported arrears, as well as the movement in the loan provision account is set out in note 6 to the financial statements on pages 100 and 101.

Impairment charge as percentage of instalments

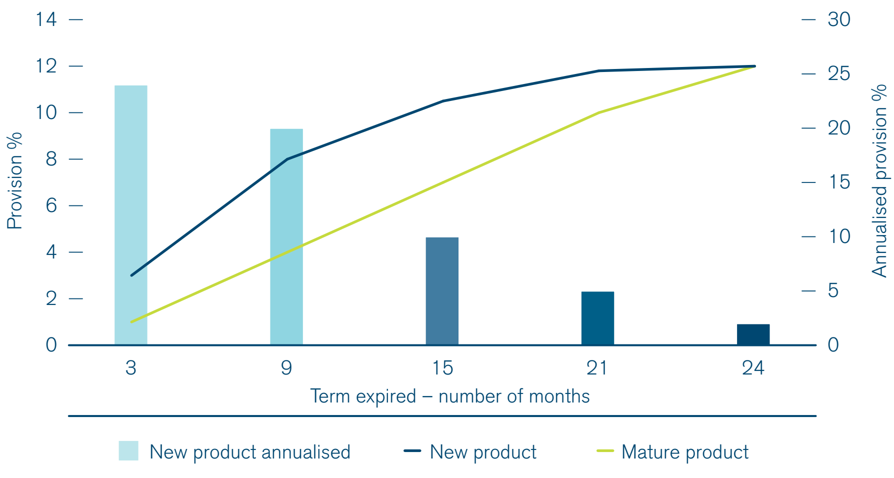
The loan impairment expense as a percentage of instalments due, by product, compared as follows against last year:

	2010 %	2009 %
1 month	**1.4**	1.4
3 month	**3.8**	4.3
6 month	**5.2**	6.7
12 month	**10.9**	12.7
18 month	**10.8**	11.4
24 month	**11.5**	12.7
36 month	**14.4**	21.7
48 month	**50.8**	–
Weighted average	**7.5**	7.9
Recoveries	**(0.9)**	(0.7)
Net bad debts	**6.6**	7.2

The best measurement of arrears and impairments on the short-term products is against instalments due and not outstanding balances, because a large part of the short-term loans is repaid before month-end/year-end and is therefore not reflected on the balance sheet. Computations based on the outstanding balance therefore distort this ratio on short-term products.

The 48 month loan product is only 4 months old and the level of impairment is therefore very high. The impairment charge is calculated by stretching the historical data that is available on other longer-term loan products to produce a vintage graph. The impact of a missed instalment on a longer-term loan is more severe at the beginning of a loan repayment period, as the full loan amount may be at risk. Therefore, the provision as a percentage of instalments is higher for a new and growing loan book. Over time every new product reverts to a normal distribution. The impairment expense of the 36 month loans, as an example, indicates this trend. It is expected that the level of impairment on the 36 month loans will continue to reduce as the product matures. The product is currently 28 months old but the average age of loans on this book is only 18 months.

Provisioning profiles of new and mature products

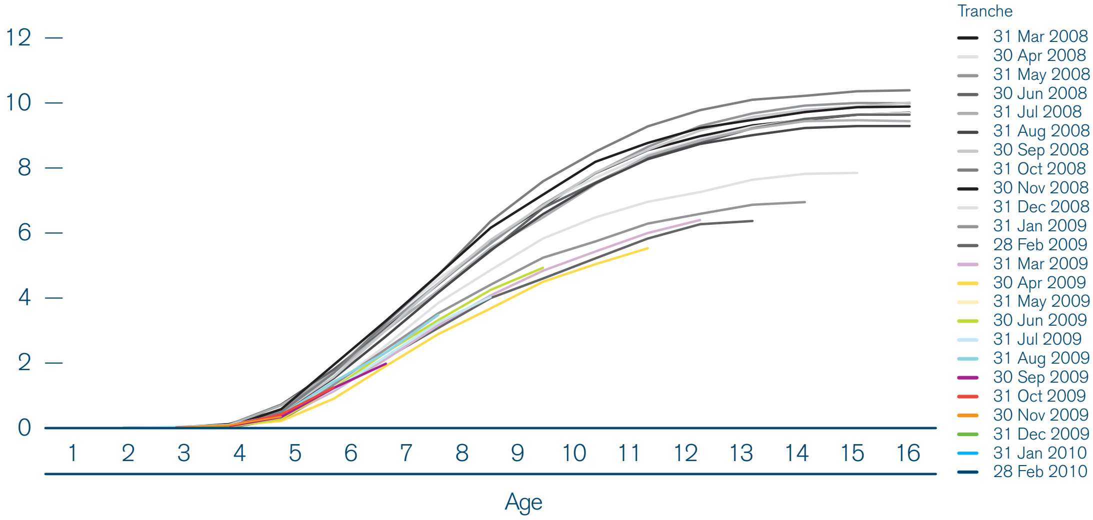


The chart above illustrates the provisioning profile of a new product compared to that of a mature product over time. In the example, there are five reporting periods for a 24 month loan. Every period's impairment charge as a percentage of instalments is annualised as per the chart below.

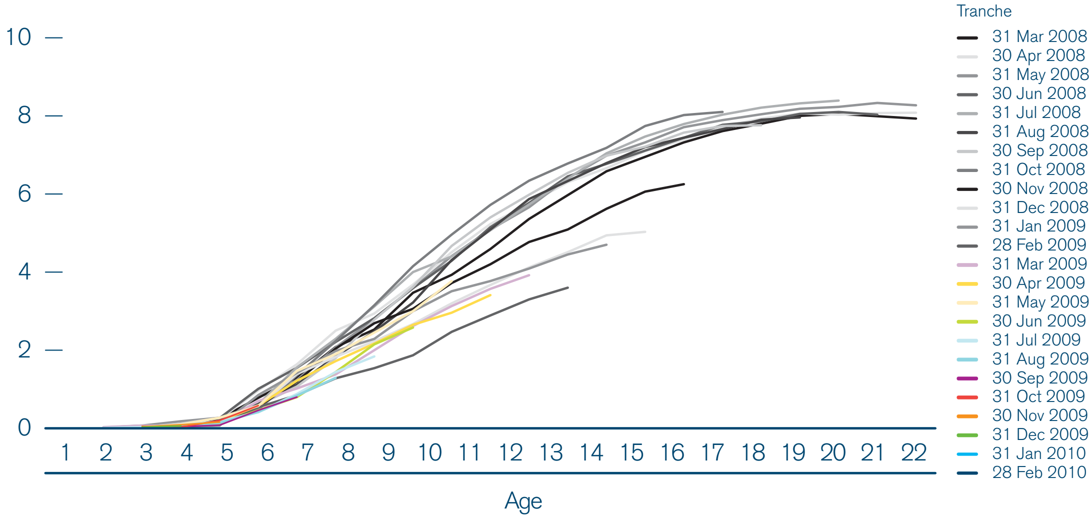
From the example it is clear that although the write-off/impairment charge over time equates to 12%, the first period's charge is 24%, followed by 20%, then 10%, then 5% and finally 2%. The expense, which equates the time value of money, matches the loan income which is recorded similarly.

Vintage graphs - loan tranches March 2008 to February 2010

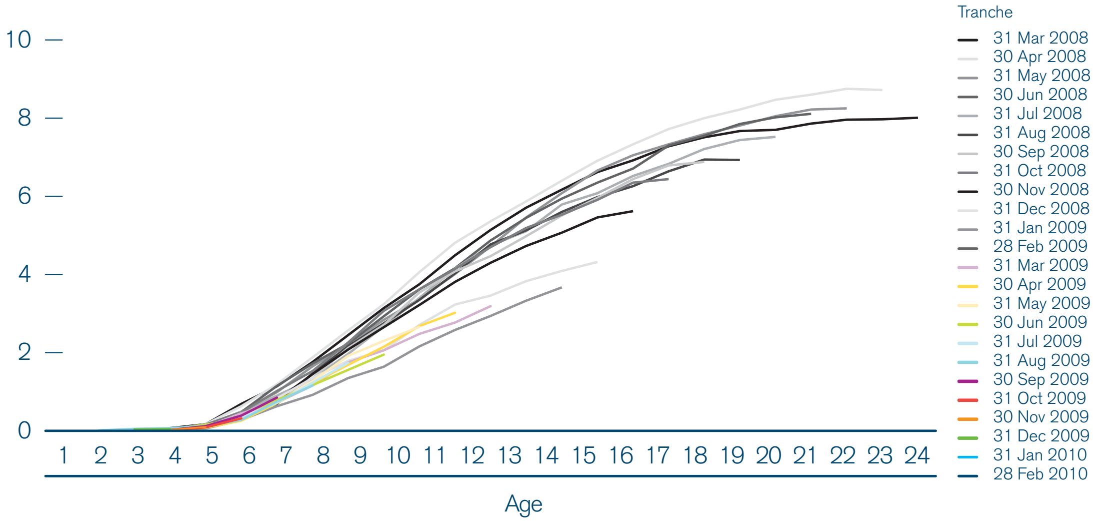
12 month loan



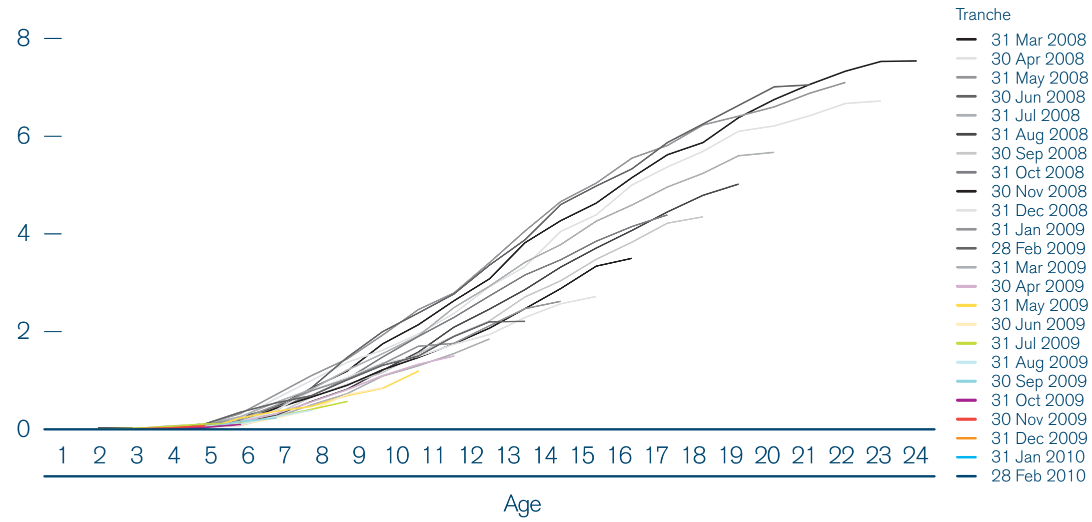
18 month loan



24 month loan



36 month loan



Future loan recovery valuation

The full outstanding balance of all loans in arrears is written off after three months. In the 2009 year we performed a present value calculation of the expected cash flows of loans which have been written off. The effective contractual interest rate was used as the discount rate to determine an estimated recovery. The valuation amounted to R15.6 million and the amount was subtracted from provisions. The accounting treatment was re-assessed and it was concluded that the amount should be included in gross loans and advances. The prior year figures were restated at 31 August 2009.

Our statistics relating to these recoveries were based mainly on shorter-term and lower-value products. Furthermore, the economic environment for which we had historical experience is quite different from what we expect in the future. We continuously adjust our valuation to take this into account. During the 2010 financial year we gathered more information on the recoveries of higher-value handed-over loans and an additional R11.1 million was added to gross loans and advances.

In total R26.7 million relating to the valuation placed on handed-over loans is included in gross loans and advances as at 28 February 2010.

Retail funding/deposit book

Retail savings balances increased to R2.3 billion at the end of February 2010 from R1.3 billion at the end of February 2009 due to continued growth in client numbers.

Retail fixed deposit products, which were launched in November 2008, with a maturity of up to 60 months, contributed R1.1 billion to retail funding at the end of February 2010.

As at 28 February 2010 retail fixed-term funding comprised 24% (2009: 14%) of term funding. It is a goal of management to grow this percentage to 40%.

Wholesale funding

Despite the impact of the credit crunch on the availability and cost of funding, wholesale deposits have increased by R2.0 billion to R3.7 billion at the end of February 2010.

The following funding was obtained during the financial year:

- Domestic Medium Term Note programme (DMTN) issues
  - R322 million with a maturity of three years in May 2009
  - R700 million with a maturity of three years in November 2009
  - R140 million with a maturity of five years in November 2009
  - R160 million with a maturity of seven years in November 2009
  - R150 million with a maturity of seven years in February 2010
- A R150 million loan was obtained from the Norwegian Investment Fund for Developing Countries in July 2009. Capital repayments commence after three years with the final payment in five years.
- A R150 million loan with a maturity of five years was obtained from the Netherlands Development Finance Company (FMO) in November 2009.
- A subordinated bilateral funding agreement for R250 million with a maturity of 12 years and an option to exit after seven years was signed in January 2010. This funding qualifies as secondary capital at a 100% inclusion rate for seven years. Thereafter the inclusion rate will decrease by 20% per annum on funds not yet repaid.

As at the end of February 2010 corporate paper of R762 million is held on the balance sheet.

Relationship building with fund and asset managers, as well as foreign based aid organisations, remains a focus area.

Liquidity

Our liquidity philosophy remains extremely conservative, as can be seen in the maturity analysis set out on page 118. We will continue to manage our liquidity position conservatively and balance book growth and arrears appetite against available funding. At year-end it would have been possible to repay all deposits due immediately and on an average throughout the year, within a day.

Capital

Our risk-weighted capital adequacy ratio is 37% compared to 43% at the end of February 2009. The return on ordinary shareholders' equity for 2010 is 32% and remains above our goal of 25%.

Credit rating

On 10 September 2009 Moody's Investors Service announced that it had kept the long-term and short-term national scale credit ratings for Capitec Bank Limited, Capitec's banking subsidiary, unchanged at A2.za and P-1.za respectively. These ratings were reaffirmed on 12 March 2010 with the issuance of an updated credit opinion.

The long-term rating reflects a good long-term credit quality and the short-term rating a superior ability to repay short-term debt obligations.

The unchanged ratings are very positive in light of the world economy.

Capitec Bank will continue to endeavour to improve its credit rating. One potential hindrance in this regard is, as an emerging institution, the lack of extensive financial history. We believe, however, that our continued solid financial performance and risk management philosophy will overcome this barrier.

Employee costs

Employee remuneration contributed R192 million (63%) of the increase in operating expenses. Employee numbers increased by 22% from 3 414 in February 2009 to 4 154 in February 2010. The growth in employee numbers is a result of the continued growth in the number of branches as well as the addition of capacity at senior level to support the continued growth. The average annual remuneration per employee, excluding management incentives and share-based payments, increased by 7%. This increase is in line with inflation and includes an incentive for all Capitec Bank employees in terms of a scheme based on growth in headline earnings.

In previous financial years, executive and senior management participated in a share option scheme that was equity-settled. Since the 2009 financial year the scheme consists of cash-settled share appreciation rights and share options in equal proportions and this, together with the increase in the share price, has contributed to the increase in remuneration costs. From the 2010 financial year this scheme is restricted to strategic management. Senior management no longer participate in the scheme but qualify for a cash-settled performance bonus scheme. This scheme rewards managers based on the growth in headline earnings and, in order to foster a long-term approach by management, the amount will be paid out over a three-year period. Management incentive schemes contributed R46 million to the increase in remuneration costs.

Taxation

Our appetite for taxation risk remains very low. Our business model, as well as the products and services we offer, is not complex and represents cash profits. Complex tax structuring does not form part of the philosophy of Capitec Bank. As at 28 February 2010 all group companies' income tax returns were submitted and there were no outstanding tax liabilities.

Tax contributions for the 2010 financial year consist of:

	R'000
Pay as you earn	**84 107**
Unemployment insurance	**7 466**
Skills development levy	**5 652**
Value-added tax	**132 483**
Normal tax – current	**186 710**
Secondary tax on companies	**15 062**
Property rates and taxes	**56**
	431 536

Dividend

No specific dividend policy exists as the board of directors considers the capital and funding requirements of the business before declaring dividends. The dividend cover for the past four years ranged from 2.8 to 2.5.

André du Plessis
Financial director

Board of directors

4

Non-executive

Michiel Scholtz du Pré le Roux (60)
BComm LLB
Michiel is the chairman of Capitec and Capitec Bank. He is the founder of the group and was chief executive officer of the bank until 2004. Michiel is a director of Zeder Investments. He was the managing director of Distillers Corporation (SA) from 1979 to 1993, and from 1995 to 1998, the managing director of Boland PKS, NBS Boland and BoE Bank.

Tshepo Daun Mahloele (43)
BProc
Tshepo is the chief executive officer of Harith Fund Managers. He has more than 15 years' experience in project finance, private equity and investment banking. Previously he was the head of corporate finance at the Public Investment Corporation (PIC), where, amongst other things, he was responsible for the PIC Isibaya Fund. Prior to joining the PIC he was the head of private sector investments at the Development Bank of Southern Africa (DBSA). Before joining the DBSA he was the managing director of Solutions at Work. Tshepo also held positions at CDC Group Plc (formerly the Commonwealth Development Corporation), Rand Merchant Bank and National Sorghum Breweries. He is the chairman of Aldwych International.

Petrus Johannes Mouton (33)
BComm (Maths)
Piet is an executive director of PSG Group. He serves as a non-executive director on the boards of various PSG Group companies including Thembeka Capital, a black-owned and controlled BEE investment holding company. He has been active in the investment and financial services industry since 1999.

Chris Adriaan Otto (60)
BComm LLB
Chris has been an executive director of PSG Group since its formation and has served as a non-executive director since February 2009. He has been involved in PSG Group's investment in microfinance and the subsequent establishment of Capitec Bank of which he has been a non-executive director since its establishment. He is also a director of Zeder Investments, Kaap Agri and Capevin Investments.

Independent non-executive

Merlyn Claude Mehl, Prof (67)
PhD (Physics)
Merlyn serves on the boards of a number of companies. He was previously the chancellor of Peninsula Technikon and the chief executive of the Independent Development Trust. He is presently the executive chairman of Triple L Academy.

Nonhlanhla Sylvia Mjoli-Mncube, Ms (51) BA, MA (City and Regional Planning)
Nonhlanhla was previously the economic advisor to the former Deputy President of South Africa. She has worked as a town and regional planner in South Africa and as a survey research supervisor at Washington State University. She was an executive director at a subsidiary of Murray & Roberts, the chairman of the National Urban Reconstruction and Housing Agency (NURCHA), as well as the chairman of the Rural Housing Loan Fund, Women for Housing and the Open Society Institute in South Africa. She is a fellow of Massachusetts Institute of Technology (MIT, USA), and a Harvard University Leadership Alumnus. She manages her own company, Mjoli Development Group, and is the winner of several Business Women Awards.

Jan Georg Solms (55)
BAcc, CTA, CA(SA)
Johnnie has been a member of the JSE since 1981 and is a stockbroker and executive director of stockbrokers, Independent Securities.

Jacobus Pieter van der Merwe (61)
BA, CTA, CA(SA)
Pieter is an experienced retail banker. He commenced his career in banking as chief accountant at Boland Bank in 1974 after which he joined Volkskas Merchant Bank as general manager of finance in 1983. He joined Trustbank in 1990 and after the amalgamation of Bankorp and ABSA he was appointed general manager of Commercial Bank, a division of ABSA, responsible for ABSA Western Cape (1995 – 1999). In 2000 he was appointed operating executive of this division. From 2001 to his retirement in 2006 he was an executive director of ABSA, the last two and a half years of which he was responsible for group administration, information management, IT, credit and risk.

Executive

Riaan Stassen (56)
BComm (Hons), CA(SA)
Chief executive officer
Riaan joined Capitec Bank as the managing director in 2000 and was appointed chief executive officer of Capitec and Capitec Bank effective March 2004. He gained extensive experience in retail and banking and held senior positions in both environments. Riaan was awarded the Cape Times/KPMG Business Personality of the Year award in 2007. The nomination criteria for this award included business and entrepreneurial excellence and outstanding company performance.

André Pierre du Plessis (48)
BComm (Hons), CA(SA)
Financial director
André joined Capitec Bank in 2000 as the executive: financial management and was appointed financial director of Capitec and Capitec Bank in May 2002. He has extensive experience in business advisory services, financial consulting and strategic and financial management. He was the chief executive of financial management of Boland PKS and NBS Boland Group from 1996 to 2000 and a partner at Arthur Andersen where he was employed from 1986 to 1996.

Executive management committee

5

Riaan Stassen (56)
BComm (Hons), CA(SA)
Chief executive officer
See board of directors.

André Pierre du Plessis (48)
BComm (Hons), CA(SA)
Financial director
See board of directors.

Jacobus Everhardus Carstens (41)
BCompt (Hons), CA(SA)
Chief credit officer
Jaco joined Capitec Bank in 2004. He gained extensive experience in the credit environment at Old Mutual Bank from 2000 to 2004 serving respectively as head of credit, head of credit risk: policy and decision support and assistant divisional manager: credit, pricing and decision support. Previous positions include manager at Boland Bank from 1997 to 1999 and assistant manager at Ernst & Young from 1992 to 1997.

Jennifer Coetzee* (35)
BTech Marketing
Manager: direct communications
Jennifer joined Capitec Bank in 2007 after five years as marketing manager at bond originator, Ooba (formerly MortgageSA). She gained strategic marketing experience across a breadth of industries with particular focus on financial services and marketing disciplines. Jennifer is responsible for central communications and relationship management at Capitec Bank and is currently completing her MBA studies at the University of Stellenbosch Business School.

Carl Gustav Fischer (53)
BComm (Hons), MBA
Executive: marketing and corporate affairs
Carl joined Capitec Bank in 2000. He was the chief executive of marketing and support services of Boland PKS from 1999 to 2000. Previous positions include group marketing and sales director (1996 – 1998) and group production/operations director of Stellenbosch Farmers' Winery (1993 – 1996).

Gerhardus Metselaar Fourie (46)
BComm (Hons), MBA
Executive: operations
Gerrie has been head of operations at Capitec Bank since 2000. He commenced his career at Stellenbosch Farmers' Winery in 1987 in the financial planning department whereafter he was appointed area general manager of KwaZulu-Natal and later Gauteng.

André Olivier (42)
BComm (Hons), CA(SA)
Executive: card services and business development
André joined Capitec Bank in 2000 and has been responsible for business development ever since. Card services was incorporated in his area of responsibility in 2009. He was financial risk manager at Boland PKS, after which he was head of operations of PEP Bank, in the bank's microlending division from 1997 to 2000. He gained audit and business advisory experience with Arthur Andersen.

Christiaan Oosthuizen (55)
Executive: information technology
Chris joined Capitec Bank as head of information technology in 2000. He previously held the position of chief executive of information technology at Boland PKS, where he was employed from 1976 to 2000.

Gavin Michael Roman* (38)
BSc (Ed), BSc (Hons) (Physics), MSc (Statistics)
Manager: credit decision support
Gavin joined Capitec Bank in 2006. He has 10 years' experience in the credit environment. Prior to joining Capitec, he worked at HomeChoice and Woolworths Financial Services in different roles as an analyst in their credit risk and knowledge departments. He is currently responsible for credit decision support that drives strategic decisions within credit risk using quantitative analytics.

Christian George van Schalkwyk (55)
BComm LLB, CA(SA)
Executive: risk management and company secretary
Christian joined Capitec Bank as head of risk management and company secretary in 2000. He was chief executive of credit risk and legal services at Boland PKS from 1997 to 2000. Previous positions include being a partner at attorneys Jan S de Villiers (1987 – 1996) and a tax consultant at Arthur Andersen (1985).

Leonardus Venter (48)
BA (Hons), MA (Industrial Psychology)
Executive: business support centre
Leon joined Capitec Bank as head of human resources in 2000. He was appointed as executive: business support centre in 2009. Previous positions include human resources manager at Iridium Africa (1998 – 1999), manager of human resources and support at Telkom SA (1993 – 1997) and area personnel manager at Iscor (1986 – 1992).

* *There are two development seats on the executive management committee to allow suitable senior employees the opportunity to develop and gain experience at executive level. The incumbents rotate annually. In 2009 these positions were filled by Graham Lee and Sbusiso Kumalo. The individuals confirmed that they have gained valuable experience through their exposure at executive level. Jennifer Coetzee and Gavin Roman were appointed to the committee on 15 February 2010.*

Corporate governance review

Ethical leadership and corporate citizenship

Capitec is a young player on the fields of corporate South Africa and entered the game with the stated purpose of distinguishing itself. The extent to which Capitec achieves its goal is reflected in this annual report, mostly in quantified measures. However, such measures are established and sustained by the inherent values associated with a brand. As a young entrant, we understand that it takes time to gain the acceptance and respect required to establish a brand in an industry built on trust. With this in mind, Capitec commenced its corporate existence with the emphasis on good governance. The companies in the Capitec group and their respective boards and employees act in a disciplined manner, with transparency and independence. Emphasis has always fallen on substance rather than form.

Existing as a registered bank as well as a credit provider, the Capitec group is highly regulated. The group benefits from this as compliance with standards such as those set by the second and third King Codes follow relatively easily. Although the third King Code only affects the version of this report to be produced one year hence, an analysis has shown that the group already applies, and have done so throughout the period under review, virtually all principles stated therein with minor exceptions. Where we do not comply we state our reasons.

In addition we are proud that Capitec achieved first place among seven banks participating in the South African Corporate Ethics Indicator 2009. This was an independent benchmarking study conducted by the Ethics Institute of South Africa. Overall Capitec achieved third place amongst the 20 publicly listed enterprises surveyed.

Dealing with specific landmarks on the corporate landscape, we report as follows:

The board of directors

Role and function of the board

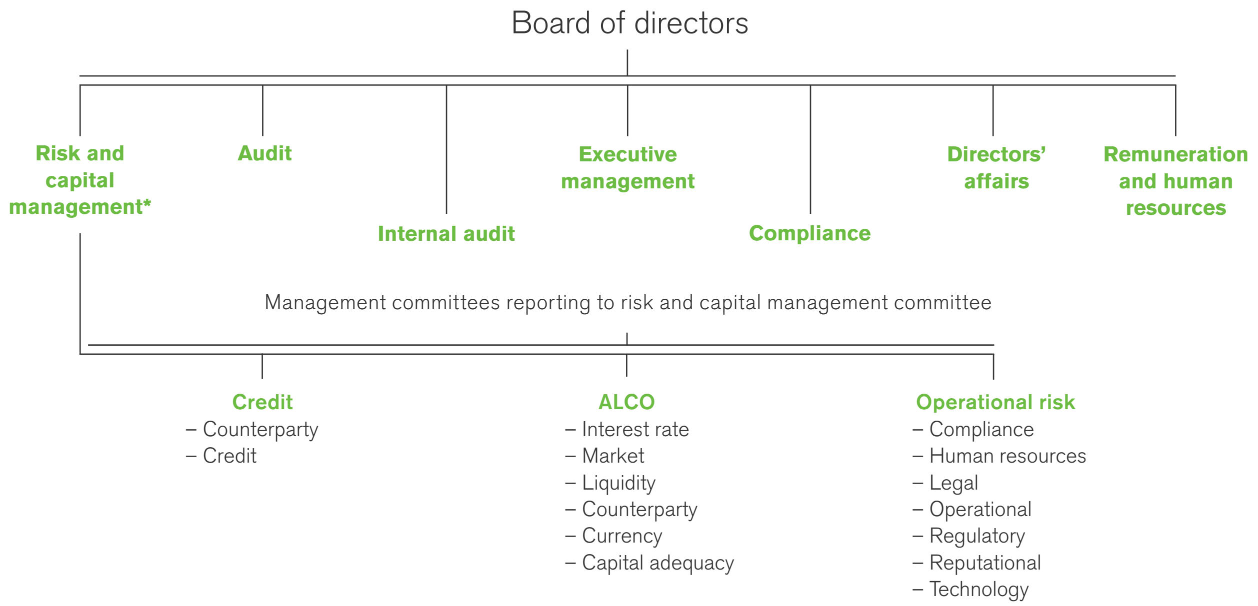
The board of directors remains responsible for the Capitec group in its entirety. Functioning within the ambit of an annually reviewed charter supported by a schedule of reserved powers, the board instructs and oversees a management and control structure which directs and executes all functions within the group.

Composition of the board

The board comprises a majority of non-executive directors consisting of a proper balance of two executive, four non-executive and four independent non-executive directors. Among them, they have a wide variety of skills and experience to guide decision making and strategy. The composition of the board ensures that there is a clear division of responsibilities to ensure a balance of power and authority, such that no one individual has unfettered powers of decision making.

The roles and responsibilities of the chairman and chief executive officer are separated. The chairman is a non-executive director in terms of the popular definitions of independent and non-independent, but the board considers him the best person to fulfil the role of

Risk control framework



** Also acts, amplified by management, as the large exposures committee in terms of section 73 of the Banks Act.*

chairman of Capitec and Capitec Bank. For this reason, a lead independent director has not been appointed.

Board appointment process

All appointments to the board are formal and transparent and a matter for the board as a whole. A directors' affairs committee under leadership of the chairman of the board presides over board appointments. When a vacancy exists or specific skills are required, candidates are identified and recommended to the full board for endorsement. With the board's sanction, the individual is approached and, subject to prior approval by the South African Reserve Bank, formally appointed.

Directors' development

Newly appointed board members are formally inducted through a programme comprising reading, interviews and exposure to bank operations.

Board members all attend training presented by GIBS Business School for the South African Reserve Bank. Ad hoc training is presented inhouse and during the past year Tim Store lectured on bank stability in financial crises, drawing on lessons from history. Tim Store, now retired, was chairman of Deloitte and has a lifetime of experience in the regulated financial services industry.

Performance assessment

The board is assessed annually. The assessment is conducted internally and deals with individual directors as well as the board as an entity. A diverse range of skills relevant to a retail bank are assessed.

Board committees

The board oversees a structure of committees comprising the following:

	Committees	Purpose	Composition	Quorum	Frequency of meetings
1.	Board of directors	The board of directors is responsible for the strategy and overall management of the bank	The board consists of: **Four non-executive directors** MS du P le Roux (Chairman) TD Mahloele PJ Mouton CA Otto **Four independent non-executive directors** MC Mehl NS Mjoli-Mncube JG Solms JP van der Merwe **Two executive directors** R Stassen (CEO) AP du Plessis (FD)	Majority of directors for the time being in office of which at least 50% must be non-executive	Six times a year
2.	Executive management committee	Responsible for operational decision-making, implementation of strategic decisions approved by the board and approvals of administrative nature on an ongoing basis	R Stassen (Chairman) AP du Plessis JE Carstens J Coetzee* CG Fischer GM Fourie A Olivier C Oosthuizen GM Roman* CG van Schalkwyk L Venter Exec: human resources**	Majority of members, including at least three of the following: CEO, FD, exec: risk management and exec: operations	Three times a week and an extended meeting once a month
3.	Directors' affairs committee	Responsible for evaluation of board effectiveness, senior management and board succession planning and corporate governance	All non-executive directors	Majority of members	Twice a year
4.	Audit committee	Oversees financial controls, reporting and disclosure	JP van der Merwe (Chairman) MC Mehl NS Mjoli-Mncube JG Solms **Independent attendee:** HD Nel (external audit partner – PricewaterhouseCoopers) **Management attendees:** J-HC de Beer (Compliance officer) AP du Plessis J Gourrah (Internal audit) R Stassen CG van Schalkwyk	50% but not less than two members	Three times a year (from 2010 the number of meetings increases to four times a year)

	Committees	Purpose	Composition	Quorum	Frequency of meetings
5.	Remuneration and human resources committee	Determines directors' and senior executives' remuneration. Levels of remuneration of all employees, adjustment thereof and, when applicable, additional remuneration such as bonuses and incentives, including share option incentives, are determined	CA Otto (Chairman) MS du P le Roux JG Solms **Management attendees:** R Stassen Exec: Human resources**	Majority of members	Once a year
6.	Risk and capital management committee	Responsible for identification of all risks. Assists the board in reviewing the risk management systems and processes and significant risks facing the bank as well as capital management	MC Mehl (Chairman) PJ Mouton CA Otto JP van der Merwe **Management attendees:** J-HC de Beer JE Carstens J Delport (Operational risk) AP du Plessis J Gourrah R Stassen CG van Schalkwyk	Majority of members	Four times a year
7.	Large exposures committee	Approval of credit exposures in excess of 10% of bank capital	**Risk and capital management committee** MC Mehl (Chairman) PJ Mouton CA Otto JP van der Merwe **Members of management:** JE Carstens AP du Plessis R Stassen CG van Schalkwyk	Majority of members	As required

* *Appointed on an annual rotation basis to the executive management committee from 15 February 2010*

** *A new executive: human resources is in the process of being appointed*

This structure complies with regulatory expectation as well as governance best practice.

Attendance by board members of meetings held during the year under review is set out below:

Committees	Board	Directors' affairs	Audit	Remuneration and human resources (REMCO)	Risk and capital management
Number of meetings in the period of review	6	2	3	2	5
MS du P le Roux	6	2	3*	2	1*
AP du Plessis	6	–	3*	–	4*
TD Mahloele	4	1	–	–	–
MC Mehl	6	2	3	–	5
NS Mjoli-Mncube	6	2	3	–	–
PJ Mouton	6	2	–	–	5
CA Otto	6	2	3*	2	4
JG Solms	6	2	3	2	–
R Stassen	6	–	3*	2*	3*
JP van der Merwe	6	2	3	–	5

** Attendance by invitation*

Company secretary

The company secretary acts as conduit between the board and the group. Board administration, liaison with the Companies and Intellectual Property Registration Office and the JSE Limited take place in this environment. Board members also have access to legal and other expertise through the company secretary, when required and at the cost of the company.

Group boards

The group has three operating subsidiaries comprising Capitec Bank Limited, Capitec Properties (Pty) Limited and Key Distributors (Pty) Limited.

- The Capitec Bank board is identical to that of the group.
- Capitec Properties is a 100% held property holding company; its board comprises members of the group executive (AP du Plessis and R Stassen).
- Key Distributors is a 75% owned subsidiary; it has two non-executive directors who are both group directors (MC Mehl and NS Mjoli-Mncube). The balance of the Key Distributors board comprises executive management of Capitec Bank (CG Fischer) and Key Distributors (B Johnson and J Colyn).

The balance of group subsidiaries is dormant with management officiating as directors (AP du Plessis and R Stassen).

The Capitec Bank Holdings Share Trust and Capitec Bank Group Employee Empowerment Trust are consolidated into the group for accounting purposes. Each of these trusts is governed by a board of trustees in terms of the respective trust deeds.

- The Capitec Bank Holdings Share Trust has two independent trustees.
- The Capitec Bank Group Employee Empowerment Trust has four trustees of whom two are independent and two are employees. The latter two are elected by employees.

The group governance framework permeates all subsidiaries.

Remuneration of directors and senior executives

The remuneration of directors, senior executives and all other employees are dealt with by the board-appointed remuneration and human resources committee. This committee is chaired by a non-executive director. The board deems this individual the correct person to hold the position.

The philosophy applied by the remuneration and human resources committee in respect of executive and employee remuneration is one of

sustainability, i.e. a substantial salary with no or a modest short-term bonus. The emphasis remains on creating long-term value. This is also reflected in the way share incentives are structured.
Remuneration consists of:

- basic salary;
- an annual bonus to all employees based on the principle of profit sharing;
- a performance bonus for senior employees only (excluding strategic management), based on growth in headline earnings and paid out over a three-year period;
- a share option (share settled) and share appreciation rights (cash settled) scheme for management members considered to be strategic; and
- quarterly incentives to branches and sales teams.

Remuneration paid to executive directors is detailed on page 79 of the annual financial statements. Non-executive board remuneration is based on a fee structure. The fees proposed for the 2011 financial year are set out on page 139 in the notice of the annual general meeting and is subject to shareholder approval. Fees paid to the non-executive directors in the 2010 financial year are detailed on page 79 of the annual financial statements.

Conflict of interest

Executive management and directors alike declare all interests that may relate to the Capitec group at monthly executive and board meetings respectively. There have been no matters of conflict in the period under review.

Dealing in securities

Policy dictates that directors and executive management (and all employees with access to management reports) obtain clearance to trade in Capitec shares. The chairman of the board, the chief executive officer, financial director and company secretary are mandated to authorise clearance to deal in Capitec shares. No trading is allowed during closed periods or when information exists that may affect the share price that has not been disclosed to the public. Director trading as well as that of the company secretary and any of their associates are published on the JSE SENS in accordance with regulatory requirements.

Audit committee

The audit committee comprises four non-executive independent directors. The chairman is a chartered accountant with extensive experience in corporate and retail banking. The chairman of the board is not a member of the audit committee but attends meetings on invitation.

The committee's responsibilities as derived from a board approved charter, concern all financial disclosure as well as all controls affecting the integrity of such disclosure. In this regard they are the custodians of corporate reporting and oversee the extent, format, frequency, content, quality and integrity thereof. Although the emphasis has historically been on the quantitative aspects of mostly financial information, the audit committee now accepts responsibility for all aspects of integrated reporting.
The report is inter alia the product of a combined assurance model supported by both internal and external auditors.

The committee annually expresses an opinion on the expertise, resources and experience of the financial director, financial management department as well as the internal audit environment. In all instances the committee expressed its satisfaction during the period under review.

The appointment of external auditors also occurs upon the recommendation of the audit committee. The committee further oversees the results of the external audit process and sets the principles for recommending the use of the external auditors for non-audit services.

The audit committee undertakes the prescribed functions in terms of section 270A(1) of the Companies Act 1973 (Act 61 of 1973), as amended, on behalf of subsidiary companies.

Independent assurance

Both the external auditors and internal audit department observe the highest levels of business and professional ethics and independence.

The company and management encourage regular coordination and consultation between external and internal auditors to ensure an efficient audit process.

External audit

The prestigious international firm, PricewaterhouseCoopers Inc, acts as external auditors of the Capitec group. Capitec believes that they have observed the highest level of business and professional ethics and has no reason to believe that they have not acted with unimpaired independence at all times.

External audit fees are set annually in advance by the audit committee in a manner which should not impact the scope of the audit. The extent of the audit determines the audit fee.
Non-audit services rendered by the external auditors are limited to ad hoc tax advice and other assurance-related services within the parameters of a policy approved by the audit committee limiting such expense to 40% of the annual audit fee. Details of fees paid to the external auditor are included in note 25 of the annual financial statements on page 110 of this report, together with details of non-audit services provided and the fees paid in respect thereof.

The engagement partner responsible for the audit rotates every five years. The external auditor attends the annual general meeting of shareholders.

Internal audit

Status of internal audit

The company has an independent internal audit department with direct access to the chairman, reports functionally to the audit committee and administratively to the chief executive officer. Internal audit is risk-based and the internal auditors submit an annual assessment to the audit committee on the system of internal controls. Apart from own employees it functions on a co-sourced basis with KPMG as external consultants and in accordance with a charter approved by the audit committee. The charter formally defines the purpose, authority and responsibility of internal audit activity and is consistent with the Institute of Internal Auditors' definition. The head of internal audit is required to attend all audit and risk and capital management committee meetings and submits a report to each audit committee meeting.

Role and function of internal audit

Internal audit forms an integral part of the combined assurance model and focuses on adding value to the operations of the group. To this end it emphasises:

- Evaluation of appropriateness of and adherence to company policies and procedures
- Prevention of fraud, unethical behaviour and irregularities
- Production of quality management information
- Sound business processes and associated controls

Scope of internal audit

The department annually submits a coverage plan to the audit committee for approval. The scope of this plan encompasses the entire business of the group and is prepared with the strategic aim of the group in mind. In our developing environment, great emphasis is placed on implementation and efficiency of systems. In addition, the operational environment is closely monitored and assurance derived that controls are adequate and operating effectively. Increased emphasis is placed on development of centralised monitoring and continuous auditing. In this process, any deficiency detected in governance is referred to management for action. The extent to which recommendations emanating from audits have been implemented, are measured.

Risk and capital management review

7

> Despite the world economy, Capitec Bank's credit rating remained unchanged at A2.za and P-1.za
>
> - Moody's Investors Service

The group views risk management as a measure of ensuring a responsible return on shareholders' equity. Ultimately, the board remains responsible for risk management. To assist them in performing this duty, the business is managed through a system of internal controls functioning throughout the entity. This promotes an awareness of risk in every area of the business as risk management is seen as the responsibility of each and every employee.

Risk and capital management committee

The risk and capital management committee, chaired by an independent non-executive director, oversees risk management. The committee has a formal, board approved charter in accordance with which it assists the board in reviewing the processes followed to identify and evaluate risks.

The committee also ensures that risk assessment is an ongoing process and that a formal risk assessment is undertaken at least quarterly.

Subcommittees, comprising executives and senior management, have been established to deal with specific risks facing the group in a structured manner:

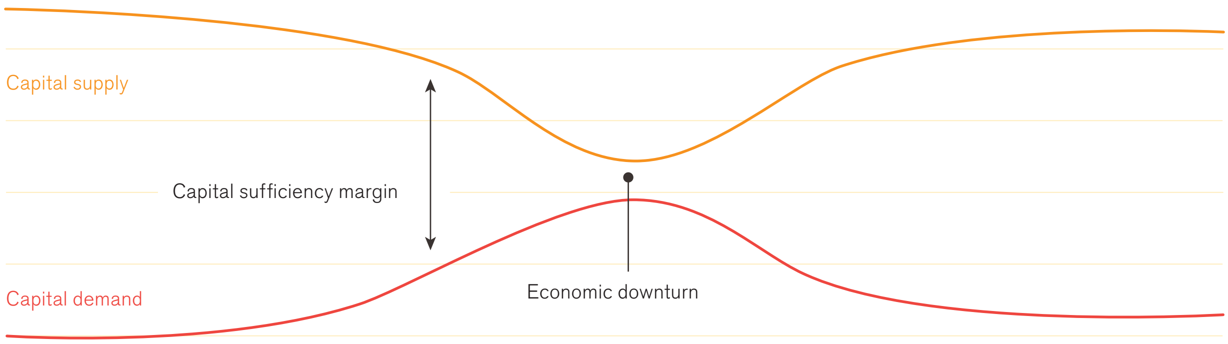
- Credit committee
  – credit and counterparty risk
- Assets and liability committee (ALCO)
  – interest rate, market, liquidity, counterparty, currency and capital adequacy risk
- Operational risk committee (ORCO)
  – compliance, human resources, legal, operational, regulatory, reputational and technology risk.

These subcommittees report to the risk and capital management committee. Refer to the risk control framework in the corporate governance review on page 29.

The biggest risks reside in liquidity, credit extension, information technology, human resources and capital management. Emphasis is thus placed on these areas. However, to enhance shareholders' and other stakeholders' interests, all risks are mitigated to an acceptable level relative to the return generated by the activity concerned. This remains a central theme of the manner in which the business is conducted. The companies in the group operate in a structured manner with defined processes and procedures enabling risk assessment within a controlled environment. Existing controls are assessed and, if necessary, adjusted. Reports are generated at regular intervals to enable monitoring of risk levels.

The concept of day-to-day financial risk management extends beyond the International Financial Reporting

Capital sufficiency in an economic downturn



The Capitec internal capital adequacy assessment process (CICAAP) addresses the sufficiency of capital during a downturn in the business cycle:
- *Typically, capital supply is less due to losses or lower appetite for capital issues at lower prices, in an economic downturn.*
- *Typically, capital demand is higher as risk-sensitive measures will demand more capital reserving, for example deteriorating credit experience.*

Standards (IFRS) accounting definitions of financial risks and includes the following: capital adequacy, credit, currency, equity risk in the banking book, interest rate, liquidity and solvency risk. The group does not have material counterparty and market risk, as understood in terms of the Regulations promulgated under the Banks Act, 1990 (Act 94 of 1990), as amended (the Banks Act), as the group does not conduct financial market trading activities as part of its business strategy. Credit risk related to the investment of surplus cash resources with banks and money market funds is managed by ALCO. ALCO proposes a list of counterparties and related limits which are approved by the credit committee. A separate large exposures committee exists to evaluate and approve exposures to other banks and money market funds in terms of the limits specified in the Banks Act. Those risks, not already addressed above, are discussed in the following paragraphs:

Capital management

Risk management and capital management are directly linked.

Risk capital represents a reserve for those risk exposures where, after applying cost-effective risk management techniques, residual risk remains. Residual risk exists, given the potential for unexpected losses as well as volatility in losses expected to occur in the future, but not captured in terms of IFRS.

In addressing capital matters, both the supply and demand factors that impact capital adequacy are managed. Supply-side risk is the risk related to procuring appropriate capital resources at appropriate pricing and times to maintain capital buffers and meet the stipulated requirements of regulators and expectations of shareholders and rating agencies. The management of demand-side risk (risks impacting negatively on earnings and capital) is the traditional risk management side of the business. Management of demand-side risk also involves monitoring the growth in risk-weighted assets which drives the growth in the regulatory and own internal capital requirements.

The group's principal policies when managing capital are:
- to address the expectations of shareholders, and so optimise business activities to ensure that return on capital targets are achieved through efficient capital management, while ensuring adequate capital is available to support the growth of the business; and
- to ensure that there is sufficient risk capital, including capital to be held as a buffer for unexpected losses to protect depositors and shareholders, thereby ensuring sustainability through the business cycle. This approach is consistent with our long-term strategy to build value.

The two principles above counterbalance each other by aiming to maximise returns to shareholders, but not at the expense of the requirements of other stakeholders. This approach safeguards long-term sustainability so that satisfactory returns for all stakeholders are maintained. Implicit in this responsible approach is compliance with the capital requirements of the Banks Act and regulations thereto and the maintenance of a strong capital base to support the development and growth of the business.

A risk management strategy that incorporates the interests of both shareholders and other stakeholders will prevent the adoption of unacceptably high risk/reward strategies, which may adversely impact other stakeholders and long-term sustainability.

Capital risk governance

ALCO considers reports on capital adequacy on a monthly basis. ALCO reports to the risk and capital management committee in terms of the risk management framework. Capital adequacy and the use of regulatory capital are reported monthly to the South African Reserve Bank, in line with the requirements of the Banks Act.

Capitec internal capital adequacy assessment process (CICAAP)

To achieve policy objectives a CICAAP is conducted on an ongoing basis. This drives the position on capital management matters. The CICAAP addresses the management of capital and solvency risk and the risks arising from the procyclicality of business operations through the economic cycle.

The CICAAP reviews the historical, current and future capital positioning both from a regulatory and management or internal capital perspective. An essential element of the process includes forecasting capital supply requirements, including "stressing" the expected forecast to determine the sufficiency of capital in a downturn of the economic cycle as, typically, regulatory capital demand requirements increase, while qualifying capital supply slows down or decreases in times of economic downturn. Part of the process then involves determining appropriate management actions to address any anticipated capital needs to weather a downturn in the cycle. The board considers the results of the stress testing exercises developed by management as part of the CICAAP.

Risk management is an integral element of the CICAAP given the interrelationship between capital and risk management. As such, management considers the capital required to underwrite the risks of the business. This is assessed both before and after applying risk management and risk mitigation techniques so as to determine the outstanding residual risk and related capital reserving requirement.

Broad participation by management

The CICAAP involves broad-based participation from all the key risk owners and it is subject to periodic review by internal audit and relevant external consulting specialists who benchmark our process against best practice.

Basel II calculation methods for credit and operational risk capital

The CICAAP involves assessing capital from a business and regulatory perspective. The regulatory capital requirement is calculated using a percentage applied on a base; that base being the risk-weighted assets of the business. There are various methods used for the calculation of risk-weighted assets in terms of the Bank Act Regulations. As at the year-end reporting date Capitec's calculations of risk-weighted assets for credit and equity risks in the banking book were governed by the application of the standardised approach, while its calculation of operational risk was governed by the alternative standardised approach (ASA).

In terms of the ASA, the group operates a mono-line banking business through a portfolio of retail banking assets. All other ancillary assets exist to support this business. In terms of the ASA, a factor of 0.0525 is applied to the average outstanding financial assets for the past three years, to arrive at a risk-weighted equivalent to which the minimum capital adequacy percentage is applied to calculate the capital requirement. This result is subject to a minimum requirement, in terms of a specific agreement with SARB, that operational risk capital shall constitute at least 12% of the total regulatory capital requirement, calculated for all risks. Quantitative information on capital adequacy is presented below and in note 30.7 of the annual financial statements on page 120.

The total regulatory capital requirement reflected in terms of the regulations is as follows:

	GROUP	
	2010 R'000	**2009** R'000
Total regulatory capital requirement	**1 337 194**	807 062
Credit risk	**1 080 536**	628 669
on balance sheet	**1 080 536**	628 669
off balance sheet	**–**	–
Operational risk	**160 463**	94 908
Equity risk	**4 186**	3 676
Other assets	**92 009**	79 809
Property and equipment	**76 667**	60 034
Intangible assets (software)	**–**	6 917
Other receivables	**15 342**	12 858

Restrictions on the transfer of capital
As the operations of the group are in South Africa, the only restrictions on the transfer of capital relate to the statutory limitations on investments in certain associates as defined in the Banks Act.

Consolidation for purposes of determining group regulatory capital
Consolidation for regulatory purposes relates to the consolidation of the Capitec group. All subsidiaries are consolidated for both accounting and supervisory reporting purposes in the same way.

All companies are incorporated in the Republic of South Africa. The registered banking subsidiary of the group, Capitec Bank, has no subsidiaries. The main difference between Capitec group and Capitec Bank's capital, upon consolidation, relates to share options, which are reflected on an equity-settled basis in the group but on a cash-settled basis in Capitec Bank in terms of IFRS 2.

Credit universe

Credit risk management

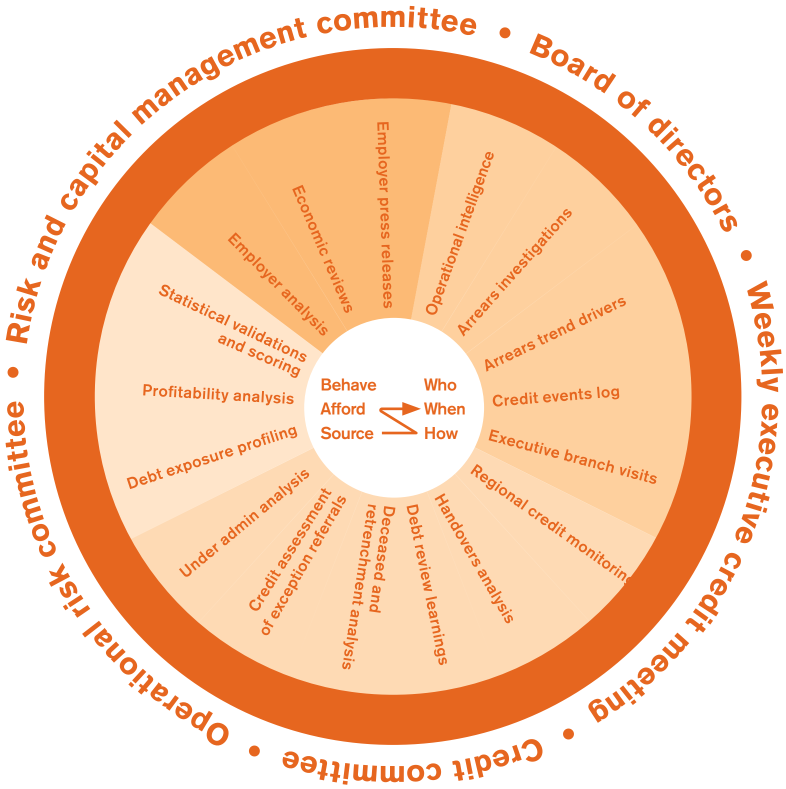
Credit risk management is overseen by the credit committee, a subcommittee of the risk and capital management committee. The composition of the credit committee includes a cross-section of management:

- Chief executive officer
- Financial director
- Executive: risk management (chairman)
- Chief credit officer
- Executive: operations
- Executive: card services and business development
- Credit managers, including:
  Head: credit operations and monitoring
  Manager: credit decision support
  Manager: capitec collection services
  Manager: credit development

The credit committee meets monthly to evaluate the activities of the credit division and operations, new business results, arrears, provisioning and regulatory compliance. They also determine credit policy.

Representation at the weekly executive credit meetings is broad-based and includes the credit committee members. These meetings are held every Monday afternoon and also include key senior members from the financial management division.

Credit risk management governance



Credit policies

Policy changes are recommended to the monthly credit committee meeting as and when required. The credit committee reviews the various policies at least annually.

Credit risk management approach

ACCEPT	**Credit assessment** Granting policy: Application processing with Sales and Services System Referrals policy: Central assessment team (CAT) Economic reviews: External publications and internal analysis
CONTROL	**Credit monitoring** Regional framework: Investigations Pay date management: Central and branch control Follow-up policy Central collections policy
RECOVER	**Capitec Collections Service (CCS)** • Hand over to collection agents (legal) • Debt review and under administrations • Deceased and retrenchment claims
LEARN	**Support** • Decision analytics • Reporting and modelling/forecasting • Scoring and rule validations
CHANGE	**Development and change management** • Co-ordinate projects, development of tasks and policy changes

Risk acceptance

Credit granting criteria

The credit acceptance decision is based on BAS – the applicant's:

- *Behaviour (willingness to pay)*
  The willingness to pay is established externally by enquiries performed and bureau-related policy rules. This information is supplemented internally. Fraud checks are included.

- *Ability to pay*
  The ability to pay is assessed after authentication and capturing of income, expenditure and financial obligation information, as prescribed by the NCA.

- *Source of payment*
  The source of payment is established from the salary slip details, bank statement and again when confirming employment.

Process and policy changes

The credit risk management model is continuously adjusted. This is to maintain and improve levels of arrears against the backdrop of changes in the economic climate. Evident growth in volumes and exposure due to the rollout of longer-term products also trigger process and policy changes. Scoring, affordability assessments, pay date management, collections and the end-to-end automation of processes have been enhanced.

Quality of new business

Vintage graphs are utilised to measure the quality of credit vetting as the trends indicate improvement or deterioration in each month's sales (a tranche).

Cumulative arrears figures for each tranche are tracked at 90 days or handed-over status (deceased, retrenched, under administration, etc.) and divided into the total original instalments payable (late delinquency).

Early delinquency trends are also tracked per tranche in the form of cascade matrixes and graphs (same as vintage graphs but also for arrears categories earlier than 90 days plus arrears).

Risk control

Credit monitoring

The credit monitoring department tracks arrears to ensure operational efficiency and compliance with the granting and follow-up policy by identifying changes in trends and variances from tolerance levels. Regional credit monitoring and branch support capacity have been enhanced extensively.

- *Arrears dashboard*
  Arrears percentages are reported daily and are evaluated on product, industry, branch, regional, operational (provincial) manager and national levels. Branch performance and targets include arrears targets, appropriately balanced with sales and profit targets.

- *Roll rate analysis*
  Arrears trends are monitored using observed roll rates derived from payment profiles, generated by the loans system (the same payment profiles are submitted to the National Loans Register). These payment profiles form the basis of the loan impairment models and the unexpected loss/CICAAP model. Variations of the roll rate tables are utilised to understand the level of rehabilitation on accounts in arrears and to derive new credit-granting rules and collection strategies.

- *Credit events log*
  All identified credit events are registered on a central credit events log and communicated to branches and operations management.

Credit control

- *Collection method*
  Capitec mainly utilises the regulated non authenticated early debit order (NAEDO) system to collect instalments on the pay dates of clients who do not deposit their salaries with the bank. Collections are mandated by clients in terms of their loan contracts; collections are made from their external bank account or clients can deposit their salary with Capitec Bank and collections are then made from their Capitec Bank account under the same rules as external NAEDO debits.

- *Daily collection processes*
  We proactively reconfirm the pay dates of employers.

- *Late-stage collection*
  Late-stage collections are mostly performed centrally from an internal call centre.

Loss recovery

Legal collections are handed over to various collection agents who are responsible for tracing and legal action (emolument attachment orders). The agents are managed in terms of mandates and their performance is reviewed monthly. These agents, the handed-over-accounts database and recoveries are managed by the Capitec Collection Services (CCS) department.

The specialised services area within CCS has the legal skills, with the support of the legal department in the risk management division, to manage the debt review applications, deceased estates and under-administration cases.

Provisions/Impairment recommendations

Each tranche of sales per month is valued at each month-end, based on the estimated future receivable instalments based on historical experience, adjusted with a probability of default and early repayment. The present values of these expected future cash flows are deducted from the carrying value of these loans. The difference is the provision in the balance sheet and the month-to-month movement is the impairment.

Analysis of regulatory credit exposure

GROUP Basel II exposure categories	Average gross exposure[1] 2010 R'000	2009 R'000	Aggregate gross year-end exposure[2] [4] 2010 R'000	2009 R'000	Exposure post risk mitigation[2] [3] [4] 2010 R'000	2009 R'000	Risk weights[5] %
Corporate	**188 814**	17 145	**75 472**	16 723	**75 472**	16 723	100
Sovereign	**1 606 284**	243 538	**2 200 249**	362 469	**2 200 249**	362 469	0
Banks (claims <3 months original maturity)	**729 287**	435 607	**829 080**	605 457	**829 080**	605 457	20
Banks (claims >3 months original maturity)	**20 062**	–	**–**	–	**–**	–	50
Retail personal loans							
– performing[6]	**4 530 663**	2 788 960	**5 236 428**	2 894 355	**5 236 428**	2 984 355	75
– impaired	**314 763**	376 900	**350 001**	325 811	**350 001**	325 811	100
On balance sheet	**7 389 873**	3 862 150	**8 691 230**	4 204 815	**8 691 230**	4 204 815	

As required by the Banks Act and regulations (which incorporate Basel II):

(1) *Average gross exposure is calculated using daily balances for the last six months.*

(2) *Items represent exposure before the deduction of qualifying impairments on advances.*

(3) *Represents exposure after taking into account qualifying collateral. Amounts are shown gross of impairments which resulted in a lower capital requirement.*

(4) *'Corporate' and 'Bank' exposures were calculated based on an average using daily balances for the respective year-end months. All other items are the balances at year-end.*

(5) *The risk weightings reflected are the standard risk weightings applied to exposures as required by the regulations (as reflected in the table of rating grades and related risk weights on page 44) in terms of the standardised approach to credit risk. Where the regulations refer to credit ratings, the group applies Fitch international grade ratings for all exposures to determine the relevant risk weighting in line with the regulations' mapping requirements. Refer to notes 6, 23 and 30.7 in the annual financial statements, respectively, for information on movements in loan impairments and risk-weighted assets. All the impairments shown in note 6 to the annual financial statements relate to the retail personal loans portfolio.*

(6) *The comparative was adjusted for the present value of future cash recoveries relating to written off loans of R15.6 million that were transferred from credit impairments.*

Rating grades and related risk weights

Long-term credit assessment	AAA to AA-%	A+ to A-%	BBB+ to BBB- %	BB+ to B-%	Below B-%	Unrated %
Sovereigns	0	20	50	100	150	100
Public sector entities	20	50	50	100	150	50
Banks	20	50	50	100	150	50
Security firms	20	50	50	100	150	50
Banks: short-term claims	20	20	20	50	150	20
Security firms: short-term claims	20	20	20	50	150	20
Long-term credit assessment	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**Below BB-**		
Corporate entities	20	50	100	150		100
Short-term credit assessment	**A-1/P-1**	**A-2/P-2**	**A-3/P-3**	**Other**		
Banks and corporate entities	20	50	100	150		

The above table of risk weights is applied in terms of the standardised approach to credit risk for portfolios other than retail. Ratings are not applied to retail exposures. A standard risk weight of 75% is applied to performing retail exposures while impaired exposures attract a standard 100% risk weight.

Analysis of gross exposures by industry sector in terms of the regulations

All exposures are performing unless otherwise stated.

	GROUP	
	2010	**2009**
Sector	**R'000**	**R'000**
Finance intermediation (banks)	**884 113**	605 457
Sovereign (central government and central bank)	**2 200 249**	362 469
Retail personal loans		
– performing[1]	**5 236 428**	2 894 355
– impaired	**350 001**	325 811
Other	**20 439**	16 723
	8 691 230	4 204 815

[1] *The comparative was adjusted for the present value of future cash recoveries relating to written off loans of R15.6 million that were transferred from credit impairments, and to reclassify R8.5 million from wholesale and retail trade to retail personal loans.*

Ageing of impaired advances

< 60 days	**306 416**	271 902
60 – 90 days	**43 585**	53 909
	350 001	325 811

Assets and liabilities universe

Liquidity risk

Liquidity risk is the risk that Capitec does not have sufficient or acceptable cash and cash equivalents, or access thereto, to fund increases in assets and meet its obligations (including, importantly, repayment of depositors' funds) as they become due, without incurring unacceptable losses.

Notwithstanding a greater acceptance of Capitec by the wholesale funding market, liquidity continues to be managed cautiously and conservatively. The group operates an uncomplicated liquidity profile with a preference for long-term funding at interest rates aligned with the structure of the asset book. The management of liquidity risk takes preference over the optimisation of interest rate risk.

Liquidity risk governance

Liquidity risk is managed by ALCO. The committee comprises broad representation by executive and senior management. ALCO meets monthly to consider the activities of the treasury desk which operates in terms of an approved asset and liability management (ALM) policy and in line with approved limits. Capitec also has the benefit of an uncomplicated structure – a single treasury desk with a direct reporting line to the financial director in line with the general ethos of flat reporting structures. A back-office structure is in place to control and monitor all treasury activities.

ALCO receives reports on a monthly basis of daily balances on ATMs and funds in transit with cash management service providers, teller cash, call and fixed deposits and money market funds. Other reports include a cash flow forecast, a stressed cash flow forecast, treasury desk funding maturity ladder, asset-liability matching, deposit concentrations, progress on funding initiatives, business as usual maturity and contractual maturity reports as well as minimum liquid asset and reserve balance compliance reports. Management also prepares reports on the number of transactions and rand value volumes transacted on the various payment mechanisms that the business is party to, which assist in understanding the related day-to-day and intra-day cash flows.

Principal policies

Compliance with the treasury management policy results in a low-risk liquidity structure. Capitec is not exposed to the uncertainty that accompanies the use of corporate call deposits as a funding mechanism, and its asset structure, while extending in term, is still relatively short-term in nature. The principal risk management policies governing the management of liquidity risk as defined in the ALM policy are as follows:

- Wholesale deposit funding is limited, in the main, to contractual maturities of two months or more, although in the past year we have only accepted deposits with maturities of at least six months.
- Utilisation of short-term retail deposit funding is limited to funding short-term assets.
- Surplus short-term retail funding is maintained in call accounts with highly rated South African banks, money market unit trusts operated by large asset managers, treasury bills issued by the National Treasury and South African Reserve Bank debentures.
- Adequate liquid assets are maintained in terms of the Banks Act regulations to fund the liquid asset requirement and the reserve account and to maintain collateral for clearing balances on the South African Multiple Option Settlement (SAMOS) system account.
- Treasury's use of interbank facilities is restricted in line with specified limits.

Daily cash management

Daily liquidity requirements are managed by forecasting daily funding requirements. This is achieved by forecasting liquidity commitments which can be summarised in two broad categories: those which are considered as day-to-day flows and those that relate to large singular obligations.

Daily rollovers and withdrawals by the retail market, growth in the loan book, inflows from settlements adjusted for expected default and cash-in-transit items are forecast. These are combined with the scheduled contractual cash inflows and outflows in terms of the wholesale funding programme, retail fixed deposits and periodic commitments such as dividend and tax payments. Treasury management maintains regular daily contact with the central branch management office or business support centre (BSC) to manage ATM requirements. Teller cash is maintained at a minimum. The forecasting is supported by behavioural modelling conducted to determine business as usual cash flow requirements, including cash stress points in any given month. The modelling is adjusted for seasonal variations based on historical experience as adjusted for expectations around projected growth and current market dynamics.

The treasurer has regular contact with all the large wholesale depositors to understand their intentions regarding the rollover of wholesale deposits and negotiation of funding. The treasury desk maintains portfolios of highly liquid assets that can be liquidated to meet unexpected variances in forecast requirements. In line with the preference for long-term fixed-term funding, the treasury actively pursues medium- and long-term funding opportunities to fund the budgeted growth in the activities of the bank.

During the year under review the retail fixed deposit product offering was diversified to include fixed deposits appropriate for clients who want to benefit from a higher yield offered on longer-term fixed placements. Clients are now able to invest in superior yielding fixed deposits for periods from six months to five years. This further diversifies available funding sources and enables Capitec Bank to price retail fixed funding on the yield curve. Funds with specific maturities can now be targeted by offering competitive rates in the market. This gives the bank greater flexibility to manage the cost of funding and the maturity structure of the retail deposit base.

Deposit management

Management takes care in assessing the relative permanency and value distribution of various funding sources, be they wholesale or retail. For fixed-term funding, efforts are directed towards managing rollover risk, while for demand savings deposits attention is focused on monitoring and managing the "core" or "stable" element within the retail demand savings deposit base. Statistical techniques are utilised to estimate this core having due regard for client behaviour and the resulting fluctuations in day-to-day cash flows. The established result is then subject to a review by senior management and the core is established at a conservative percentage of the empirically determined result. Internal definitions of core and fluctuating deposits are formally authorised by ALCO. Interest rates are reviewed daily to ensure that deposit rates remain competitive and appropriate. Treasury management assesses concentration risk within the deposit portfolio and maintains a diversified wholesale and retail funding base. Treasury management constantly reviews the efficient utilisation of cash resources and evaluates new liquidity initiatives to improve the liquidity profile.

Liquidity contingency planning

ALCO receives, on a monthly basis, a stress mismatch report which simulates a stress scenario based on the asset and liability structure for the reporting month. The report also considers the available sources of stress funding to address any strain on the cash flows that may occur. In addition, a contingency funding plan (CFP) specifies qualitative and quantitative measures that must be monitored to identify early warning indications of liquidity stress. The plan provides management with a menu of possible actions to address potential liquidity threats. These actions cover necessary changes to the ALM strategy and communications with stakeholders.

The CFP operates in conjunction with the treasury management and ALM policy to ensure a coordinated approach to liquidity management. Refer to note 30.6 on page 117 of the annual financial statements for quantitative detail on the group's static, contractual maturity gap analysis which is used to monitor and manage the liquidity position.

Interest rate risk

Interest rate risk is the risk that the value of the balance sheet and earnings are adversely affected by external events that impact market driven interest rates.

Interest rate risk governance

ALCO meets formally at least monthly to, inter alia, consider the sensitivity to interest rate movements and to review the results of management's analysis of the impact of interest rate movements, including the results of model outputs. ALCO also receives information on yield curve developments, money market interest rates, an economic evaluation with analysis of the likely impact on interest rates and interest matching and rate repricing analysis.

In general the principal policy governing the management of interest rate risk is that management should avoid taking speculative or trading positions on the banking book. Therefore the policy is not to swap floating rate funding exposures to fixed rates in all instances, but rather ALCO aims to match the fixed or floating rate nature of funding with the fixed and floating rate elements of the loan book and surplus cash positions. To achieve this, significant long-term liabilities with floating or adjustable interest rates may be swapped to fixed rates. The bank has a high level of equity relative to liabilities leading to a natural interest rate mismatch between assets and liabilities. This gives ALCO some flexibility where it has a firm view on rates.

Policy requires prioritisation of the management of the value of equity over annual earnings in order to ensure sustainability and ensure an appropriate focus in creating value over the longer term. Therefore, ALCO considers the impact of interest rate decisions over the longer term and not only on annual earnings.

Although loan rates are fixed, the regulations to the National Credit Act (NCA) can have an impact on the pricing of new business. At year-end the highest priced personal loan products over six months were priced 0.4% below the NCA ceilings. A reduction of 1% in the SARB repo rate reduces the NCA ceiling by 2.2%.

Regulatory sensitivity analysis

	2010		2009	
	R'000	**%**	**R'000**	**%**
Sensitivity of equity				
200 basis points shift				
Increase	**22 963**	**1.8**	39 196	6.6
Decrease	**(31 044)**	**(2.4)**	(47 386)	(8.0)

The above equity sensitivity is calculated by modelling the impact on equity of parallel interest shifts of 200 basis points in the yield curve, both up and down, on the statement of financial position. The analysis is performed on a discounted, run-off basis in line with the requirements of the Banks Act.

Equity risk in the banking book

Capitec does not deal or maintain a proprietary position in equity investments. Equity investments at the 2010 year-end are a consequence of normal operational transactions. All unrealised gains and losses were included in the income statement. There are no latent unrealised gains or losses on equities not recognised in the income statement or statement of financial position. During the financial year ended 28 February 2010, the group did not invest in any new listed equities.

Currency risk

Currency risk is the risk that the value of assets and liabilities denominated in foreign currency are adversely affected by changes in the exchange rate between the rand and those currencies, with a consequent impact on the income statement and shareholders' equity.

All the operations are within South Africa. Capital equipment and technological support services that are imported result in limited exposure to currency fluctuations, however, these are hedged. There is some currency exposure on investments in Visa and MasterCard.

Hedging

The authorised use of derivative instruments is restricted to their use in risk mitigation applications.

Interest rate swaps are used to convert floating rate funding to fixed (and vice versa) to achieve ALCO objectives of matching floating/fixed rate assets to floating/fixed rate funding. Further information on interest rate hedging strategy is discussed under interest rate risk and in note 30.3 on page 116 and note 44 on page 134 to the annual financial statements. The group uses forward foreign exchange contracts (FECs) to cover obligations relating to capital equipment, technology and technology support services needed for the core banking activities. FECs are purchased to exactly match the total value of the underlying foreign currency commitment. With the exception of FECs, use of derivatives must first be approved by ALCO prior to transacting.

Stress testing

The group has a programme of stress testing that assists management and the board in understanding the resilience of the business model. Stress testing is conducted for credit, liquidity, interest rate, capital adequacy and business risk.

One of the main criticisms levelled at risk management departments at financial institutions before and during the global crisis was that risk management processes were irrelevant and too far removed from the essential operations of the business. Therefore, a key feature of the stress testing policy is to ensure that it is intuitive and relevant; this includes appropriate involvement of senior management and board structures. To this end the risk management function is mandated with ensuring that stress testing is embedded within the operational processes.

Operational risk universe

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.

Operational risk governance

Operational risk governance and management are a subset of the risk control framework (refer to page 29). The operational risk committee (ORCO) has been established to oversee the operational risk profile of the group. The role of ORCO is to direct, govern and coordinate operational risk management processes in accordance with an approved policy that sets out the expectations and responsibilities relating to operational risk management. Although the formal definition of operational risk excludes reputational and strategic risk, operational risk is managed under the umbrella of ORCO and strategic risk by the executive management committee. All divisional heads are members of ORCO. The heads of the compliance, forensic, internal audit, IT risk and operational risk management units provide independent monitoring and attend all ORCO meetings.

Management of operational risk

The management of operational risk is inherent in the day-to-day execution of duties by management and is a central element of the management process. A dedicated operational risk manager is responsible for the application of group policies, providing guidance in terms of best practice, ensuring consistent implementation and reporting of material exposures or trends to the board and regulatory authorities. Line management accepts accountability for the identification, management, measurement and reporting of operational risk. The three primary operational risk management processes are risk assessment, loss data collection and the tracking of risk indicators. The results of these processes are utilised to raise awareness of operational risk management and to enhance the internal control environment with the ultimate aim of reducing losses.

Insurance programme

A comprehensive insurance programme is maintained to cover losses from fraud, theft, professional liability claims, damage to physical assets and the cost of business interruption. The opportunity cost of lost revenue is not covered.

Fraud prevention

A zero-tolerance approach is followed with respect to fraud, theft and dishonesty. Information regarding any irregularities received from employees, management or the independent fraud hotline, Tip-Offs Anonymous, is investigated by our forensic services department. Fraud awareness campaigns, which include e-newsletters, posters and presentations to all employees, are continuously presented. Various channels are available to employees and clients alike for disclosing any dishonesty in the workplace, including:

- Toll-free number
- Client Care Centre
- Website

Occupational health and safety

Rates of injury, occupational diseases, lost days and absenteeism rate due to occupational injuries and number of work-related fatalities per region are insignificant as the working environment is mostly office based.

At the Stellenbosch and Bellville campuses where on average 700 employees are aggregated, health and safety coordinators arrange the appointment and training of SHE representatives, first aiders, fire wardens and fire fighters as prescribed by the Occupational Health and Safety Act and in accordance with the Capitec health and safety policies and procedures documents. The branch infrastructure was designed to provide for a low cash environment. The intention is inter alia to safeguard employees and clients in all branches. Cash deposited by clients is held in dropsafes. Employees do not have access to the keys of either ATMs or dropsafes; the keys are kept off premises. Cash is not paid out over the counter, but electronically deposited into the account of the client who then withdraws the required amount at an ATM or other transaction point. Exposure to hazardous material and machinery is limited.

Business continuity planning

A continuity management team is responsible for all aspects of business continuity. The business continuity framework and methodology is based on British Standard 25999 and has been approved by the board. The business continuity and disaster recovery plan documents processes to be followed should an extreme event occur. The disaster recovery and evacuation plans have been tested successfully during the year as part of a scheduled programme (Disaster recovery relating to information technology is explained on page 51).

Reputational risk

Reputational risk is the risk that an activity, action or stance taken by the Capitec group or its officials will impair its image in the community and the long-term trust placed in the organisation by its stakeholders; this may result in the loss of business and/or threaten legal action.

Capitec views reputational risk as a function of the management of all other risks as well as its communication strategy in the marketplace. If the other risks are well managed and this is adequately communicated to the market, reputational risk is managed appropriately. In terms of the management approach, reputational risk is dealt with by the operational risk committee.

Reputational risk is managed on an ongoing basis through compliance with disclosure and communication policies. Disclosure of information is made in the annual financial statements, via public statements by authorised spokespersons and through periodic disclosure of information on the website (www.capitecbank.co.za) in terms of the Banks Act requirements.

Key accounting policies relevant to the interpretation of risk exposures

The key accounting policies relevant to the interpretation of risk exposures are contained in the annual financial statements on pages 85 to 95.

Policies and procedures

The group has a dedicated policies and procedures department "Polproc". Polproc is responsible for the administration of policies and procedures in terms of the group policy framework. This framework sets minimum standards for policies. These standards govern the creation and maintenance of policies in terms of a policy lifecycle and require that policies conform to the four Capitec pillars, which are simplicity, affordability, accessibility and service. Policy developers are required to promote awareness of policies to enable compliance. This may involve training or other interventions for users. Polproc assists policy developers in this. Policy developers and line managers are responsible for assessing compliance with policy. Internal audit monitors compliance with key policies in terms of their annual risk-based audit plans.

The policy lifecycle

Information technology

IT governance framework

IT governance is implemented according to the Capitec IT governance policy and supporting IT governance framework. The framework is based on principles and controls as they are defined in the following international standards: Cobit, ISO 27001, BS 25999, PCI DSS and ITIL. The governance framework defines how Capitec ensures that the IT strategy is formulated, approved and reviewed in such a way that it is always aligned with the business strategy.

Frequent formal reviews of IT and business priorities by senior and executive management ensure that the business development opportunities, as well as important infrastructural enhancements, receive the correct level of focus so that strategic goals can be met.

The IT governance framework also defines the organisational structure that is required to facilitate good governance in the areas of technology and information security management.

Weekly executive management meetings, as well as formal IT prioritisation meetings provide the platform where strategic IT issues are discussed. Weekly meetings, focused on IT risks and potential performance issues ensure that situations which could threaten the availability of systems, or the confidentiality and integrity of information are identified and addressed in a timely manner.

IT Disaster recovery (DR)

The IT risk management department facilitates frequent tests on the ability of the bank to recover within an acceptable time, when disaster strikes. These tests are regularly audited by the internal auditors. The audited results for tests conducted during 2009 showed that Capitec managed to complete a successful switch of all critical and essential systems to the disaster recovery site, within the timelines that were agreed with the board.

IT risk management, in cooperation with the operational risk manager frequently reviews DR and BCP priorities within the bank. These issues are then addressed by IT and the relevant business units to ensure that the time required to recover is driven down continuously so as to ensure minimal impact on the business in the case of a disaster.

IT compliance

The IT risk manager acts as compliance champion for the IT department and in this role facilitates frequent assessment of the status of legal and regulatory compliance issues in co-operation with the Capitec Bank compliance officer. Progress on all compliance issues are formally tracked and reported on. Association compliance is managed by a forum consisting of business and IT representatives. This forum meets once a month with representatives from the card associations to discuss new compliance requirements and status of compliance within the bank.

Information security management system (ISMS)

The Capitec information security policies and standards provide the platform on which controls to protect sensitive client and business information are designed. The ISMS is based on ISO 27001 and is the responsibility of the IT information security officer.

During 2009 much emphasis was placed on the delivery of PCI DSS requirements which were aligned with requirements to improve the maturity of the ISMS. These included enhancements in monitoring capabilities, logical access controls and network resilience.

Compliance officer's report

Capitec has established a dedicated compliance function in the bank as prescribed by regulation 49 of the Banks Act, 1990 (Act 94 of 1990), as amended (the Banks Act). The compliance function manages compliance risk which is defined as "the risk that the controls implemented by the bank to facilitate compliance with the applicable statutory and regulatory requirements are inadequate or inefficient". The compliance universe consists of all the statutory and regulatory requirements of relevant legislation, regulations and industry codes applicable to the business and sound management of the bank.

The compliance function consists of a team of four individuals. The head of compliance reports directly to the chief executive officer.

A compliance management system which consists of a combination of a compliance champion structure and dedicated compliance management software has been implemented. The compliance champions are senior managers who report to the executives of the different divisions of the bank. The compliance management software contains a core selection of legislation that is considered to be the most relevant for the bank. The software is utilised to assist with the identification of compliance objectives and assessment of compliance risks, the capturing and documenting of key controls and monitoring activities.

The compliance officer reports and submits biannual reports to the directors' affairs committee as required by the Banks Act. All material events of non-compliance are reported to the directors' affairs committee and the board of directors where necessary. For the period under review the compliance officer submitted a report which indicated a good level of compliance by the bank to statutory and regulatory requirements, and the events of non-compliance listed were all non-material and either rectified or are in the process of being addressed through system and process changes.

The Capitec group has a good relationship with its regulators, which are the bank supervision department of the South African Reserve Bank and the National Credit Regulator. Detection and prevention of money laundering is the responsibility of the compliance function and in this regard a good relationship with the Financial Intelligence Centre is also maintained. A healthy compliance culture is fostered through the implementation of key compliance risk controls in systems and processes and training of employee initiatives. The board has approved a formal compliance policy.

The Banks Act, Companies Act, Security Services Act, National Credit Act, National Payment System Act and Financial Intelligence Centre Act have been identified as key statutes that are focused on in terms of compliance management system activities. This approach and focus achieve a healthy balance of proper compliance and efficient interaction relative to the Capitec business activities. The focus in the coming year will also be on the introduction of the new Companies Act, Consumer Protection Act and the Protection of Personal Information Bill, as well as the key principles of King III.

Requests for access to information in terms of the Promotion of Access to Information Act 2000 (Act 2 of 2000) are referred to the head of compliance. There have been no requests for access to information at Capitec during the period under review.

Jan-Hendrik de Beer
Compliance head

R17.6m
invested in training 3 613 employees.

2 889 jobs contributed to the South African economy

Stakeholder review

9

Sustainable business success is dependent on the loyalty of stakeholders. To facilitate loyalty requires the development of a relationship of trust and understanding through clear, accurate and relevant two-way communication. Transparency, honesty and an ethical approach is a prerequisite to obtain the commitment of stakeholders. The Capitec philosophy is to build a sustainable business enterprise and to this end continuously works towards gaining the respect and trust of its stakeholders.

As a company we are committed to acting ethically in everything we do

Capitec ethics statement

"As a company we are committed to acting ethically in everything we do.

We are committed to a transparent and ethical workplace environment and to conduct our business with the utmost level of honesty and integrity."

Employees

One of the biggest investments a business makes is in its people. Business success is dependent on knowledgeable, well-trained employees with a passion for their work. Employees are thus nurtured to foster personal growth to the ultimate benefit of all stakeholders that they interact with.

Employees are trained

Firm Foundations

Great emphasis is placed on training. For this reason, a dedicated Capitec training facility, Firm Foundations, has been established. All new employees attend a Firm Foundations course to introduce them to Capitec. At Firm Foundations, employees are trained in how to add value to Capitec in their interaction with clients. One of the cornerstones underpinning the Capitec philosophy is personal service. Employees thus receive intensive coaching to enable them to cultivate solid personal relationships with their clients based on rapport and in-depth knowledge of the Capitec offer to individuals. After a six-week apprenticeship which includes the Firm Foundations training, new employees are well versed in the "Capitec way" and are ready to commence their career as Capitec bankers. In addition to Firm Foundations, branch employees receive continuous training on the various products offered by Capitec, either through targeted training sessions or online via the e-learning platform.

Leadership training

- Eligible employees are provided training to become branch managers.

- To assist managers in their leadership roles, training is provided that focuses on skills to plan, organise, lead and control more effectively. In addition, branch managers are assisted, through the Coaching for Competence programme in coaching their branch employees in relevant topics such as fraud control, requirements of the National Credit Act and company policy and procedures.
- Team leadership training is provided to educate employees in general, especially those already in leadership positions, how to improve cooperation amongst team members. In the period under review (note 25 on page 110), R17.6 million (2009: R11.8 million) was invested in training 3 613 (2009: 2 667) employees.

Leadership development is facilitated

In 2008 a development programme was introduced in terms of which two employees are appointed to the executive management committee on an annually rotating basis. The incumbents for 2010 are Jennifer Coetzee (manager: direct communications) and Gavin Roman (manager: credit decision support) who succeed Sbusiso Kumalo (head: channel marketing) and Graham Lee (head: management information systems). All the individuals that have been appointed in this position to date have confirmed that the experience had been educational and valuable.

Employees are assisted in further education

Employees are offered the opportunity to obtain further education and quality tuition. Financial support is granted in the form of bursaries, paid from the Capitec Bank Bursary Scheme, to permanent employees who wish to acquire tertiary qualifications through part-time study. Bursaries to the value of R621 223 (2009: R423 000) were allocated in the past year. The bursary scheme includes registration, tuition, and examination fees. The bursary scheme encourages qualification in business management, financial management, management and leadership development programmes and qualifications related to information technology.

Employee wellbeing is supported and promoted

- Life-threatening diseases such as HIV/Aids and tuberculosis have a severe impact on communities and industries. To address this threat, a life-threatening diseases policy provides procedures for managing employees with life-threatening diseases or long-term illnesses in a manner that ensures fair and non-discriminatory treatment. At the same time Capitec's operational needs and business interests as well as the interests of other employees are safeguarded. Capitec is committed to empowering employees to prevent the spread of life-threatening diseases through education in an internal newsletter.
- An employee assistance programme (EAP) has been implemented, with a 24-hour toll-free telephonic counselling service in English, Afrikaans, Tswana, Sotho, Zulu and Xhosa. The EAP is available to all permanent employees. The EAP offers access to information and life management counselling for a range of matters of concern to employees such as HIV/Aids and financial stress.
- Benefits provided to employees:

Benefits offered	**Full-time employees**	**Temporary or part-time employees**
Life insurance	√	√
Disability/invalidity cover-age	√	√
Maternity/paternity leave	√	
Retirement provision	√	
Share ownership	√	

Employee performance is supported

The performance management system forms a key part of the Capitec philosophy of continuous employee development and improvement. The primary objective is to:

- align and focus all employee efforts with the business plan and goals as set by management;
- provide a framework for regular performance feedback and continuous coaching;
- identify training and development needs to strengthen the knowledge and skill of employees;
- provide a basis for rewarding people in relation to their contribution by financial and/or non-financial means; and
- establish and maintain a performance-driven company culture.

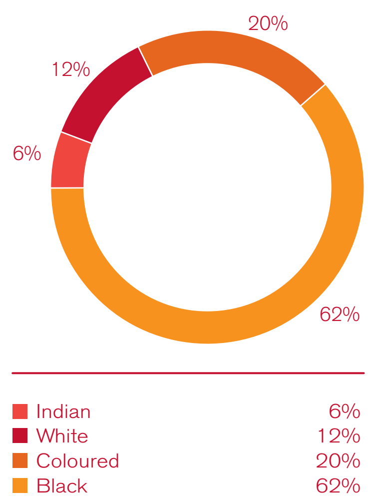
The performance management policy dictates employee performance management frequency:

	Monthly	Quarterly	Biannually	Annually
Operations				
– Branch and sales		√		
– Regional management			√	
– Operations management				√
Support			√	
Client care and helpdesk	√		√	√

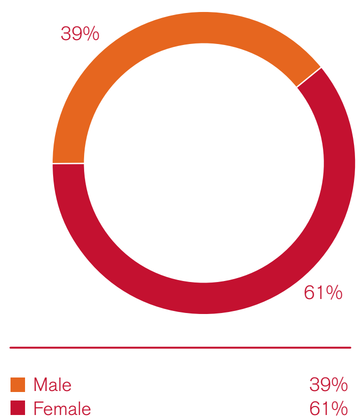
Performance is rewarded with promotions

Employees suitable for promotion are identified. The skills requirements of a new position may, however, differ significantly from those where an employee may currently be performing well. Coaching of such individuals to assist them in obtaining the required skills, combined with good performance, forms an excellent basis for the sustainable growth and development of the organisation and its employees. In the period under review, 333 employees were promoted.

Promotions: race



Promotions: gender



Employees are empowered

Capitec has established two employee schemes to augment employee share ownership in listed Capitec shares.

- In December 2003, the board approved an Employee Share Purchase Scheme in terms of which all permanent employees wishing to participate are enabled to become co-owners in Capitec. As many as 886 employees have acquired 0.7% of issued Capitec ordinary shares through this scheme to date. At year-end 390 employees held shares in the ordinary share capital of Capitec through this scheme. A total of 63% of employees participating in this scheme are black.
- In February 2007, Capitec issued a 12.2% interest in the issued share capital of Capitec at the time to a BEE consortium with the proviso that a 5% interest in the said consortium be allocated to the Capitec Bank Group Employee Empowerment Trust. In terms of the rules of this trust, employees benefit from the growth of Capitec through increased share value. Eligible employees received the first tranche of proceeds in terms of this trust in February 2010 when R2.9 million was paid out to 1 910 employees.

Employees are engaged through a system of two-way communication

– *Employee concerns*

- An Employment Equity Forum was established in 2006 to engage employees on matters of importance to them.
- To facilitate communication from employees, an SMS and email facility as well as an employee online platform will be implemented during 2010.
- A helpdesk facility at the Capitec Bank Business Support Centre provides realtime assistance to branch employees who have queries or difficulties while serving a client.
- Employees are continuously informed that they have access to Tip-Offs Anonymous, a hotline where suspicious actions by fellow employees can be reported anonymously in any of the 11 official languages of South Africa.
- Employees are invited to discuss matters of concern with line management.
- Employees have opportunity through a user input invitation process to make enquiries about and submit comments on company policies and procedures. A dedicated email address has been established to facilitate this procedure.
- Managers from the operations department as well as Riaan Stassen, the chief executive officer and Gerrie Fourie, the operations executive, regularly visit branches to interact with branch employees. During these visits they invite employees to discuss matters of concern to them.

– *Employer communication*

Capitec's communication department plays an important role in communicating all the strategic and other initiatives of the company to its various employee target audiences. Communication channels include:

- CFacts: An email that communicates facts and newsworthy information to all employees.
- CAlert: Important email notifications mainly to branches.
- CInside: A full-colour magazine covering the company's development, products and services.
- Emails: Designed to communicate internal campaigns in an innovative and creative manner to all employees.

The following tables provide a breakdown of the Capitec workforce per occupational level according to gender and race:

At 30 September 2009 as required in terms of section 22 of the Employment Equity Act, 1998 (Act 55 of 1998)

	Male				Female				Foreign national		Total
	Black	Coloured	Indian	White	Black	Coloured	Indian	White	Male	Female	
Top management	1	0	0	11	0	0	0	0	1	0	13
Senior management	1	6	0	36	0	2	0	2	4	0	51
Middle management	19	14	5	101	12	5	2	40	6	0	204
Junior management	158	85	20	84	146	87	13	108	2	6	709
Semi-skilled	631	210	30	35	1373	371	42	71	0	4	2 767
Total permanent	810	315	55	267	1531	465	57	221	13	10	3 744
Temporary employees	2	3	1	2	3	6	0	5	0	0	22
Grand total	812	318	56	269	1534	471	57	226	13	10	3 766*

*Note: *excluding Key Distributors (Pty) Limited*

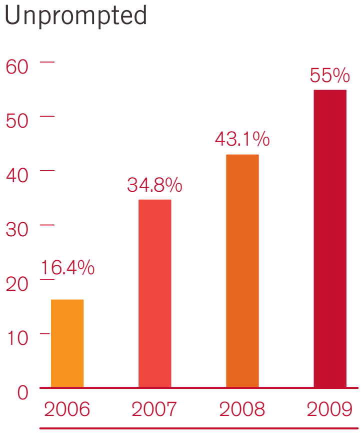
At 28 February 2010

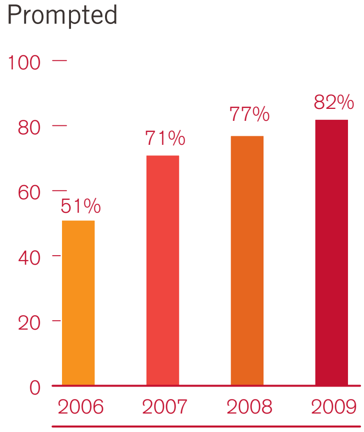
	Male				Female				Total
	Black	Coloured	Indian	White	Black	Coloured	Indian	White	
Top management	0	1	0	17	0	0	0	1	19
Senior management	3	5	1	42	1	1	0	2	55
Middle management	28	17	6	113	22	6	2	45	239
Junior management	224	91	25	103	190	103	22	126	884
Semi-skilled	695	223	27	45	1 450	391	45	81	2 957
Grand total	950	337	59	320	1 663	501	69	255	4 154

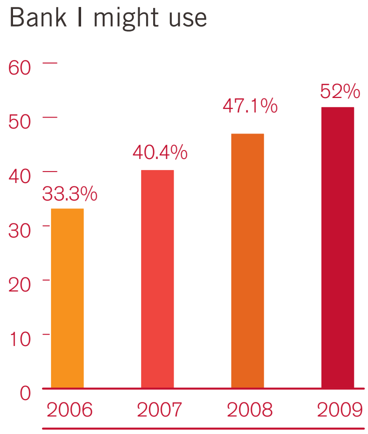
Breakdown of workforce according to gender and age group

	<30		30 – 50		>50		Total		Grand total
	Female	Male	Female	Male	Female	Male	Female	Male	
Top management	0	0	0	13	0	6	0	19	19
Senior management	0	0	3	41	1	10	4	51	55
Middle management	13	23	60	132	2	9	75	164	239
Junior management	168	165	260	263	13	15	441	443	884
Semi-skilled	1 548	780	411	199	8	11	1 967	990	2 957
Grand total	1 729	968	734	648	24	51	2 487	1 667	4 154

Public awareness







Employment equity is based on merit

The Capitec recruitment philosophy has as objective transparency, fairness and equity when employing individuals and compliance with applicable employment and labour laws. The crux is to select the right people for the right jobs.

The majority of the Capitec work force (65%) consists of individuals younger than 30 years. Young people are dynamic and highly adaptable to change which is in line with the requirements of a young growing bank in a very competitive and well-established financial services environment. To remain innovative and different from the traditional banks, versatility is an imperative.

Clients

A recent survey by AC Nielsen has shown that individuals falling within the LSM 7-8 category (LSM – Living Standard Measurement; LSM 1 is the lowest category and LSM 10 is the highest category) are becoming increasingly aware of the Capitec Bank brand.

When asked to name banks in South Africa, 55% of individuals participating in the survey included Capitec Bank without being prompted.
When asked whether they are familiar with the name *Capitec Bank*, 82% of individuals participating in the survey responded positively.

Of the individuals that participated in the survey 52% responded that they may consider Capitec Bank as their preferred bank.

Creating a strong foundation for sustainability

Capitec's milestones since its inception nine years ago highlight its phenomenal growth to where it now offers a serious alternative to the traditional banks.
Capitec Bank's strategy derives from the six Ps in its marketing mix: product, price, place, promotion, people and processes.
True to the Capitec culture of simplicity, three key areas were identified on which to focus in order to:

- Ensure uniqueness in each of these areas
- Continue being a sustainable organisation
- Continue to offer a unique banking solution to all South Africans

Unique positioning	Unique product	Unique service
Place Promotion	Product Price	People Process

Research has shown that, in general, South Africans see banking as expensive, complex and confusing with too many options, too many fee structures, limited branch hours and complex forms to complete.

Capitec seized this window of opportunity with its offer of simplified, cost-effective, accessible banking strengthened by personalised service.

Unique positioning

Capitec uses innovation to provide banking which is simplified, accessible, affordable and service supportive.

Unique product

Capitec offers a single solution, the Global One banking facility, which gives clients access to transactions, savings and credit to manage their money on a daily basis. Due to transparent pricing, clients know exactly what they are getting and feel in control of their finances.

Based on a philosophy of innovation, technology is used to keep client costs down. How is this achieved? Biometric identification and paperless banking eliminate the need for a back office and keep overheads low. This facilitates reduced bank fees and competitive interest rates. Even though we are operating in difficult economic conditions, the Capitec business has a solid base from which to grow strongly. The price sensitivity of consumers in recent times is resulting in thousands of individuals choosing Capitec Bank above the traditional banks.

Unique service

Various initiatives have been implemented to allow Capitec Bank to distinguish itself in terms of service. The attitude of employees towards client service is critical to deliver exceptional service and to make things easy for clients. When recruiting employees, attitude and interpersonal skills are considered as important as numeracy skills. People with a positive mindset who want to create a special relationship with the client are appointed. The challenge is to see to it that every interaction with clients leaves them feeling special. Service is all about helping clients through enthusiasm, knowledge and respect.

- **Delivering exceptional service**
  A dedicated client care centre facilitates service delivery.
- **Using innovative technology**
  Capitec differentiates itself in the market by using innovative modern technology to deliver the most accessible, lowest-cost banking to the discerning individual. Innovation and advanced technology ensures that the banking offer presented to the client is simple and undemanding. This combination of innovation and technology also allows increased accessibility to Capitec banking facilities and everyday bank transactions are not only available to all individuals, but also at hand where they work and shop. Capitec Bank clients now have access to bank facilities at the click of a button or the swipe of a card; clients need not complete extensive forms to enable them to transact.

  People want to feel in control of their finances. Capitec Bank delivers the easiest and most simplified products and pricing which empowers clients to make the best choices while knowing exactly what costs they are committing to. The advantage of simplified products and pricing lies in the fact that branch consultant communication and marketing material correspond with the actual client experience which reduces time-consuming and expensive investigations into client queries and complaints. It also enables consultants to focus on building client relationships rather than managing administrative procedures.

  Continuous innovation will remain a strategic driving force for Capitec in order to continue its delivery of unique banking products and services.

Alternative dispute resolution

Capitec Bank subscribes to the Code of Good Banking Practice (the Code) and in terms of the Code, Capitec Bank falls under the jurisdiction of the Ombud of Banking Services. In terms of the Code, all client complaints or disputes that cannot be resolved by Capitec Bank can be referred to the Ombud. The Ombud's jurisdiction is limited to amounts of R1 million and is only available to natural persons, which form the basis of Capitec Bank's clientele.

Capitec Bank aims to provide each and every client with an excellent client experience. In line with this principle a dispute resolution process, the Reference Number Project (RNP), in terms of which clients can lodge queries directly with the dispute resolution function, has been introduced in conjunction with the Ombud for Banking Services. The incentive in this process is to provide a quick, cost-effective method of resolving disputes with clients. In terms of this project, client queries not resolved internally by Capitec Bank client care and taken up with the Ombud, are referred back to Capitec Bank by the Ombud as an RNP matter. These matters will then be dealt with by the designated official at Capitec Bank, but would not be seen as a formal Ombud file, thus speeding up the process and resolution.

Loan products offered by Capitec Bank, fall within the ambit of the National Credit Act (NCA). A client in default is given written notice of the default and advised to refer the loan agreement to a debt counsellor, alternatively dispute resolution agent, a consumer court or ombud with jurisdiction, so that the parties can resolve any dispute under the agreement or agree on a plan to bring the payments under the agreement up to date. This negates the need to commence with expensive legal proceedings to enforce loan agreements.

Savings product agreements and most of Capitec Bank's other products (excluding agreements falling under the NCA) will fall within the ambit of the Consumer Protection Act (CPA) which comes into operation later this year. The CPA provides that a consumer may seek to enforce any right in terms of the CPA or in terms of a transaction or agreement with Capitec Bank or resolve any dispute by referring the matter directly to the National Consumer Tribunal, the applicable ombud, the consumer court or an alternative dispute resolution agent.

Agreements that do not fall within the ambit of the NCA or the CPA (mainly between Capitec companies and other organisations) have in most instances provisions that disputes must first be referred to senior management of both parties to be resolved and/or that an independent expert, who will not act as arbitrator, will resolve the dispute. Failing any of the aforementioned dispute resolution measures, the dispute will be referred to formal arbitration.

Ownership

Equity ownership

	2010 %	2009 %
PSG Group	**34.78**	34.53
Board and top management	**26.30**	26.10
Black-owned companies, trusts and individuals	**15.83**	15.87
Black women-owned	**0.12**	0.14

PSG Group is a financial services company listed on the JSE and is represented on the Capitec board by Chris Otto and Piet Mouton.

Control

	2010 %	2009 %
Black directors at board level	**30**	30
Black women at board level	**10**	10
Black people at senior management level	**16**	13

Investor communication

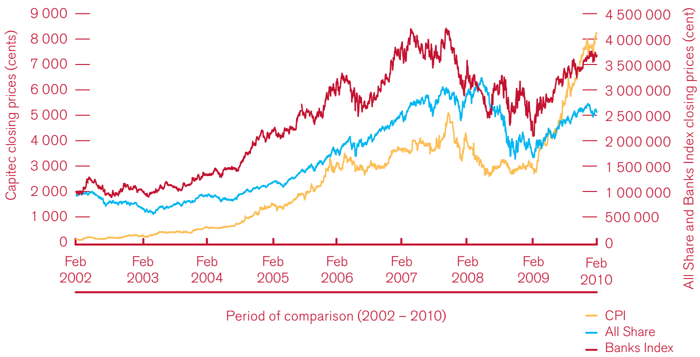
- Annual and interim results are published on the JSE SENS and in the media. Since inception results have always been published within 35 days of the half-year and year-end. Relevant financial statements are distributed to shareholders within the regulatory time frame.
- The capital adequacy of Capitec Bank is reported, as required in terms of regulation 43 of the Banks Act, to the public on a quarterly basis via SENS and the Capitec website (www.capitecbank.co.za).
- To ensure transparency, information pertinent to Capitec's business and relevant to shareholders and the general public is announced on SENS as and when deemed prudent. As an example, Capitec issued trading updates mid August 2009, leading up to the interim results announcement at the end of September 2009, and similarly at the beginning of February 2010, prior to the year-end results announcement on 31 March 2010 so as to ensure that shareholders are kept informed as regards earnings expectancy.
- Great store is set on market feedback that is obtained through broker reports and one-on-one discussions with analysts, asset managers and other market leaders.
- Close contact is maintained with funders. Investor presentations are held at least semi-annually, after the financial results have been announced. These presentations serve to inform and update the investment community and funding providers with recent and relevant information pertaining to the company. Capitec has open communication channels with funders and regular informal contact is made with funding providers during the year.
- Salient details of dividends are published on SENS and in the media and when not included in the annual and interim reports, a leaflet detailing this information is posted to all shareholders.
- Stakeholders have access to a selection of information on the Capitec website (www.capitecbank.co.za) that covers issues of interest to investors, clients, employees and suppliers.
- Shareholder queries are dealt with one-on-one by the secretarial department.
- Annual general meetings – In addition to distributing the notice of the annual general meeting to shareholders, all beneficial holders of shares in Capitec are personally invited to attend this meeting. As a result, the annual general meeting has grown from strength to strength with up to 150 shareholders attending this annual meeting. At the annual general meeting held on 29 May 2009, shareholders present at the meeting represented 66% of the issued ordinary share capital of Capitec and proxies to the chairman represented 24%. The event is used to present shareholders with an update on the activities of Capitec and its performance over the past year.

Performance on the JSE

	12 months ended 28 February 2010
Market price	
High (cents)	**8 250**
	(24 February 2010)
Low (cents)	**2 700**
	(10 March 2009)
Closing price (cents)	**8 200**
Market capitalisation (Rm)	**6 805**

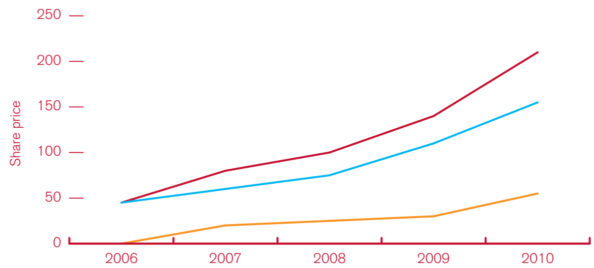
	12 months ended 28 February 2009
Market price	
High (cents)	4 000
	(7 April 2008)
Low (cents)	2 550
	(3 July 2008)
Closing price (cents)	3 001
Market capitalisation (Rm)	2 485

Share price



The graph above shows the performance on the JSE of the Capitec ordinary share compared to the Banks Index and the All Share Index since listing on 18 February 2002.

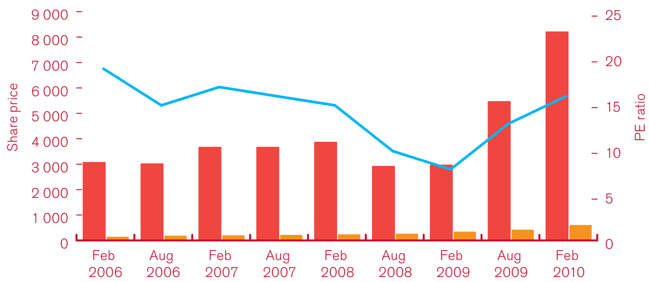
Ordinary dividends



	2006	2007	2008	2009	2010
Interim	–	20	25	30	55
Final	45	60	75	110	155
Total	45	80	100	140	210

The graph above shows the steady growth in dividends paid on Capitec ordinary shares over the past five years. The board has deliberately not set a dividend policy as it considers the capital and funding requirements of the bank before declaring dividends. The dividend cover over the past four years has ranged from 2.8 to 2.5 (refer to the key performance indicators on page 2).

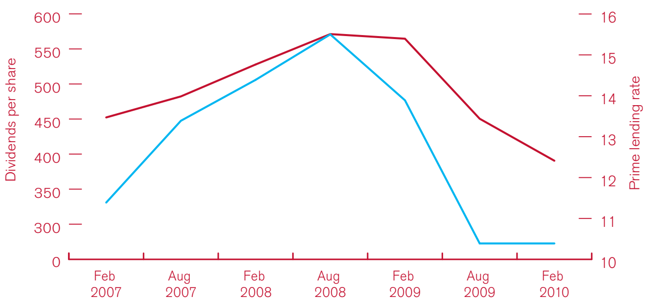
Price earnings



	Feb 2006	Aug 2006	Feb 2007	Aug 2007	Feb 2008	Aug 2008	Feb 2009	Aug 2009	Feb 2010
Share price	3 105	3 050	3 700	3 700	3 900	2 950	3 001	5 500	8 200
EPS	163	207	207	237	259	285	364	433	525
PE ratio	19	15	15	16	15	10	8	13	16

The graph above shows the trend in the Capitec price-earnings ratio (PE ratio per 12-month period) for the period February 2006 to February 2010.

Preference dividends



	Feb 2007	Aug 2007	Feb 2008	Aug 2008	Feb 2009	Aug 2009	Feb 2010
Dividends per share	452.26	482.26	527.77	571.13	564.55	450.41	390.51
Prime lending rate	12.5%	13.5%	14.5%	15.5%	14.0%	10.5%	10.5%

The Capitec preference share is non-redeemable, non-cumulative and non-participating. The preference share dividends are paid at the earliest date possible in terms of the JSE Listings Requirements, normally in March and September of each year. The dividend calculation is based on 75% of the prime interest rate.

Broad-based black economic empowerment

The Capitec group subscribes to the Codes of Good Practice issued under the Broad-Based Black Economic Empowerment Act (Act 53 of 2003) (BBBEE Act). In terms thereof, Capitec is a level five contributor at a BEE procurement recognition level of 80%. The Capitec Bank scorecard has been verified by Emex Trust and is effective until 23 July 2010.

BBBEE status	Weighting	Our score
Ownership	20	8.92
Management and control	10	3.75
Employment equity	15	7.67
Skills development	15	7.89
Preferential procurement	10	3.75
Enterprise development	15	15.00
Socio-economic development	5	0.74

Suppliers

A supplier selection policy has been implemented in terms whereof procurement spend is mainly limited to qualifying black economic empowerment partners or exempt micro enterprises as defined in the BBBEE Act. Expenditure outside these parameters has to be pre-approved by the executive management committee and only for technical, non-commercial reasons. In the annual verification process in July 2009, Capitec Bank scored 18 out of a possible 20 points for preferential procurement, and full marks for enterprise development, emphasising the role of Capitec in developing micro-enterprises.

Communities

Access to affordable bank products

The biggest contribution that a bank can make to any community, especially communities in need, is to allow them easy access to everyday banking facilities at prices that they can afford. Capitec Bank has done just that. Its banking facilities are easily accessible, be that by debit card at transaction points or positioning of its branches that are located where the majority of the Capitec client base live, shop, work or commute. The efficient systems and processes employed at Capitec Bank ensure that transacting, saving and credit products have become more affordable and convenient. Individuals can now save even small amounts and earn interest that will actually grow that saving. A balance in excess of R772 will return more interest than the monthly fee which is better than any comparable product at competitors.

Individuals have access to credit at affordable prices at Capitec Bank. Access to credit is essential to relieve poverty in communities. Long-term credit enables consumers to invest in longer-term assets (furniture, vehicles, housing improvements and education) at competitive funding rates. Short-term credit enables clients to manage emergencies and short-term shortfalls in an efficient and cost-effective manner. Without access to credit, individuals cannot buy vehicles, make housing improvements, or afford education. Without access to credit at responsible, regulated credit providers they become desperate and take out loans at exorbitant rates from unregulated lenders. Finally, credit drives consumerism that in turn stimulates economic growth; the responsible provision of credit contributes to a higher rate of economic growth in the economic environment where Capitec clients operate.

By being vigilant to changes in the economic environment and continuously adjusting the credit granting policy in response to such changes, Capitec Bank ensures that it remains responsible in its lending practices. The Capitec Bank strategy thus lends itself to contribute to the long-term sustainability of these communities.

Job creation

Due to significant organic growth since inception in 2001, employee numbers in the group have grown from 1 265 individuals to 4 154 at 28 February 2010. Capitec has contributed 2 889 jobs to the South African economy over this period. On average, 100 new employees are appointed per month. Remuneration paid to employees in the 2010 financial year amounted to R677 million (2009: R485 million). Strategy dictates that branch employees be recruited from the communities or as close as possible surrounding areas that the branches serve to ensure that employees are fluent in the language spoken in the communities that they serve. Remuneration earned can thus be ploughed back into the communities where clients and employees of Capitec Bank live.

Corporate social investment programmes

Capitec believes that it has a responsibility to help improve the lives of individuals and communities in South Africa. Hence, its corporate social investment (CSI) strategy is directed toward sustainable programmes focused on financial skills and education.

The main focus of CSI at Capitec is on financial education and literacy programmes.

The following serves as guidelines when allocating resources:

- The communities in which Capitec operates
- Disadvantaged communities
- Support programmes that promote development

Criteria for selecting projects

Organisations are considered for financial and in-kind donations if they can show that their efforts will have a long-term impact on a significant number of people, regardless of gender, age, disability, religious beliefs or income levels. Organisations need to use a minimal portion of funds for overhead expenses and use in-kind donations to benefit organisational members or constituents.

Sports, trips, tours, film or video productions, or single events such as fundraises, workshops, seminars or golf days are not considered eligible in terms of the Capitec CSI policy. Individuals, religious causes, political parties and exclusive organisations are also excluded.

A selection of 2009's CSI projects

Capitec is committed to empowering individuals through financial skills training. The purpose of these training interventions is to educate individuals.

Consumer education: certificate courses

The Financial Skills Programme was launched in 2005 in partnership with Unisa. This certificate course, presented by the Centre for Business Management at the University of South Africa, educates consumers in the essentials of financial skills such as financial planning, debt management, budgeting and saving for retirement. This three-month course is rated on NQF level 5 and students earn 12 SAQA credits.

Consumer education: workshops

The employer sales team of Capitec Bank presents a shortened version of the Financial Skills Programme to schools and places of employment, teaching consumers the basic skills needed to become financially empowered. The financial skills DVDs used in these workshops cover the following:

- Financial planning and managing your finances
- Managing your debt
- Banking services and products

The financial skills workshops are presented free of charge; they form part of Capitec's commitment to the market it services. The programme supports national initiatives such as the National Skills Development Strategy.

Consumer education: media
We have partnered with various consumer publications such as *Daily Sun*, *The Teacher* and *Isolezwe* to run consumer editorials highlighting financial skills topics.

Teach Children to Save
In July 2009, Capitec demonstrated its commitment to the national Teach Children to Save (TCTS) initiative with a series of workshops held at primary schools in the Cape Flats and Khayelitsha. Learners in Grades 4 to 7 were targeted; representatives from the financial services industry – including Capitec – visited schools all over the country to teach a one-hour lesson on how to save. The Banking Association of South Africa and the South African Savings Institute launched the TCTS initiative on 25 July 2008.

Essay Writing Project
In June this year, Capitec co-sponsored the Essay Writing Project for Khayelitsha schools which formed part of the government's Urban Renewal Programme. High school learners had to write essays on the impact of urban renewal on the community of Khayelitsha.

Extracts from the Matthew Goniwe High School winning essays

"Khayelitsha faces challenges related specifically to economic issues particularly in the areas reflecting high unemployment rates. If the Urban Renewal Programme can open more projects such as building more houses, developing infrastructure and creating more sanitary services then the high rate of unemployment can be reduced."

"The URP has changed the lives of people in Khayelitsha in many ways, making the area more urbanised and creating jobs for the unemployed."

Non-profit organisations
Non-profit organisations that have benefited from a long-term partnership with Capitec through its CSI funding include:
– Carel du Toit Centre for hearing impaired children: This centre teaches children with hearing disabilities to communicate in their mother tongue (English, Afrikaans and Xhosa). For the past 34 years, they have successfully placed 90% deaf pre-schoolers in normal mainstream schools.
– Kos vir Skole (Food for Schools): This project feeds approximately 24 000 children from needy and disadvantaged homes daily.

Regulators

Regulators play an integral role in the continued sustainability of the financial services industry. A culture of compliance with regulatory rules and regulations is cultivated among employees, not only to facilitate compliance, but because legislation and regulations are underpinned by good business sense. To this end a system of processes and internal controls has been set in place to facilitate compliance with relevant legislative requirements (Refer to page 52).

Environment

The Capitec business operations have a very limited impact on the environment – the business strategy is to focus on the individual and credit granted is not used to fund large business operations that may affect the environment adversely in any significant way. We recognise, however, that the consumer-driven approach of the Capitec group and dependence on supplier products result in a significant indirect impact on the environment.

Capitec Bank does not own the properties in which its branches are situated. All of these properties, including the current premises where its head office and regional offices are located in, are rented. Land has been acquired to develop a head office for Capitec Bank in future, however, this property is in an unpreserved area that is already completely disturbed by developments and extensive farming; biodiversity will not be impacted when this property is developed. Key Distributors (Pty) Limited owns a warehouse in an industrial area.

The Capitec business is to the greater extent centrally managed due to a highly innovative banking platform. For this reason, Capitec Bank branches do not have back offices of note; on average, eight (2009: 8) individuals are employed per branch, resulting in reduced floor space required to service clients, and also reduced demand for electricity and water consumption. Likewise waste, per branch, is limited. Due to the innovative application of technology by the bank, paper usage is limited and steadily declining year on year. Branch and helpdesk employees generally make use of public transport to commute to work. A survey amongst 3 111 branch employees to which 94% responded, showed that 73% use public transport, car pooling or bicycles to commute or walk to work.

At Capitec we realise, however, that the financial wellbeing and prosperity of any business is closely interwoven with the health and sustainability of the world we live in. As such it is important to ensure that the management of the Capitec group is closely aligned with the forces working towards a turnaround of the deterioration of our planet to ensure continued progress and affluence for all stakeholders. For this reason an environmental policy has been established to ensure that environmentally friendly management processes are followed and to inform all employees regarding the approach of Capitec towards responsible and environmentally friendly usage of resources. This policy also provides guidelines that have to be considered when decisions are made regarding designs and procurement, to ensure that environmentally friendly alternatives are considered and, where possible, implemented.

The policy promotes the following:

- Reduction of paper usage
  Efficient technology and practices are implemented and promoted. Employees are continuously encouraged to print sparingly. These practices, together with the technology used, have started to pay off and it is encouraging that, considering the significant organic enterprise growth, paper usage is showing a declining tendency.

- Recycling
  "Global warming, the depletion of natural resources, unhealthy infestations and urban decline are only a few of the genuine major issues of our time and they most definitely concern all of us at Capitec Bank. A widely held misconception is that waste is a problem only caused by specific materials. The reality is that waste is also caused by wrong consumer behaviour when people improperly dispose of material by littering."

  (Communication by Capitec Bank Office Management to employees to encourage recycling.)

  A number of recycling projects have been introduced. Employees are urged to participate in these projects.

Recycling of paper
Office paper, magazines, carton et cetera are deposited in recycle bins that are collected by Nampak.

Paper usage

	2010	2009	2008
Number of branches	401	363	331
Number of clients	2 122 000	1 545 000	1 110 000
Number of employees*	4 050	3 340	2 741
Paper usage (reams)	**87 000**	**81 000**	**85 000**
Paper usage per employee (reams)	**21.4**	**24.3**	**30.9**

*Note: *Capitec Bank only*

Paper recycled to date (tons)

2010	2009	2008	2007
23.4	6.1	7.7	1.2

The large increase in volume of paper recycled in the 2010 financial year can be attributed to major relocation of personnel at the Stellenbosch and Bellville campuses which led to extensive clean-up exercises in offices. The Capitec Bank business support centre was added to the paper recycling project in October 2009.

Fuel consumption

	2010	2009	2008
Number of branches	401	363	331
Number of employees*	4 050	3 340	2 741
Fuel consumption (litres)	561 000	476 000	426 000
Fuel consumption per employee (litres)	138.5	142.4	155.3
Fuel consumption per branch (litres)	1 399	1 311	1 286

*Note: *Capitec Bank only*

Recycling of computer equipment

Recyclable components of decommissioned electronic appliances and computing devices are collected by Desco Electronic Recyclers for responsible and environmentally friendly e-waste recovery and disposal. Desco has been audited in terms of ISO 14001:2004 standards.

Capitec Bank participates in the Lexmark Cartridge Collection Programme in terms of which used cartridges are collected, reused or recycled so as to ensure less solid waste and fewer resources consumed. Participation commenced in October 2009 and comparable statistics are not as yet available.

Employees are urged to dispose of used polystyrene and plastic items marked with the PS6 insignia in special bins for regular collection by EPS with whom the bank has partnered to facilitate reduced waste dumping. Special bins are also provided for collection of tins. Collect-a-Can has been appointed to recycle these materials. Employees living in areas where residential recycling projects have not been introduced are encouraged to bring recyclable items from home to dispose of it via the EPS and Collect-a-Can projects. These projects were launched in February 2010 and statistics are not available.

- Conservative fuel consumption
  - Car-pooling when travelling for work purposes is enforced via the travel and accommodation policy.
  - A large portion of Capitec employees travel to work via public transport or car-pooling.
  - At year-end, Capitec Bank had 401 branches distributed throughout South Africa in both urban and rural areas. One of the cornerstones of the Capitec Bank service offer is, after all, accessibility to all individuals who require banking services. Therefore, Capitec Bank branches are located where clients may have easy access to transport facilities, do their month-end shopping and work. This, together with another cornerstone of the Capitec business model, being longer business hours, also reduces the amount of travel that clients have to do to perform their banking activities. The distribution of these branches and various regional offices on the other hand require significant travel by regional managers, operations managers and internal and forensic auditors in execution of their duties.

  In support of organic growth, the sales team travels extensively. This implies fuel consumption. Over the past three years, company fuel consumption has increased by 14.5% per annum compared to the number of branches that have increased by 10% per annum and employees by 20% per annum.
  - To reduce the cost of travel, internal audit is moving towards a more centralised monitoring.
  - In the operations environment, the e-learning platform allows online training whereas in the past training consultants had to travel to the branches to train branch employees.

- Application of modern technology to reduce energy consumption
  - The deployment of virtualisation technology in the enterprise server environment during 2009 created an energy usage saving of 41.3% (due to reduced cooling requirements) and a 49% power usage saving (due to reduced power supply requirements). These figures are anticipated to increase to 68% and 80% respectively during 2010, based on the planned virtualisation roll-out schedule (percentages based on maximum utilisation of server hardware).
  - Use of energy-saving components such as energy efficient light fittings and globes and centrally controlled air conditioners.
  - All new air conditioning systems that are installed at Capitec Bank branches are compliant with ISO 14001 standards.
  - Indirect energy purchased in the 2010 financial year from external suppliers:
    2010 FY – 1 645 032 kilowatt-hours;
    700 employees
  - Water consumption
    2010 FY – 12 252 kilolitres;
    700 employees

  Electricity usage is reported for the 2010 financial year only, due to major relocation of head office employees during 2009. The report is limited to the Stellenbosch and Bellville campuses only, due to the fact that branch electricity usage is in most cases incorporated in the monthly rent. This situation will be rectified in future to allow for inclusion of electricity and water consumption at branches in reporting.

Energy audit

An energy audit was conducted towards the end of 2009 at the head office in Stellenbosch. The audit has highlighted a number of opportunities that exist to reduce energy consumption as well as our carbon footprint. The feasibility of the recommendations will be considered during 2010 for possible implementation.

Reporting

Use of scarce resources such as electricity, water, paper and fuel is reported to management on a monthly basis and to each board meeting.


CAPITEC

Annual financial statements

Statement of responsibility by the board of directors

Capitec Bank Holdings Limited and its subsidiaries (the "group")

The directors are responsible for the preparation, integrity and fair presentation of the financial statements of Capitec Bank Holdings Limited. The financial statements presented on pages 75 to 136 have been prepared in accordance with International Financial Reporting Standards (IFRS) and include amounts based on judgements and estimates made by management.

The directors consider that in preparing the financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all statements of IFRS that they consider to be applicable have been followed. The directors are satisfied that the information contained in the financial statements fairly presents the results of operations for the year and the financial position of the group and company at year-end. The directors also prepared the other information included in the annual report and are responsible for both its accuracy and consistency with the financial statements. The directors have the responsibility of ensuring that accounting records are kept. The accounting records should disclose, with reasonable accuracy, the financial position of the companies to enable the directors to ensure that the financial statements comply with relevant legislation.

Capitec Bank Holdings Limited operated in a well-established control environment, which is documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that the risks facing the business are being controlled.

The going concern basis has been adopted in preparing the financial statements. The directors have no reason to believe that the group or any company in the group will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These financial statements support the viability of the group.

The group adhered to the code of corporate practices and conduct.

The group's external auditors, PricewaterhouseCoopers Incorporated, audited the financial statements and their report is presented on page 74.

The financial statements were approved by the board of directors on 30 March 2010, and are signed on its behalf by:

Michiel le Roux
Chairman

Riaan Stassen
Chief executive officer

Certificate by the company secretary

Capitec Bank Holdings Limited and its subsidiaries (the "group")

I hereby certify, in terms of section 268G of the Companies Act (Act 61 of 1973) (the "Act"), that to the best of my knowledge, for the year ended 28 February 2010, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act and that all such returns are true, correct and up to date.

Christian van Schalkwyk
Stellenbosch
30 March 2010

Audit committee report

Capitec Bank Holdings Limited and its subsidiaries (the "group")

The Capitec Bank group audit committee ("the committee") is composed of independent non-executive directors. The committee derives its authority and responsibilities from a board-approved charter with which it has complied during the year ended 28 February 2010. The committee met three times during the year and there was 100% attendance by members at the meetings. The functions of the committee are detailed in the corporate governance and risk management review.

The committee undertakes the prescribed functions (in terms of section 270A(1) of the Companies Act (Act 61 of 1973) (the "Act") on behalf of the subsidiary companies of the group.

The committee reports that it has considered the matters set out in section 270A(5) of the Act and is satisfied with the independence and objectivity of the external auditor, PricewaterhouseCoopers Inc. The committee has considered and recommended the fees payable to the external auditor.

The committee has satisfied itself that the group financial director has appropriate expertise and experience as required by the JSE Listing Requirement 3.84(h).

Based on the information and explanations supplied by management and discussions with the independent external auditor and internal auditors, the committee is satisfied that there was no material breakdown in the internal accounting controls during the financial year under review.

The committee has evaluated the group financial statements for the year ended 28 February 2010 and, based on the information provided to the committee, considers that the group complies, in all material respects, with the requirements of the Act, the King Code III and the International Financial Reporting Standards (IFRS).

Pieter van der Merwe
Chairman
30 March 2010

Independent auditors' report

To the members of Capitec Bank Holdings Limited

We have audited the group annual financial statements and annual financial statements of Capitec Bank Holdings Limited, which comprise the consolidated and separate balance sheets as at 28 February 2010, and the consolidated and separate income statements, the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 75 to 136.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Capitec Bank Holdings Limited as at 28 February 2010, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc
Director: Hennie Nel
Registered auditor
Cape Town
30 March 2010

Directors' report

Year ended 28 February 2010

The directors present their annual report, which forms part of the audited financial statements of the company, for the year ended 28 February 2010.

1. Nature of business

The main business of the company is that of a bank controlling company as envisaged in the Banks Act, 1990. The company's subsidiaries are involved in retail banking and the wholesale distribution of consumer goods.

2. Review of operations

The operating results and the state of affairs of the company and the group are fully set out in the attached balance sheets, income statements, statements of comprehensive income, statements of changes in equity, statements of cash flows and the notes thereto. The group's earnings attributable to shareholders amounted to R449.2 million (2009: R319.3 million).

3. Financial results and dividends

The financial results of the company and the group are set out in the attached financial statements.

Dividends

The company declared the following dividends with respect to the current and previous financial years.

2010

	DPS	Rand	Declared	LDT	Date paid
Ordinary dividend					
Interim	**55.0**	**45 640 395**	**1 Oct 2009**	**27 Nov 2009**	**7 Dec 2009**
Final*	**155.0**	**128 622 932**	**30 Mar 2010**	**10 Jun 2010**	**21 Jun 2010**
Preference dividend					
Interim	**450.41**	**7 585 855**	**31 Aug 2009**	**15 Sep 2009**	**25 Sep 2009**
Final	**390.51**	**6 577 012**	**28 Feb 2010**	**12 Mar 2010**	**23 Mar 2010**

2009

	DPS	Rand	Declared	LDT	Date paid
Ordinary dividend					
Interim	30.0	24 839 374	1 Oct 2008	21 Nov 2008	1 Dec 2008
Final	110.0	91 280 791	31 Mar 2009	5 Jun 2009	15 Jun 2009
Preference dividend					
Interim	571.13	9 619 034	29 Aug 2008	12 Sep 2008	22 Sep 2008
Final	564.55	9 508 294	27 Feb 2009	13 Mar 2009	23 Mar 2009

** An ordinary dividend of 155 cents per share was recommended by the directors on 30 March 2010 (2009: 110 cents). No accrual was made for this dividend, which is in line with IFRS.*

4. Share capital

Ordinary shares: 184 625 shares were issued this financial year (2009: 869 500) and share issue costs of R25 000 (2009: R38 000) were allocated against share premium.

Preference shares: No shares were issued in the current or previous financial year.

Settlement of share options

The group settled 1 250 625 options (2009: 1 004 375 options) relating to the share incentive scheme.

5. Directors and secretary

Information relating to the directors and secretary of the company is presented on pages 24 to 27 of the annual report.

6. Group details

The group's place of domicile and country of incorporation is the Republic of South Africa and it has a primary listing on the Johannesburg Stock Exchange (JSE Limited).

Registered office: 1 Quantum Road, Techno Park, Stellenbosch, 7600

7. Interests of the directors in share capital and contracts

7.1 At year-end, the directors, in aggregate, were directly or indirectly, beneficially or non-beneficially, interested in 18 813 113 (2009: 18 744 200) Capitec Bank Holdings Limited shares, equivalent to 22.67% (2009: 22.65%) of the issued share capital of Capitec Bank Holdings Limited. The individual interests of the directors were as follows:

2010

	Number of shares held					
	Beneficial		Non-beneficial		Total	
	Direct	Indirect**	Direct	Indirect**	shares	%
AP du Plessis*	–	1 013 125	–	–	1 013 125	1.22
MS du P le Roux (Chairman)	–	–	–	13 061 674	13 061 674	15.74
TD Mahloele	–	–	–	1 592 500	1 592 500	1.92
MC Mehl	90 713	–	–	–	90 713	0.11
NS Mjoli-Mncube	100 000	–	–	–	100 000	0.12
PJ Mouton	–	10 000	–	–	10 000	0.01
CA Otto	967	–	–	459 539	460 506	0.56
JG Solms	33 779	–	–	–	33 779	0.04
R Stassen*	389 288	–	–	2 061 528	2 450 816	2.95
JP van der Merwe	–	–	–	–	–	0.00
	614 747	1 023 125	–	17 175 241	18 813 113	22.67

2009

	Number of shares held					
	Beneficial		Non-beneficial		Total	
	Direct	Indirect**	Direct	Indirect**	shares	%
AP du Plessis*	–	957 500	–	–	957 500	1.16
MS du P le Roux (Chairman)	–	–	–	13 061 674	13 061 674	15.78
KA Hedderwick(1)	–	–	–	–	–	0.00
TD Mahloele	–	–	–	1 592 500	1 592 500	1.92
MC Mehl	106 713	–	–	–	106 713	0.13
NS Mjoli-Mncube	100 000	–	–	–	100 000	0.12
PJ Mouton	–	–	–	–	–	0.00
CA Otto	967	–	–	459 539	460 506	0.56
JG Solms	33 779	–	–	–	33 779	0.04
R Stassen*	370 000	–	–	2 061 528	2 431 528	2.94
JP van der Merwe	–	–	–	–	–	0.00
	611 459	957 500	–	17 175 241	18 744 200	22.65

* *Executive*

** *Includes shareholding through associates as defined in terms of the JSE Listing Requirements*

(1) *Resigned 24 November 2008*

7.2 At year-end the directors were participants in the Capitec Bank Holdings Limited share incentive scheme in respect of 1 515 375 (2009: 1 466 000) Capitec Bank Holdings Limited share options.

2010

Directors	Maturity date	Issue date	Strike price R	Opening balance: Number of share options	(Options exercised)/ Options granted: Number of share options	Market price R	Exercise date	Closing balance: Number of share options
AP du Plessis								
(direct beneficial)	**12 Apr 09**	12 Apr 06	**30.73**	13 125	**(13 125)**	39.00	**30 Apr 09**	–
	20 May 09	20 May 05	**14.05**	17 500	**(17 500)**	38.25	**21 May 09**	–
	12 Apr 10	12 Apr 06	**30.73**	13 125				13 125
	26 Apr 10	26 Apr 07	**35.82**	19 000				19 000
	20 May 10	20 May 05	**14.05**	17 500				17 500
	12 Apr 11	12 Apr 06	**30.73**	13 125				13 125
	21 Apr 11	21 Apr 08	**35.54**	31 250				31 250
	26 Apr 11	26 Apr 07	**35.82**	19 000				19 000
	20 May 11	20 May 05	**14.05**	17 500				17 500
	12 Apr 12	12 Apr 06	**30.73**	13 125				13 125
	15 Apr 12	15 Apr 09	**31.23**	–	**18 750**			18 750
	23 Apr 12	21 Apr 08	**35.54**	31 250				31 250
	26 Apr 12	26 Apr 07	**35.82**	19 000				19 000
	15 Apr 13	15 Apr 09	**31.23**	–	**18 750**			18 750
	22 Apr 13	21 Apr 08	**35.54**	31 250				31 250
	26 Apr 13	26 Apr 07	**35.82**	19 000				19 000
	15 Apr 14	15 Apr 09	**31.23**	–	**18 750**			18 750
	21 Apr 14	21 Apr 08	**35.54**	31 250				31 250
	15 Apr 15	15 Apr 09	**31.23**	–	**18 750**			18 750
(indirect beneficial)	**29 Apr 08**	29 Apr 04	**5.73**	–				–
	29 Apr 09	29 Apr 04	**5.73**	25 000	**(25 000)**	38.25	**22 May 09**	–
	29 Apr 10	29 Apr 04	**5.73**	25 000				25 000
				356 000	**19 375**			375 375
R Stassen								
(indirect non-beneficial)	**12 Apr 09**	12 Apr 06	**30.73**	50 000	**(50 000)**	36.50	**15 Apr 09**	–
	29 Apr 09	29 Apr 04	**5.73**	100 000	**(100 000)**	39.70	**12 May 09**	–
(direct beneficial)	**20 May 09**	20 May 05	**14.05**	70 000	**(70 000)**	38.35	**26 May 09**	–
	12 Apr 10	12 Apr 06	**30.73**	50 000				50 000
	29 Apr 10	29 Apr 04	**5.73**	100 000				100 000
	20 May 10	20 May 05	**14.05**	70 000				70 000
	12 Apr 11	12 Apr 06	**30.73**	50 000				50 000
	21 Apr 11	21 Apr 08	**35.54**	125 000				125 000
	20 May 11	20 May 05	**14.05**	70 000				70 000
	12 Apr 12	12 Apr 06	**30.73**	50 000				50 000
	15 Apr 12	15 Apr 09	**31.23**	–	**62 500**			62 500
	23 Apr 12	21 Apr 08	**35.54**	125 000				125 000
	15 Apr 13	15 Apr 09	**31.23**	–	**62 500**			62 500
	22 Apr 13	21 Apr 08	**35.54**	125 000				125 000
	15 Apr 14	15 Apr 09	**31.23**	–	**62 500**			62 500
	21 Apr 14	21 Apr 08	**35.54**	125 000				125 000
	15 Apr 15	15 Apr 09	**31.23**	–	**62 500**			62 500
				1 110 000	**30 000**			1 140 000
Total				1 466 000	**49 375**			1 515 375

The directors were also participants in the Capitec Bank Holdings Limited share incentive scheme in respect of 950 000 (2009: 625 000) share appreciation rights (SAR) as follows:

2010				Opening balance	(SAR exercised)/SAR granted			Closing balance
Directors	Maturity date	Issue date	SAR excercise price R	Number of SAR	Number of SAR	Market price R	Exercise date	Number of SAR
AP du Plessis	**21 Apr 11**	21 Apr 08	**35.54**	31 250				31 250
(direct beneficial)	**15 Apr 12**	15 Apr 09	**31.23**	–	**18 750**			18 750
	23 Apr 12	21 Apr 08	**35.54**	31 250				31 250
	15 Apr 13	15 Apr 09	**31.23**	–	**18 750**			18 750
	22 Apr 13	21 Apr 08	**35.54**	31 250				31 250
	15 Apr 14	15 Apr 09	**31.23**	–	**18 750**			18 750
	21 Apr 14	21 Apr 08	**35.54**	31 250				31 250
	15 Apr 15	15 Apr 09	**31.23**	–	**18 750**			18 750
				125 000	**75 000**			200 000
R Stassen	**21 Apr 11**	21 Apr 08	**35.54**	125 000				125 000
(direct beneficial)	**15 Apr 12**	15 Apr 09	**31.23**	–	**62 500**			62 500
	23 Apr 12	21 Apr 08	**35.54**	125 000				125 000
	15 Apr 13	15 Apr 09	**31.23**	–	**62 500**			62 500
	22 Apr 13	21 Apr 08	**35.54**	125 000				125 000
	15 Apr 14	15 Apr 09	**31.23**	–	**62 500**			62 500
	21 Apr 14	21 Apr 08	**35.54**	125 000				125 000
	15 Apr 15	15 Apr 09	**31.23**	–	**62 500**			62 500
				500 000	**250 000**			750 000
Total				625 000	**325 000**			950 000

7.3 At year-end, the directors, in aggregate, were indirectly non-beneficially interested in 21 000 (2009: 21 000) Capitec Bank Holdings Limited non-redeemable, non-cumulative, non-participating preference shares, equivalent to 1.25% (2009: 1.25%) of the issued preference share capital of Capitec Bank Holdings Limited.

The individual interests of the directors were as follows:

	2010		2009	
Non-beneficial indirect	Number of shares	%	Number of shares	%
R Stassen	**21 000**	**1.25%**	21 000	1.25%
	21 000	**1.25%**	21 000	1.25%

7.4 The directors' remuneration in respect of the financial year ended 28 February 2010 was as follows:

2010	Salaries R'000	Fringe benefits R'000	Bonuses R'000	Fees R'000	Total R'000
Executive					
AP du Plessis	**3 285**	**166**	**467**	**–**	**3 918**
R Stassen	**6 499**	**288**	**2 160**	**–**	**8 947**
Non-executive					
MS du P le Roux (Chairman)	**–**	**–**	**–**	**895**	**895**
TD Mahloele	**–**	**–**	**–**	**100**	**100**
MC Mehl	**–**	**–**	**–**	**260**	**260**
NS Mjoli-Mncube	**–**	**–**	**–**	**135**	**135**
PJ Mouton	**–**	**–**	**–**	**170**	**170**
CA Otto	**–**	**–**	**–**	**270**	**270**
JG Solms	**–**	**–**	**–**	**205**	**205**
JP van der Merwe	**–**	**–**	**–**	**295**	**295**
	9 784	**454**	**2 627**	**2 330**	**15 195**

The total share option expense relating to directors amounts to R3 182 053 (2009: R2 366 931) and share appreciation rights amounted to R2 475 340 (2009: R578 000).

2009	Salaries R'000	Fringe benefits R'000	Bonuses R'000	Fees R'000	Total R'000
Executive					
AP du Plessis	2 801	234	252	–	3 287
R Stassen	4 314	263	502	–	5 079
Non-executive					
MS du P le Roux (Chairman)	–	–	–	672	672
KA Hedderwick	–	–	–	82	82
TD Mahloele	–	–	–	84	84
MC Mehl	–	–	–	196	196
NS Mjoli-Mncube	–	–	–	112	112
PJ Mouton	–	–	–	140	140
CA Otto	–	–	–	224	224
JG Solms	–	–	–	168	168
JP van der Merwe	–	–	–	224	224
	7 115	497	754	1 902	10 268

8. Investments in subsidiaries

Information relating to the company's financial interest in its subsidiaries is set out in note 10 to the financial statements.

9. Material events after year-end

No event, which is material to the financial affairs of the group, has occurred between the balance sheet date and the date of approval of the financial statements.

Balance sheets

Year ended 28 February 2010

		GROUP		COMPANY	
	Notes	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Assets					
Cash and cash equivalents	4	**2 566 588**	1 513 989	**1**	–
Investments at fair value through profit or loss	5	**1 306 298**	150 044	**–**	–
Loans and advances to clients	6	**5 225 139**	2 981 685	**–**	–
Inventory	7	**26 067**	22 120	**–**	–
Other receivables	8	**41 127**	20 114	**6 577**	81
Group loans receivable	9	**–**	–	**34 808**	36 338
Investment in subsidiaries	10	**–**	–	**819 724**	819 724
Property and equipment	11	**281 610**	240 134	**–**	–
Intangible assets	12	**22 211**	27 669	**–**	–
Deferred income tax assets	13	**19 183**	13 667	**–**	–
Total assets		**9 488 223**	4 969 422	**861 110**	856 143
Liabilities					
Loans and deposits at amortised cost	14	**7 360 325**	3 298 897	**–**	–
Loans and deposits held at fair value through profit or loss	15	**–**	17 916	**–**	–
Trade and other payables	16	**358 352**	229 910	**6 625**	9 508
Current income tax liabilities		**34 452**	16 498	**–**	–
Provisions	17	**7 117**	–	**–**	–
Group loans payable	18	**–**	–	**1**	1
Total liabilities		**7 760 246**	3 563 221	**6 626**	9 509
Equity					
Capital and reserves					
Ordinary share capital and premium	19	**682 219**	674 369	**682 219**	674 369
Cash flow hedge reserve	20	**(15 839)**	(23 873)	**–**	–
Retained earnings		**906 991**	601 099	**17 659**	17 659
Share capital and reserves attributable to ordinary shareholders		**1 573 371**	1 251 595	**699 878**	692 028
Non-redeemable, non-cumulative, non-participating preference share capital and premium	19	**154 606**	154 606	**154 606**	154 606
Total equity		**1 727 977**	1 406 201	**854 484**	846 634
Total equity and liabilities		**9 488 223**	4 969 422	**861 110**	856 143

Income statements

Year ended 28 February 2010

		GROUP		COMPANY	
	Notes	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Interest income	21	**1 763 966**	1 212 896	**–**	–
Interest expense	21	**(490 636)**	(269 621)	**–**	–
Net interest income		**1 273 330**	943 275	**–**	–
Loan fee income		**1 038 905**	897 502	**–**	–
Loan fee expense		**(52 706)**	(21 889)	**–**	–
Transaction fee income		**507 438**	281 548	**–**	–
Transaction fee expense		**(212 064)**	(121 452)	**–**	–
Net fee income		**1 281 573**	1 035 709	**–**	–
Dividend income	22	**519**	1 099	**151 084**	108 880
Net impairment charge on loans and advances to clients	23	**(547 731)**	(467 727)	**–**	–
Net movement in financial instruments held at fair value through profit or loss	24	**1 011**	2 197	**–**	–
Non-banking gross profit		**20 750**	18 218	**–**	–
Sales		**208 604**	208 915	**–**	–
Cost of sales		**(187 854)**	(190 697)	**–**	–
Other income		**43**	280	**622**	540
Income from operations		**2 029 495**	1 533 051	**151 706**	109 420
Banking operating expenses		**(1 368 324)**	(1 063 672)	**(622)**	(541)
Non-banking operating expenses		**(18 815)**	(12 696)	**–**	–
Operating profit before tax	25	**642 356**	456 683	**151 084**	108 879
Income tax expense	26	**(193 132)**	(137 351)	**–**	–
Profit for the year		**449 224**	319 332	**151 084**	108 879

Earnings per share (cents)			
Basic	27	**525**	364
Diluted	27	**509**	357

Statements of comprehensive income

Year ended 28 February 2010

		GROUP		COMPANY	
		2010	2009	**2010**	2009
	Notes	**R'000**	R'000	**R'000**	R'000
Profit for the year		**449 224**	319 332	**151 084**	108 879
Other comprehensive income for the year net of tax	20	**8 034**	(23 873)	**–**	–
Cash flow hedge before tax		**11 158**	(33 157)	**–**	–
Income tax relating to cash flow hedge		**(3 124)**	9 284	**–**	–
Total comprehensive income for the year		**457 258**	295 459	**151 084**	108 879

Statements of changes in equity

Year ended 28 February 2010

	Ordinary share capital and premium R'000	Preference share capital and premium R'000	Shares held by the group R'000	Cash flow hedge reserve R'000	Retained earnings R'000	Total R'000
GROUP						
Balance at 29 February 2008	647 363	154 606	–	–	415 458	1 217 427
Net profit for the year	–	–	–	–	319 332	319 332
Cash flow hedge net of taxation	–	–	–	(23 873)	–	(23 873)
Ordinary dividend	–	–	–	–	(86 938)	(86 938)
Preference dividend	–	–	–	–	(19 127)	(19 127)
Share-based employee costs	–	–	–	–	8 992	8 992
Shares issued and acquired for employee share options at cost	27 044	–	(53 705)	–	–	(26 661)
Realised loss on settlement of employee share options less participants' contributions	–	–	53 705	–	(45 108)	8 597
Tax effect on settlement of share options	–	–	–	–	8 490	8 490
Share issue expenses	(38)	–	–	–	–	(38)
Balance at 28 February 2009	674 369	154 606	–	(23 873)	601 099	1 406 201
Net profit for the year	**–**	**–**	**–**	**–**	**449 224**	**449 224**
Cash flow hedge net of taxation	**–**	**–**	**–**	**8 034**	**–**	**8 034**
Ordinary dividend	**–**	**–**	**–**	**–**	**(136 921)**	**(136 921)**
Preference dividend	**–**	**–**	**–**	**–**	**(14 163)**	**(14 163)**
Share-based employee costs	**–**	**–**	**–**	**–**	**12 186**	**12 186**
Shares issued and acquired for employee share options at cost	**7 875**	**–**	**(20 466)**	**–**	**–**	**(12 591)**
Realised loss on settlement of employee share options less participants' contributions	**–**	**–**	**20 466**	**–**	**(3 928)**	**16 538**
Tax effect on settlement of share options	**–**	**–**	**–**	**–**	**(506)**	**(506)**
Share issue expenses	**(25)**	**–**	**–**	**–**	**–**	**(25)**
Balance at 28 February 2010	**682 219**	**154 606**	**–**	**(15 839)**	**906 991**	**1 727 977**
Notes	19	19		20		

	Ordinary share capital and premium R'000	Preference share capital and premium R'000	Retained earnings R'000	Total R'000
COMPANY				
Balance at 29 February 2008	647 363	154 606	14 845	816 814
Net profit for the year	–	–	108 879	108 879
Ordinary dividend	–	–	(86 938)	(86 938)
Preference dividend	–	–	(19 127)	(19 127)
Shares issued during the year	27 044	–	–	27 044
Share issue expenses	(38)	–	–	(38)
Balance at 28 February 2009	674 369	154 606	17 659	846 634
Net profit for the year	**–**	**–**	**151 084**	**151 084**
Ordinary dividend	**–**	**–**	**(136 921)**	**(136 921)**
Preference dividend	**–**	**–**	**(14 163)**	**(14 163)**
Shares issued during the year	**7 875**	**–**	**–**	**7 875**
Share issue expenses	**(25)**	**–**	**–**	**(25)**
Balance at 28 February 2010	**682 219**	**154 606**	**17 659**	**854 484**
Notes	19	19		

Statements of cash flows

Year ended 28 February 2010

		GROUP		COMPANY	
	Notes	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Cash flow from operating activities					
Cash flow from operations	33	**2 688 959**	1 436 047	144 636	108 778
Income taxes paid	34	**(184 324)**	(150 235)	–	–
		2 504 635	1 285 812	144 636	108 778
Cash flow from investing activities					
Purchase of property and equipment	11	**(128 481)**	(114 723)	–	–
Proceeds from disposal of property and equipment	11	**2 161**	101	–	–
Purchase of intangible assets	12	**(20 744)**	(17 869)	–	–
Disposal of subsidiaries		**–**	–	–	1 403
Loans to group companies		**–**	–	1 530	(27 495)
(Acquisition)/disposal of investments at fair value through profit or loss		**(1 155 243)**	(133 685)	–	–
		(1 302 307)	(266 176)	1 530	(26 092)
Cash flow from financing activities					
Repayments of group loans		**–**	–	–	(4 246)
Dividends paid	35	**(153 651)**	(105 446)	(154 015)	(105 446)
Shares issued and acquired for options settled	36	**3 922**	(18 102)	7 850	27 006
		(149 729)	(123 548)	(146 165)	(82 686)
Net increase in cash and cash equivalents		**1 052 599**	896 088	1	–
Cash and cash equivalents at the beginning of the year		**1 513 989**	617 901	–	–
Cash and cash equivalents at the end of the year	4	**2 566 588**	1 513 989	1	–

Notes to the annual financial statements
Year ended 28 February 2010

1. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Accounting policies have been consistently applied through subsidiaries in the group.

Basis of preparation

The group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments held at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

1.1 Basis of consolidation

The consolidated financial statements include those of the company, all its subsidiaries, the share incentive trust and the employee empowerment trust.

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights, for the benefit of the group. The existence and effect of potential voting rights would be considered when assessing whether the group controls another entity, had such rights existed. Subsidiaries are fully consolidated from the date on which the group obtains control. They are deconsolidated from the date that control ceases.

The group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

Investments in subsidiaries are accounted for at cost less allowance for impairment. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

Transactions and minority interests

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

1.2 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash, balances with central banks, treasury bills and other eligible bills, amounts due from banks, non-bank money market investments and short-term government securities. Cash and cash equivalents are stated at cost which approximates fair value due to the short-term nature of these instruments.

1.3 Financial instruments

The group recognises financial assets on the balance sheet once it becomes a party to the contractual terms of the particular financial instrument.
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

Management determines the categorisation of its investments at initial recognition and re-evaluates this categorisation at each reporting date.

1.3.1 The group categorises its financial assets in the following categories:

(a) Financial assets at fair value through profit or loss
This category has two subclasses: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is categorised as held for trading if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are categorised as held for trading unless they are designated as hedges.

Purchases and sales of financial assets at fair value through profit or loss are recognised on trade date, being the date on which the group commits to purchase or sell the asset.

Gains and losses on financial assets at fair value through profit or loss are measured as the difference between the fair values and the carrying amounts adjusted for dividend income (1.16.4) and are included in the income statement.

(b) Loans and advances
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the entity intends to sell immediately or in the short term, which are categorised as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (ii) those that the entity upon initial recognition designates as available-for-sale; or (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.
They arise when the group provides money, goods or services directly to a debtor with no intention of trading the advance. Included within this category are group loans receivable and other receivables.

Loans and advances are recognised when funds are advanced to the borrowers.

(c) Held-to-maturity investments
The group currently has no held-to-maturity investments. Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. Were the group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and recategorised as available-for-sale.

(d) Available-for-sale financial assets
The group currently has no available-for-sale financial assets. Available-for-sale financial assets are assets that management intend to hold on a continuing basis, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets, other than those held at fair value through profit or loss, are initially recognised at fair value plus transaction costs.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Loans and advances are carried at amortised cost using the effective interest rate method. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise.
Refer to note 1.3.4 with reference to hedging instruments.

The fair values of quoted financial assets in active markets are based on current bid prices.

1.3.2 The group categorises its financial liabilities in the following categories:

The group recognises a financial liability once it becomes a party to the contractual terms of the financial instrument. Financial liabilities, other than those held at fair value through profit or loss, are recognised initially at fair value, generally being their issue proceeds net of transaction costs incurred.

A financial liability, or part of a financial liability, is derecognised once the obligation specified in the contract relating to the financial liability is discharged, cancelled or has expired.

(a) Deposits held at amortised cost

Deposits held at amortised cost are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest rate method. Any differences (other than transaction charges) between net proceeds and the redemption value are recognised in the income statement over the period of the borrowing using the effective interest rate method.

(b) Deposits held at fair value through profit or loss

These deposits are fair valued by discounting the value using an appropriate discount rate determined with reference to quoted rates on market instruments with similar credit characteristics and maturities.

Financial liabilities are designated at fair value through profit or loss, where required, in order to eliminate or reduce measurement or recognition inconsistencies that would otherwise arise from measuring liabilities on different bases; or if a group of financial liabilities is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the management committee and board of directors.

Gains and losses arising from changes in the fair value of deposits held at fair value through profit or loss are included in the income statement in the period in which they arise.

(c) Other financial liabilities

Included within this class of financial liabilities are trade and other payables, provisions and group loans payable that will be settled in cash and cash equivalents. Trade and other payables and group loans payable are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest rate method. Refer to note 1.12 for the accounting policy applied in measuring provisions.

1.3.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Deferred loan income reduces the outstanding loans and advances balance on the basis that the revenue will be recognised over the terms of the loans.

1.3.4 Derivative financial instruments and hedging activities

Derivative financial instruments exclude equity instruments that are accounted for in terms of IFRS 2 Share-based payment.

Derivatives are initially recognised at fair value (including transaction costs) on the date a derivative contract is entered into and are subsequently remeasured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices, where available, alternatively using valuation techniques or based on observable market prices where possible, failing which estimates are used.

Interest rate swaps are valued on a discounted cash flow basis using yield curves appropriate for the relevant swap rates. Quoted market prices are used where available and estimates are derived from quoted prices where required.

All contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Derivatives are held only to cover economic exposure.

The group designates certain derivatives as:
(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
(b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
(c) economic hedges if not qualifying in terms of the accounting criteria classified as 'fair value through profit or loss'.

The use of derivatives is restricted to the hedging of forecast cash flows for specific transactions. Currently derivatives are limited to interest rate swaps and forward foreign exchange contracts.

Treatment of hedges qualifying as 'cash flow hedges'
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the interest payments that are hedged are recognised as an expense). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'interest expense'. The gain or loss relating to the ineffective portion is recognised in the income statement within movement in financial instruments held at fair value through profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'movement in financial instruments held at fair value through profit or loss'.

The group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Treatment of economic hedges classified as 'fair value through profit or loss'
Changes in the fair value of these derivatives classified as 'fair value through profit and loss' are taken to profit or loss immediately on remeasurement.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 44. Movements on the hedging reserve in shareholders' equity are shown in note 20.

1.3.5 Financial guarantee contracts

A financial guarantee contract is a contract that requires the group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee liabilities are initially recognised at fair value and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

1.4 Impairment of advances

The estimation of allowances for impairments is inherently uncertain and depends on many factors, including general economic conditions, structural changes within industries, changes in individual customer circumstances and other external factors such as legal requirements, regulatory specifications and governmental policy changes.

Loans and advances are stated net of identified impairments and incurred but unidentified impairments.

Loans and advances are considered impaired if, and only if, there is objective evidence of impairment as a result of events that occurred after initial asset recognition (known as loss events) and these loss events have an adverse impact on the assets' estimated future cash flows that can be reliably measured.

Objective evidence that loans and advances may be impaired includes the following observable data:
(a) A breach of contract, such as a default or delinquency in interest or principal payments. In this regard instalments past due date are considered in breach of contract.
(b) Historical loss experience of groups of financial assets with similar repayment terms.
(c) Data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group including:
- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

In determining whether a loss event has occurred, loans and advances are subjected to regular evaluations of the overall client risk profile and payments record.

The historical loss experience is adjusted on the basis of observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

On a collective basis, the group assesses whether objective evidence of impairment exists for groups of financial assets with similar repayment terms. If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the assets' carrying amounts and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the respective financial assets' original effective interest rates (the recoverable amount).

1.4.1 Identified impairment

Loans and advances within the group comprise a large number of small homogenous assets. Statistical techniques are used to calculate impairment allowances collectively, based on historical default and recovery rates. These statistical analyses use as primary inputs the extent to which accounts in the portfolio are in arrears and historical loss experience on the eventual losses encountered from similar delinquent portfolios.

These statistics feed discounted cash flow models, which have been developed for each of the loan products, offered by the group. The models are updated periodically in order to reflect appropriate changes in inputs.

Models contain both judgemental and non-judgemental inputs. The extent of judgement utilised in models developed for new loan products is greater than that for older products given the limited historical experience available for the new products.

In outline, the statistical analyses are performed on a portfolio basis as follows:
- Loans and advances are monitored on a product basis, with each month's advances being treated as a discrete portfolio, on which an analysis of the run-off of recoveries, in period buckets and stratified between default statistics, is performed in order to develop a historical base for statistics on probability of default (PD).

- These derived statistics, based on actual experience, are used in plotting default values on a model curve that reflects the risk profile of the portfolio.
- Clients in arrears by more than 90 days or handed over for collection are written off. Recoveries from short-term loans are regarded as negligible as collateral is not required for the granting of advances in the current product range. The estimated recoveries on longer-term loans discounted at the contractual rates are recognised in gross loans and advances.
- Upon write-off the accrual of interest income on the original term of the advance is discontinued.

1.4.2 Incurred but unidentified impairment

In addition to the impairment estimated for assets with recognised objective evidence of impairment, an estimate is made for impairments associated with those assets in the balance sheet that are impaired, but for which objective evidence is not yet available.

- The impairment calculation utilises the results of the statistical analyses referred to above to estimate the proportion of assets in each portfolio that are likely to display objective evidence of impairment over the emergence period. The emergence period is defined as the experience of the length of time that it takes for objective evidence to become apparent after the asset has become impaired.
- In considering the occurrence of a loss event over the life of a loan, it is assumed that there is a constant risk of the loss event occurring at any point in the life of the loan.
- For a portfolio of loans in a particular month most of the provision is recognised in the early stages of the contractual period, as the outstanding loan balances are larger.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce differences between loss estimates and actual loss experience.

All impaired loans and advances are reviewed on a monthly basis and any changes to the amount and timing of the expected future cash flows compared to previous estimates will result in a change to the charges for impairment of loans and advances in the income statement.

1.4.3 Loan write-offs

Clients (and the related impairment allowance accounts) are normally written off in full when they are handed over or in arrears for more than 90 days.

1.5 Inventory

Inventory is stated at the lower of the cost or net realisable value. Cost is determined using the first-in first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses. Inventory is carried net of rebates. All inventories comprise finished goods.

1.6 Interest-free loans granted

Interest-free group loans with no fixed maturities are carried at cost net of impairment.

1.7 Current tax

Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which profits arise. Secondary tax on companies (STC) is calculated in terms of the applicable tax law and disclosed as part of the tax expense on the income statement.

1.8 Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax laws and rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities and tax losses carried forward. Deferred tax assets are raised only to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

A deferred tax asset is raised on unutilised STC credits, to the extent that these will be used in future years.

1.9 Property and equipment

Land and buildings comprise a sectional title development right and a warehouse. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they were incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

• Banking application hardware	3 – 5 years
• Automated teller machines	8 years
• Computer equipment	3 – 5 years
• Office equipment	5 – 8 years
• Motor vehicles	5 years
• Buildings	25 years

The assets' residual values and useful lives are annually reviewed and adjusted, if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

1.10 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software is carried at cost less accumulated amortisation and impairment losses.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Amortisation on computer software is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

• Banking application software	6 years
• Server software	3 – 5 years
• Desktop application software	2 –4 years

The assets' useful lives are annually reviewed and adjusted where appropriate.

1.11 Impairment of non-financial assets

Equipment and other non-financial assets (for example property and computer software) are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1.12 Provisions

Provisions for expenses are obligations of the group for which there is uncertainty as to the timing or amount of the outflow of economic resources. Provisions are recognised when:

- the group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.13 Share capital

(a) Categories of share capital

Authorised share capital consists of:

- ordinary shares and
- non-redeemable, non-cumulative, non-participating preference shares.

(b) Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(c) Dividends declared

Dividends on ordinary shares and preference shares are recognised in equity in the period in which they have been approved by the group's directors. Dividends for the year that are declared after the balance sheet date are dealt with in the directors' report.

(d) Treasury shares

Where the company or other members of the group purchase the company's equity share capital, the consideration paid is deducted from total shareholders' equity as shares held by the group until they are cancelled or sold.

(e) Unissued shares

An amount of 5% (2009: 5%) of the issued ordinary share capital and all unissued non-redeemable, non-cumulative, non-participating preference shares are under the control of the directors until the next annual general meeting.

1.14 Employee benefits

(a) Pension obligations

The group contributes to a provident fund classified as a defined-contribution fund.

For defined-contribution plans, the group pays fixed contributions to privately administered provident fund plans on a contractual basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based compensation
The group operates an equity-settled share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options on grant date, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The group also has cash-settled share-based compensation plans. The fair value of the liability incurred for employee services received is recognised as an expense over the vesting period. Until the liability is settled, the group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in value recognised in profit or loss for the period.

(c) Performance incentive scheme
The group operates a performance incentive scheme for senior and other employees who are seen to be in leadership roles critical to the current and future success of the group's business.

The amount recognised as a liability is the present value of the obligation at the end of the reporting period. The rate used to discount the obligation is determined by reference to market yields at the end of the reporting period on government bonds. The currency and term of the bonds is consistent with the currency and term of the obligation.

The employee service cost is recognised in the income statement as the obligation arises.

1.15 Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in South African rand ("rand"), which is the group and company's functional and presentation currency. The financial statements of all the subsidiaries are also presented in rand, which is their functional and presentation currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items are reported as part of the fair value gain or loss.

1.16 Revenue recognition

1.16.1 Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost and at fair value through profit or loss using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.16.2 Fee income

Transaction fees are recognised on an accrual basis in the period in which the services are rendered. The portion of loan origination fees that relates to the creation of a financial asset is amortised over the term of the loan on an effective yield basis. Transaction and service-related loan fee income is recognised when the services are provided.

1.16.3 Non-banking sales

Non-banking sales represent the net sales value of all products sold to third parties after the deduction of trade discounts. Revenue is recognised when the risks and rewards of ownership have been transferred to the customer. Revenue is recognised net of value added tax.

1.16.4 Dividend income

Dividend income is recognised in the income statement when the entity's right to receive payment is established. Dividends on listed preference shares accrue on a day-to-day basis based on the terms of underlying instruments.

1.17 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the executive management committee that makes strategic decisions.

1.18 Leases

(a) Where a group company is the lessee

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any penalty payment to the lessor is recognised as an expense in the period in which termination takes place.

(b) Where a group company is the lessor

Rental from the subletting of leased premises is recognised on a straight-line basis over the lease term. Subletting is incidental to the group's occupation of certain properties.

1.19 Standards, interpretations and amendments to published standards applied for the first time during the current financial year

- IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective 1 March 2009)
- IFRS 7 Improving Disclosures about Financial Instruments (effective 1 March 2009)
- IFRS 8 Operating Segments (effective 1 March 2009)
- IAS 1 Presentation of Financial Statements (effective 1 March 2009)
- IAS 23 Borrowing Costs (effective 1 March 2009)
- IAS 32 and IAS 1 Puttable Financial Instruments and Obligations arising on Liquidation (effective 1 March 2009)

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1 March 2009)
- Annual improvements project issued May 2009 – amendments to IFRS 8 (early adopted 1 March 2009)

The implications of these statements have no impact on measurements of assets and liabilities at the previous year-end. Comparatives are provided for new disclosures where required in terms of the standards.

1.20 Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 March 2010 or later periods but which the group has not early adopted, as follows:

- IFRS 1 and IAS 27 Cost of an investment in a subsidiary, jointly-controlled entity or associate (effective 1 March 2010)
- IFRS 3 Business combinations (effective 1 March 2010)
- IAS 27 Consolidated and separate financial statements (effective 1 March 2010)
- IAS 39 Financial instruments: Recognition and measurement – eligible hedged items (effective 1 March 2010)
- Amendment to IAS 32 Classification of rights issue (effective 1 March 2010)
- Amendments to IFRS 2 Group cash-settled share-based payment transactions (effective 1 March 2010)
- IFRIC 17 Distribution of non-cash assets to owners (effective 1 March 2010)
- IFRIC 18 Transfers of assets from customers (effective 1 March 2010)
- IFRIC 19 Extinguishing financial liabilities with equity instruments (effective 1 March 2011)
- Amendment to IAS 24 Related party disclosures (effective 1 March 2011)
- IFRS 9 Financial instruments (effective 1 March 2013)
- Annual improvements project issued May 2009 except as disclosed in 1.19 (effective 1 March 2011)

Management is in the process of assessing the impact of these amendments and standards on the reported results of the group and the company.

1.21 Reclassification

In the prior year an amount of R15.6 million in respect of the future value of the expected recoveries on handed over loans was netted against the impairment provision. This amount has been reclassified to gross loans and advances in the comparative figures.

The reclassification has the following impact:

	As previously disclosed R'000	Reclassification R'000	As reclassified R'000
Gross loans and advances	3 222 504	15 614	3 238 118
Impairment provision	(240 819)	(15 614)	(256 433)
Net loans and advances	2 981 685	–	2 981 685

2. Critical accounting estimates and judgements in applying accounting policies

In conformity with IFRS, the preparation of financial statements for the group requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions that may be undertaken in the future, actual results may ultimately differ from estimates.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment losses on loans and advances

The group reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

An increase or decrease of 5% of the estimated rates will have the following impact on the impairment allowance:

Expected default rates	2010 R'000	2009 R'000
Increase by 5%	**15 517**	13 153
Decrease by 5%	**(15 046)**	(13 421)

Property and equipment

Property and equipment are depreciated over their useful lives, taking into account their residual values at the end of their useful lives. The residual values and useful lives are based on industry knowledge and past experience with similar assets. Refer to note 1.9 for the accounting policy regarding property and equipment.

3. Segment analysis

In the 2010 financial year, segment reporting by the group was prepared for the first time in accordance with IFRS 8 Operating segments. Comparative segment information disclosed for 2009 did not require restatement to conform to IFRS 8.

The group has two operating segments which conduct business within the Republic of South Africa:

- Banking – incorporating retail banking services including savings, deposits, debit cards and consumer loans to individuals.
- Wholesale distribution – consisting of the wholesale distribution of fast moving consumer goods.

There are no clients that account for more than 10% of revenue.

Transactions between the business segments are on normal commercial terms and conditions.

The segment information provided to the executive management committee for the reportable segments is as follows:

Year ended 28 February 2010	Banking R'000	Wholesale distribution R'000	Adjustment for intra-segment items R'000	Total R'000
Segment revenue	**3 311 532**	**208 604**	**(661)**	**3 519 475**
Segment earnings after tax	**448 205**	**1 019**	**–**	**449 224**
Year ended 28 February 2009				
Segment revenue	2 393 965	208 915	(640)	2 602 240
Segment earnings after tax	314 864	4 468	–	319 332

Refer to notes 21 and 25 regarding depreciation, amortisation, interest expenses and other non-cash items. The wholesale distribution portion of these expenses is not material.

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000

4. Cash and cash equivalents

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Cash on hand	**448 017**	310 069	**–**	–
Bank balances	**1 152 543**	976 791	**1**	–
Money market unit trusts	**55 334**	–	**–**	–
Treasury bills	**655 777**	14 831	**–**	–
Central bank balances				
Debentures	**101 033**	146 059	**–**	–
Mandatory reserve deposits with central bank	**153 884**	66 239	**–**	–
	2 566 588	1 513 989	**1**	–
Maximum exposure to credit risk	**2 566 588**	1 513 989	**1**	–

Cash on hand and mandatory reserve deposits with central bank are non-interest bearing.

Money market unit trusts are floating rate assets.

Treasury bills are short-term fixed interest securities issued by the South African National Treasury.

Debentures are short-term fixed interest securities issued by the South African Reserve Bank.

Mandatory reserve deposits are not available for use in the group's day-to-day operations.

5. Investments at fair value through profit or loss

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Unlisted equity investments at fair value				
Balance at the beginning of the year	**14 704**	14 424	**–**	–
Amortised cost	**3 135**	3 100	**–**	–
Cumulative fair value adjustment – other market risk	**11 569**	11 324	**–**	–
Additions /(disposals)	**(10)**	35	**–**	–
Fair value adjustment	**2 048**	245	**–**	–
Exchange rate risk	**(3 180)**	4 251	**–**	–
Other market risk	**5 228**	(3 136)	**–**	–
Realised on disposals	**–**	(870)	**–**	–
Balance at the end of the year	**16 742**	14 704	**–**	–
Amortised cost	**3 125**	3 135	**–**	–
Cumulative fair value adjustment – other market risk	**13 617**	11 569	**–**	–
Interest-bearing debt instruments[1]				
Balance at the beginning of the year	**135 340**	–	**–**	–
Amortised cost	**134 520**	–	**–**	–
Cumulative fair value adjustment	**820**	–	**–**	–
Additions /(disposals)	**1 155 253**	134 520	**–**	–
Fair value adjustment	**(1 037)**	820	**–**	–
Interest rate risk	**(1 037)**	820	**–**	–
Credit risk	**–**	–	**–**	–
Balance at the end of the year	**1 289 556**	135 340	**–**	–
Amortised cost	**1 289 773**	134 520	**–**	–
Cumulative fair value adjustment	**(217)**	820	**–**	–
Total investments at fair value	**1 306 298**	150 044	**–**	–
Credit risk for financial assets designated at fair value[2]:				
Maximum exposure to credit risk	**1 289 556**	135 340	**–**	–
Amount by which credit mitigation or derivatives offset credit risk	**–**	–	**–**	–
Credit risk exposure after taking into account credit mitigation or derivatives	**1 289 556**	135 340	**–**	–

The methods and assumptions applied to calculate the fair value changes due to interest rate risk and exchange rate risk are set out in notes 30.3 and 30.4.

Fair value adjustments are not attributable to changes in credit risk during the year, and cumulatively. The directors' valuation of investments at fair value through profit or loss is equal to the assets' carrying value. This group of financial assets and their performances are managed and evaluated on a fair value basis in accordance with a documented risk management strategy. Information about this group is provided internally on that basis to the management committee and board of directors.

[1] *Interest-bearing instruments comprise unlisted instruments with a maturity greater than three months from date of acquisition. This figure comprises government instruments (2009: government instruments).*

[2] *Credit risk arises from the interest-bearing debt instruments.*

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000

6. Loans and advances to clients

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Maturity analysis of loans and advances				
Demand to one month	**587 298**	470 218	**–**	–
One to three months	**723 265**	561 173	**–**	–
Three months to one year	**2 272 105**	1 412 751	**–**	–
More than one year	**2 187 536**	906 450	**–**	–
Maximum exposure to credit risk	**5 770 204**	3 350 592	**–**	–
Deferred loan fee income	**(162 732)**	(112 474)	**–**	–
Gross loans and advances	**5 607 472**	3 238 118	**–**	–
Allowance for impaired loans and advances	**(382 333)**	(256 433)	**–**	–
Net amount[(1) (2)]	**5 225 139**	2 981 685	**–**	–
Credit quality of performing loans and advances[(3)]				
Top two grades of the internal rating system	**2 573 709**	1 043 966		–
Percentage of total performing loans	**49%**	36%		
Bottom two grades of the internal rating system	**11 019**	12 733		
Percentage of total performing loans	**0.2%**	0.4%		
Carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.[(4)]	**87 056**	47 754		
Impairment of loans and advances				
Not past due	**5 075 300**	2 809 038	**–**	–
Gross	**5 257 471**	2 912 307	**–**	–
Impairment	**(182 171)**	(103 269)	**–**	–
Past due	**149 839**	172 647	**–**	–
Gross	**350 001**	325 811	**–**	–
Impairment	**(200 162)**	(153 164)	**–**	–
Net	**5 225 139**	2 981 685	**–**	–

Past due loans and advances are in arrears from one day to three months and not handed over. All past due loans and advances are impaired. Loans and advances not past due on which an impairment allowance has been raised are treated as fully performing loans and advances.

Included in loans and advances is an investment of R20.5 million (2009: R16.7 million)in cumulative preference shares bearing interest at 80% of the prime interest rate with a redemption date of 15 February 2014.

The remainder of loans and advances comprise unsecured loans to individuals at fixed rates.

(1) Loans and advances are unsecured and the balance is exposed to credit risk.

(2) Included within loans and advances is related accrued interest receivable of R35 million (2009: R22.2 million).

(3) We use 21 grades in our internal rating system and qualification per product is governed by grading. Clients in the top 2 grades qualify for longer-term loans.

(4) An additional provision of R8.7 million (2009: R4.1 million) is included in the provision against loans not past due relating to the estimated impact of the increase of renegotiated loans.

	GROUP		COMPANY	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000

6. Loans and advances to clients *(continued)*

Movement on provision for impaired advances:

	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Opening balance	**256 433**	172 920	**–**	–
Unidentified losses	**87 655**	54 477	**–**	–
Identified losses	**168 778**	118 443	**–**	–
Movement	**125 900**	83 513	**–**	–
Unidentified losses	**94 516**	33 178	**–**	–
Identified losses	**31 384**	50 335	**–**	–
Closing balance	**382 333**	256 433	**–**	–
Unidentified losses	**182 171**	87 655	**–**	–
Identified losses	**200 162**	168 778	**–**	–

Ageing of impaired advances:

	2010 R'000	2009 R'000	2010 R'000	2009 R'000
< 60 days	**306 416**	271 902	**–**	–
60 – 90 days	**43 585**	53 909	**–**	–
	350 001	325 811	**–**	–

7. Inventory

	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Finished goods	**26 067**	22 120	**–**	–

The cost of obsolete inventories recognised as an expense and included in cost of sales amounted to R15 000 (2009: R504 000).

8. Other receivables

	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Rental deposits	**2 016**	1 978	**–**	–
Accrued income	**8 627**	3 588	**6 577**	81
Receivables at fair value through profit or loss (note 30.10)	**8 419**	–	**–**	–
Derivative (note 43)	**9**	830	**–**	–
Prepayments	**22 056**	13 718	**–**	–
	41 127	20 114	**6 577**	81
Current	**39 026**	18 052	**6 577**	81

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
Non-current	**2 101**	2 062	**–**	–

	GROUP		COMPANY	
	2010	**2009**	**2010**	**2009**
	R'000	**R'000**	**R'000**	**R'000**

9. Group loans receivable

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
Loan to subsidiary	**–**	–	**34 808**	36 338
Current	**–**	–	**34 808**	36 338
Non-current	**–**	–	**–**	–

Loans to subsidiaries are interest-free and have no fixed repayment terms. Loans are managed as part of the investment in subsidiaries.

10. Investment in subsidiaries

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
Unlisted				
Subsidiaries at cost	**–**	–	**819 724**	819 724

The directors' valuation of the investment in subsidiaries is at least equal to the book value.

The following information relates to the company's interest in subsidiaries:

Name	Domicile	Holding %	Nature of business
Capitec Bank Limited	South Africa	100%	Banking
Keynes Rational Corporate Services (Pty) Limited	South Africa	100%	Dormant
Capitec Properties (Pty) Limited	South Africa	100%	Property
Keymatrix (Pty) Limited	South Africa	100%	Dormant
Key Distributors (Pty) Limited	South Africa	75%	Wholesale distribution
Capitec Bank Holdings Share Trust	South Africa	–	Share incentive trust
Capitec Bank Group Employee Empowerment Trust	South Africa	–	Employee empowerment trust

The holding company's interest in the aggregate income earned and losses incurred after tax by the subsidiaries amounted to R356.1 million (2009: R331.1 million) and R0.1 million (2009: R0.0 million) respectively.

All holdings are in the ordinary share capital of the subsidiary concerned.

11. Property and equipment

GROUP Year ended 28 February 2010	Land and buildings[1] R'000	Equipment R'000	Office equipment and vehicles R'000	Total R'000
Opening net book value	**32 653**	**74 209**	**133 272**	**240 134**
Additions	**295**	**61 506**	**66 680**	**128 481**
Disposals	**–**	**(272)**	**(1 511)**	**(1 783)**
Depreciation charge	**(49)**	**(38 286)**	**(46 887)**	**(85 222)**
Net book value at the end of the year	**32 899**	**97 157**	**151 554**	**281 610**
Cost	**33 139**	**236 948**	**331 588**	**601 675**
Accumulated depreciation	**(240)**	**(139 791)**	**(180 034)**	**(320 065)**
Net book value at the end of the year	**32 899**	**97 157**	**151 554**	**281 610**

Year ended 28 February 2009	Land and buildings[1] R'000	Equipment R'000	Office equipment and vehicles R'000	Total R'000
Opening net book value	1 397	70 650	124 126	196 173
Cost	1 545	176 037	230 245	407 827
Accumulated depreciation	(148)	(105 387)	(106 119)	(211 654)
Additions	31 298	31 278	52 147	114 723
Disposals	–	(117)	(2 298)	(2 415)
Depreciation charge	(42)	(27 602)	(40 703)	(68 347)
Net book value at the end of the year	32 653	74 209	133 272	240 134
Cost	32 843	206 482	276 689	516 014
Accumulated depreciation	(190)	(132 273)	(143 417)	(275 880)
Net book value at the end of the year	32 653	74 209	133 272	240 134

[1] *Land and buildings with a book value of R1.6 million are encumbered in terms of a mortgage bond (note 14).*

	GROUP		COMPANY	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000

12. Intangible assets

Computer software				
Opening net book value	**27 669**	37 619	**–**	–
Cost	**147 121**	129 252	**–**	
Accumulated amortisation	**(119 452)**	(91 633)	**–**	
Additions	**20 744**	17 869	**–**	–
Disposals	**(2 665)**	–	**–**	–
Amortisation charge	**(23 537)**	(27 819)	**–**	–
Net book value at the end of the year	**22 211**	27 669	**–**	–
Cost	**70 800**	147 121	**–**	–
Accumulated amortisation	**(48 589)**	(119 452)	**–**	–
Net book value at the end of the year	**22 211**	27 669	**–**	–

Computer software substantially consists of the primary banking application system.

13. Deferred income tax assets

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2009: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised.

The movement on the deferred income tax account is as follows:				
Balance at the beginning of the year	**13 667**	13 967	**–**	–
Cash flow hedge	**(3 124)**	9 284	**–**	–
Income statement charge	**8 640**	(9 584)	**–**	–
Balance at the end of the year	**19 183**	13 667	**–**	–
Deferred income tax assets are attributable to the following items:				
Provisions and accruals	**29 626**	6 719	**–**	–
Cash flow hedge	**6 160**	9 284	**–**	–
Capital allowances	**(11 167)**	438	**–**	–
Prepayments	**(5 436)**	(2 774)	**–**	–
	19 183	13 667	**–**	–
Deferred tax assets to be recovered within 12 months	**(4 912)**	2 144	**–**	–
Deferred tax assets to be recovered after more than 12 months	**24 095**	11 523	**–**	–

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	R'000	R'000	**R'000**	R'000

14. Loans and deposits at amortised cost

	2010 R'000	2009 R'000	2010 R'000	2009 R'000
By maturity				
Within one month	**2 873 037**	1 425 278	**–**	–
One to three months	**361 871**	186 200	**–**	–
Three months to one year	**793 689**	454 450	**–**	–
More than one year	**3 331 728**	1 232 969	**–**	–
	7 360 325	3 298 897	**–**	
By nature				
Retail savings	**2 346 350**	1 306 367	**–**	–
Retail fixed deposits	**1 147 597**	264 760	**–**	
Wholesale[1]	**1 040 473**	790 122	**–**	–
Subordinated debt[2]	**252 960**	–	**–**	–
Domestic Medium Term Note Programme[3]	**1 995 285**	498 281	**–**	
Negotiable instruments	**380 300**	383 426	**–**	–
Reserve Bank settlement balance	**197 360**	55 941	**–**	–
	7 360 325	3 298 897	**–**	–
Amounts payable on maturity of the funding	**8 890 712**	3 935 481	**–**	–

The difference between the amounts payable on maturity and the loans and deposits at amortised cost relates to future finance cost.

[1] *Wholesale deposits include a mortgage bond of R0.8 million (2009: R0.9 million) that is secured as stated in note 11.*

[2] *Subordinated debt comprises a 12 year floating rate bond with a nominal value of R250 million. The debt is callable by the group after seven years and bears interest at a rate of 3 month JIBAR plus 6.75% for the first seven years and 3 month JIBAR plus 8.00% for the last five years if not called.*

[3] *Domestic medium term notes (nominal value R380 million) issued at variable rates are hedged through interest rate swap agreements as set out in notes 20 and 44.*

All deposits with the exception of the mortgage bond (refer [1]) are unsecured.

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000

15. Loans and deposits held at fair value through profit or loss

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Term deposit due				
Within one month	–	8 333	–	–
One to three months	–	9 583	–	–
	–	17 916	–	–
Amount payable on maturity of the term funding	–	18 190	–	–
The difference between amounts payable on maturity and the fair value of the liabilities relates to future finance cost.	–	274	–	–

These deposits are unsecured and comprise wholesale deposits.

This group of financial liabilities and their performances are managed and evaluated on a fair value basis in accordance with a documented risk management strategy. Information about this group is provided internally on that basis to the management committee and board of directors.

In the comparative year the contractual interest rate on the funding was fixed at 13.075%, and the fair value thereof was determined after applying a discount rate of 12.175%. Please refer to note 30.10 for a description of valuation methods applied.

16. Trade and other payables

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Trade payables	**134 640**	92 391	**48**	–
Dividends payable	**6 941**	9 508	**6 577**	9 508
Accruals	**160 431**	100 590	**–**	–
Share appreciation rights (note 41)	**33 231**	1 498		
Derivatives (note 44)	**23 109**	25 923	**–**	–
	358 352	229 910	**6 625**	9 508
Current	**275 841**	183 950	**6 625**	9 508
Non-current	**82 511**	45 960	**–**	–

17. Provisions

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Performance incentive scheme				
Balance at the beginning of the year	**–**	–	**–**	–
Addition	**7 117**	–	**–**	–
Release	**–**	–	**–**	–
Balance at the end of the year	**7 117**	–	**–**	–
Current	**–**	–	**–**	–
Non-current	**7 117**	–	**–**	–

Senior management qualify for a cash-settled performance bonus scheme. The scheme rewards managers based on the growth in headline earnings and in order to foster a long-term approach by management the bonus is paid out over a three year period. The bonuses to be paid out in the 2012 and 2013 financial years are included in provisions. The bonus to be paid in the 2011 financial year is included in accruals.

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000

18. Group loans payable

	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Loan from subsidiary	**–**	–	**1**	1
Current	**–**	–	**1**	1
Non-current	**–**	–	**–**	–

Loans from subsidiaries are interest-free and have no fixed repayment terms. Loans are managed as part of the investment in subsidiaries.

19. Share capital and premium

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
Authorised				
Ordinary shares				
100 000 000 shares of R0.01 each	**1 000**	1 000	**1 000**	1 000
Non-redeemable, non-cumulative, non-participating preference shares[(1)]				
100 000 000 shares of R0.01 each	**1 000**	1 000	**1 000**	1 000
	2 000	2 000	**2 000**	2 000
Issued				
Ordinary share capital and premium	**682 219**	674 369	**682 219**	674 369
82 982 537 (2009: 82 797 912) shares of R0.01 each at par	**830**	828	**830**	828
Share premium	**681 389**	673 541	**681 389**	673 541
Non-redeemable, non-cumulative, non-participating preference share capital and premium[(1)]	**154 606**	154 606	**154 606**	154 606
1 684 211 (2009: 1 684 211) shares of R0.01 each at par	**17**	17	**17**	17
Share premium	**154 589**	154 589	**154 589**	154 589
Total issued share capital and premium[(2)(3)]	**836 825**	828 975	**836 825**	828 975

No ordinary or preference shares were cancelled in the current or prior year.

All issued ordinary and preference shares are fully paid up.

(1) *The preference shares carry a coupon rate of 75% of the prime overdraft rate on a face value of R100 per share.*
(2) *Refer to note 36 for detail regarding the issue of shares.*
(3) *3 911 796 (2009: 4 096 421) of the unissued ordinary shares and 100% of the non-redeemable, non-cumulative, non-participating preference shares were placed under the control of the directors until the next annual general meeting.*

The shares held by the share incentive trust for the purpose of settling share options issued to employees in terms of the group share incentive scheme are reflected as a deduction against equity at cost to the group.

During the year an expense of R4 million (R1 million after tax) (2009: R45 million, R34 million after tax) was realised on settlement of share options as reflected in the statement of changes in shareholders' equity.

20. Cash flow hedge reserve

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Cash flow hedge reserve/(loss)[(1)]				
Balance at the beginning of the year	**(23 873)**	–		
Movement for the year before taxation	**11 158**	(33 157)	**–**	–
Amount recognised in comprehensive income during the year	**(4 759)**	(33 462)	**–**	
Amount reclassified from comprehensive income and included in profit and loss for the year	**15 917**	305	**–**	–
	(12 715)	(33 157)	**–**	–
Deferred tax recognised in comprehensive income during the year	**(3 124)**	9 284	**–**	–
Balance at the end of the year	**(15 839)**	(23 873)	**–**	

(1) The hedging reserve is released to the income statement on realisation of the domestic medium term notes interest expense. Refer to note 44 for additional disclosure.

21. Net interest income

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Interest income				
Loans and advances to clients	**1 617 263**	1 156 514	**–**	–
Interest-bearing instruments	**32 689**	5 727	**–**	–
Cash and cash equivalents	**114 014**	50 655	**–**	–
Non-bank money market placements	**61**	24	**–**	–
Money market funds	**71 119**	–	**–**	–
Treasury bills	**23 647**	4 065	**–**	–
Bank balances	**451**	38 991	**–**	–
Central Bank balances	**18 736**	7 575	**–**	–
	1 763 966	1 212 896	**–**	–
Interest expense				
Retail savings	**(110 704)**	(99 780)	**–**	
Retail fixed deposits	**(82 672)**	(4 396)	**–**	
Wholesale	**(112 404)**	(74 697)	**–**	–
Domestic Medium Term Note	**(143 795)**	(57 400)	**–**	
Negotiable deposits	**(40 808)**	(33 174)	**–**	–
Forward foreign exchange contracts	**(253)**	(174)	**–**	–
	(490 636)	(269 621)	**–**	–
Net interest income	**1 273 330**	943 275	**–**	–

Included in interest income is R19.1 million (2009: R19.7 million) with respect to interest income accrued on impaired financial assets.

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000

22. Dividend income

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Subsidiaries	**–**	–	**151 084**	108 880
Ordinary dividends	**–**	–	**136 921**	89 753
Preference dividends	**–**	–	**14 163**	19 127
Investments at fair value through profit or loss	**519**	1 099	**–**	–
	519	1 099	**151 084**	108 880

23. Net impairment charge on loans and advances to clients

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Bad debts	**493 976**	430 315	**–**	–
Movement in impairment allowance	**125 900**	83 513	**–**	–
Bad debts recovered	**(72 415)**	(46 101)	**–**	–
Net impairment charge	**547 731**	467 727	**–**	–

24. Net movement in financial instruments held at fair value through profit or loss

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Financial assets held at fair value through profit or loss	**1 011**	1 935	**–**	–
Change in fair value due to changes in credit risk	**–**	–	**–**	–
Change in fair value due to other factors	**1 011**	1 935	**–**	–
Financial liabilities held at fair value through profit or loss	**–**	262	**–**	–
Change in fair value due to changes in credit risk	**–**	–	**–**	–
Change in fair value due to other factors	**–**	262	**–**	–
	1 011	2 197		

The methods and assumptions applied to calculate the fair value changes due to credit risk are set out in note 30.10 and credit risk mitigation techniques are set out in note 30.1.

25. Operating profit before tax

	GROUP		COMPANY	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
The following items have been included in arriving at operating profit before tax:				
Loss on disposal of equipment and intangibles	**2 287**	2 314	**–**	–
Depreciation on fixed assets	**85 222**	68 347	**–**	–
Amortisation of computer software	**23 537**	27 819	**–**	–
Foreign exchange losses	**7**	2	**–**	–
(Excludes change in fair value of financial assets through profit or loss as per note 5)				
Operating lease rentals				
Land and buildings	**98 885**	79 346	**–**	–
Office equipment	**2 712**	2 335	**–**	–
	101 597	81 681	**–**	–
Income from subletting	**(1 522)**	(1 373)	**–**	–
Auditors' remuneration				
Audit fees	**2 628**	2 608	**–**	–
Other services	**106**	44	**–**	–
	2 734	2 652	**–**	–
Directors' emoluments (included in employee costs below)				
Executive				
Salaries	**9 784**	7 115	**–**	–
Fringe benefits	**454**	497	**–**	–
Bonuses	**2 627**	754	**–**	–
Share appreciation rights	**2 475**	578	**–**	–
Share options	**3 182**	2 367	**–**	–
Non-executive				
Fees	**2 330**	1 902	**–**	–
Employee costs				
Salaries and wages	**617 984**	465 275	**–**	–
Equity-settled share-based payment	**12 186**	8 992	**–**	–
Cash-settled share appreciation rights	**31 734**	1 498	**–**	–
Social security cost	**14 654**	9 528	**–**	–
Training cost	**20 104**	13 680	**–**	5
Training refund	**(2 473)**	(1 878)	**–**	–
	694 189	497 095	**–**	5
Consultancy fees relating to non-employees comprise:				
Managerial services	**589**	470	**–**	–
Secretarial services	**578**	259	**282**	229
Technical	**6 546**	13 959	**–**	–
Administrative	**1 277**	3 303	**–**	–
	8 990	17 991	**282**	229

26. Income tax expense

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Current tax	**201 772**	127 767	**–**	–
Normal company tax	**186 710**	117 268	**–**	–
Secondary tax on companies	**15 062**	10 499	**–**	–
Deferred tax	**(8 640)**	9 584	**–**	–
Normal company tax	**(8 640)**	9 584	**–**	–
	193 132	137 351	**–**	–
The tax on the profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:				
Profit before tax	**642 356**	456 683	**151 084**	108 879
Tax calculated at a tax rate of 28%	**179 860**	127 871	**42 304**	30 486
Secondary tax on companies	**15 062**	10 499	**–**	–
Adjustments for prior periods	**(552)**	–	**–**	–
Income not subject to tax	**(1 213)**	(308)	**(42 304)**	(30 486)
Expenses not deductible for tax purposes	**233**	597	**–**	–
Withholding tax	**3**	–	**–**	–
Unutilised tax loss	**(261)**	(1 308)	**–**	–
Income tax expense	**193 132**	137 351	**–**	–
Estimated tax losses at year-end available for utilisation against future taxable income	**14 732**	15 030	**238**	237
Less: Applied in raising a deferred tax asset	**–**	–	**–**	–
Net calculated tax losses carried forward	**14 732**	15 030	**238**	237
Tax relief calculated at current tax rates	**5 563**	5 729	**67**	66

The utilisation of the tax losses is dependent on sufficient future taxable income being earned.

	GROUP	
	2010	**2009**
	R'000	**R'000**

27. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the net profit after tax attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the year.

	2010 R'000	2009 R'000
Net profit after tax	**449 224**	319 332
Preference dividend	**(14 163)**	(19 127)
Net profit after tax attributable to ordinary shareholders	**435 061**	300 205
Weighted average number of ordinary shares in issue (thousands)	**82 935**	82 584
Basic earnings per share (cents)	**525**	364

Diluted earnings per share

Diluted earnings per share is calculated using the weighted average number of ordinary shares in issue, adjusted to assume conversion of all potentially dilutive ordinary shares. For 2010 and 2009 potentially dilutive ordinary shares consisted only of share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to earnings (numerator).

	2010 R'000	2009 R'000
Net profit used to determine diluted earnings per share	**435 061**	300 205
Weighted average number of ordinary shares in issue (thousands)	**82 935**	82 584
Adjustment for:		
Exercise of share options	**2 536**	1 472
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**85 471**	84 056
Diluted earnings per share (cents)	**509**	357

	GROUP 2010 R'000	2009 R'000
28. Headline earnings per share attributable to ordinary shareholders		
Basic headline earnings per share		
Net profit attributable to ordinary shareholders	**435 061**	300 205
Non-headline items		
Loss on disposal of assets	**2 287**	2 314
Income tax charge	**(640)**	(648)
Headline earnings	**436 708**	301 871
Headline earnings per share (cents)	**527**	366
Diluted headline earnings per share		
Headline earnings	**436 708**	301 871
Diluted headline earnings per share (cents)	**511**	359

29. Dividend per share

The directors recommended a final dividend in respect of 2010 of 155 cents per share (2009: 110 cents per share) amounting to a total dividend of R128.6 million (2009: R91.3 million) on 30 March 2010.

The secondary tax on companies in respect of this dividend will amount to R12.9 million (2009 R9.1million).

These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 28 February 2011, which is in line with recommended accounting practice.

An interim dividend of 55 cents per share (2009: 30 cents per share) was declared on 1 October 2009 and paid on 7 December 2009.

30. Financial risk management

The financial instruments carried on the balance sheet are set out in note 30.9.

The group views risk management as a measure of ensuring a responsible return on shareholders' equity. Ultimately, the board remains responsible for risk management. To assist them in performing this duty, the company is managed through a system of internal controls functioning throughout the entity so that an awareness of risk pervades every aspect of our business and is seen as the responsibility of each employee of the group. The board has established a risk and capital management committee comprising four independent non-executive directors. The committee has a formal charter in accordance with which it assists the board in reviewing the processes followed to identify risk and considering such risks in the group environment. The committee also assists the board in ensuring that risk assessment is an ongoing process and that a formal risk assessment is undertaken at least quarterly.

Subcommittees comprising executives and senior management have been established to deal in a structured manner with specific risks facing the company:

- Credit committee – credit and counterparty risk
- Assets and liability committee (ALCO) – interest rate, market, liquidity, counterparty, currency and capital adequacy risk
- Operational risk committee – legal, compliance, technology, operational and reputational risk

The group operates in a structured manner with defined processes and procedures enabling risk assessment within a controlled environment. Accordingly, an assessment of key risks is performed with weightings on impact and probability assigned. Existing controls are assessed and, if necessary, adjusted. Thereafter reports are generated at regular intervals to enable monitoring of risk levels.

30.1 Credit risk

Loans and advances are disclosed net of impairment allowances.

Retail

The group specialises in granting personal unsecured loans. Exposure to name concentration credit risk is low due to the nature and distribution of the loan book. Exposure to systemic credit risk is regarded as being higher than normal banking activities due to the demographic credit characteristics of the client base. Measures taken by the group to limit credit risk to acceptable levels include, inter alia, the application of standard credit acceptance procedures to assess potential clients, daily monitoring of collectible balances at both branch and head office level and monitoring by the credit and risk committees. No security is obtained for loans and advances, and accordingly the entire balance as per the balance sheet is exposed to credit risk.

The maximum capital advanced in terms of any one personal loan is R100 000 (2009: R50 000). At balance sheet date the number of outstanding loans was 825 460 (2009: 638 616).

Wholesale

The group only invests centrally managed cash surpluses in cash and liquid assets with the South African Reserve Bank, South African registered banking entities and money market funds of high credit standing. Potential exposure to name concentration credit risk exists principally in cash and cash equivalents and interest bearing instruments (notes 4 and 5). Name concentration credit risk is controlled using ALCO approved limits which are monitored and enforced by the credit committee. This ensures that the financial assets that the group may place with any one counterparty are limited, by reference to the long-term and short-term credit ratings assigned for that counterparty by Fitch.

At balance sheet date the international long-term credit ratings, using Fitch ratings, were as follows:

2010

	Notes	AAA-A R'000	BBB R'000	Below BBB R'000	Not rated R'000	Total carrying amount R'000
Cash on hand	4	448 017	–	–	–	448 017
Bank balances	4	403 032	749 482	–	29	1 152 543
Money market instruments	4	–	–	–	55 334	55 334
Treasury bills (< 3 months)	4	655 777				655 777
Central bank balances	4	254 917	–	–	–	254 917
Treasury bills (> 3 months)	5	1 289 556	–	–	–	1 289 556
		3 051 299	749 482	–	55 363	3 856 144
2009						
Cash on hand	4	310 069	–	–	–	310 069
Bank balances	4	554 401	422 390	–	–	976 791
Money Market instruments	4	–	–	–	–	–
Treasury bills (< 3 months)	4	14 831	–	–	–	14 831
Central bank balances	4	212 298	–	–	–	212 298
Treasury bills (> 3 months)	5	135 340	–	–	–	135 340
		1 226 939	422 390	–	–	1 649 329

The bank balances and money market placements were with 11 institutions (2009: 7), with the maximum exposure to one institution being R1 989 million (2009: R205 million). This exposure consists of government instruments.

Money market instruments that are not rated consist of money market unit trusts.

30.2 Geographical concentration of assets, liabilities and off-balance sheet items

All the group's operating activities are situated within the Republic of South Africa. Capitec Bank branches are distributed across South Africa and at year-end the breakdown by province was as follows:

	2010	2009
Eastern Cape	50	47
Free State	23	21
Gauteng	104	89
KwaZulu-Natal	63	56
Limpopo	26	24
Mpumalanga	40	39
North West	27	24
Northern Cape	12	12
Western Cape	56	51
	401	363

30.3 Interest rate risk

The group operates within the ambit of the National Credit Act when considering interest rates on the advancing of short-term personal loans.

The current group interest profile is uncomplicated and is monitored by the ALCO. Management aim to match the fixed or floating rate nature of funding with the fixed and floating rate elements of the loan book and surplus cash positions.

Financial assets and liabilities are accounted for, in the main, on an amortised cost basis and therefore the income statement is not significantly impacted by fair value interest rate risk. The return on surplus cash balances placed in call money market accounts varies with changes in interbank interest rates as does the interest payable on floating rate bond liabilities and some retail deposits, resulting in cash flow interest rate risk. Floating rate bond liabilities may be hedged using interest rate swaps in order to match positions. The use of interest rate swaps mitigates the changes in cash flows of variable rate bonds issued by the group. The objective is to protect the group from uncontrolled changes in future interest cash flow commitments that arise from changes in market interest rates and re-borrowing of current balances that can have a negative impact on the value of the business and annual earnings. The use of interest rate swaps has the economic effect of converting borrowing from floating rates to fixed rates. Under the terms of the interest rate swaps, the group agrees with other banking entities to exchange, quarterly, the difference between fixed contractual rates and floating rate interest amounts calculated by reference to the agreed notional amounts. The group has discretion over the rates offered on its demand savings deposits. Retail advances are only offered in fixed rate terms. The maturity breakdown of the advances book is set out in note 6 and note 30.6.

ALCO meets monthly and considers the results of management's analysis of the impact of interest rates on the group which includes inter alia the results of various models and the impact of interest rate strategy on the gross margin.
Two sensitivity analyses are presented below:
- Sensitivity 1 is a run-off analysis.
- Sensitivity 2 assumes continuity for the ensuing year of cash on call and that element of the retail demand savings that could potentially be subject to change.

The sensitivity analyses below reflect the impact a 200 basis point increase or decrease in interest rates:
- Immediately following the reporting date
- Based on floating rate assets and liabilities held at amortised cost (cash and cash equivalents, negotiable instruments, retail savings deposits, floating bond liabilities)
- Assets and liabilities accounted for at fair value through profit and loss
- On balance sheet at the reporting date.
- The movement in rates was applied as a parallel shift in the applicable yield curves
- Unless otherwise stated the continuity of items for the purpose of this analysis is the contractual maturity dates

	Impact on income statement				Impact on equity			
	2010		2009		**2010**		2009	
200 basis points	**Pre-tax R'000**	**Post-tax R'000**	**Pre-tax R'000**	**Post-tax R'000**	**Pre-tax R'000**	**Post-tax R'000**	**Pre-tax R'000**	**Post-tax R'000**
Sensitivity 1								
Increase	**(35 128)**	**(25 292)**	(1 511)	(1 088)	**(31 673)**	**(23 359)**	12 893	8 728
Decrease	**35 128**	**25 292**	1 511	1 088	**12 901**	**9 843**	(16 312)	(11 190)
Sensitivity 2								
Increase	**1 786**	**1 286**	(3 435)	(2 473)	**5 241**	**3 219**	10 969	7 343
Decrease	**(1 786)**	**(1 286)**	3 434	2 473	**(24 012)**	**(16 734)**	(14 388)	(9 805)

30.4 Currency risk

The exposure to foreign currency purchase risk relating to the importation of capital equipment, technology and technology support services needed for the core banking activities is managed through the purchase of forward foreign exchange contracts.

30.5 Other market risk

There is limited exposure to other pricing risk due to US dollar-based unlisted equity investments in Visa and MasterCard (refer note 5).

30.6 Liquidity risk

The group manages liquidity cautiously and operates an uncomplicated maturity profile which is monitored by ALCO. The short-term nature of the loan book relative to the size of the deposit book and the term nature of much of the funding reduces the liquidity risk of the group.

The table below analyses assets and liabilities of the group into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The table was prepared on the following basis:

- asset and liability cash flows are presented on an undiscounted basis with an adjustment to reflect the total discounted result.
- the cash flows of floating rate financial instruments are calculated using published forward market rates at balance sheet date.
- the cash flows of the derivative financial instruments are included on a gross basis.
- contractual cash flows with respect to off-balance sheet items which have not yet been recorded on the balance sheet, are excluded.
- adjustments to loans and advances to clients relate to initiation fee income.
- non-cash liabilities, representing leave pay and the straight-lining of operating leases, are disclosed as adjustments to trade and other payables.

30.6 Liquidity risk *(continued)*

Maturities of financial assets and financial liabilities (discounted cash flows)	Note	Demand to one month R'000	One to three months R'000	Three months to one year R'000	More than one year R'000	Adjustment R'000	Total R'000
2010							
Undiscounted assets							
Cash and cash equivalents	4	2 012 160	562 110	–	–	–	2 574 270
Investments at fair value through profit or loss	5	52 238	390 000	901 010	–	–	1 343 248
Undiscounted assets		2 064 398	952 110	901 010	–	–	3 917 518
Adjustments for undiscounted assets		(681)	(13 287)	(30 664)	–	–	(44 632)
Discounted assets							
Loans and advances to clients	6	587 298	723 265	2 272 105	2 187 536	(162 732)	5 607 472
Loan impairment provision	6	(73 718)	(126 596)	(172 868)	(9 151)	–	(382 333)
Other receivables	8	8 542	–	8 428	2 101	–	19 071
Total discounted assets		2 585 839	1 535 492	2 978 011	2 180 486	(162 732)	9 117 096
Undiscounted liabilities							
Loans and deposits at amortised cost	14	2 879 798	422 766	1 081 547	4 506 601	–	8 890 712
Trade and other payables	16	173 061	80 979	21 801	39 391	44 305	359 537
Current income tax liabilities		–	658	33 794	–	–	34 452
Loans and deposits at fair value through profit or loss	15	–	–	–	–	–	–
Provisions	17	–	–	–	7 117	–	7 117
Undiscounted liabilities		3 052 859	504 403	1 137 142	4 553 109	44 305	9 291 818
Adjustments for undiscounted liabilities to depositors		(6 761)	(60 998)	(288 572)	(1 175 241)	–	(1 531 572)
Total discounted liabilities		3 046 098	443 405	848 570	3 377 868	44 305	7 760 246
Net liquidity excess/(shortfall)		(460 259)	1 092 087	2 129 441	(1 197 382)	(207 037)	1 356 850
Cumulative liquidity excess/(shortfall)		(460 259)	631 828	2 761 269	1 563 887	1 356 850	1 356 850

Maturities of financial assets and financial liabilities (discounted cash flows)	Note	**Demand to one month** R'000	**One to three months** R'000	**Three months to one year** R'000	**More than one year** R'000	**Adjustment** R'000	**Total** R'000
2009							
Discounted assets							
Cash and cash equivalents	4	1 473 132	40 857	–	–	–	1 513 989
Investments at fair value through profit or loss	5	33 227	24 650	92 167	–	–	150 044
Loans and advances to clients	6	470 218	561 173	1 412 751	906 450	(112 474)	3 238 118
Loan impairment provision	6	(55 744)	(87 556)	(104 588)	(8 545)		(256 433)
Other receivables	8	3 504	–	830	2 062	–	6 396
Total discounted assets		1 924 337	539 124	1 401 160	899 967	(112 474)	4 652 114
Undiscounted liabilities							
Loans and deposits at amortised cost	14	1 428 239	214 249	488 068	1 804 925	–	3 935 481
Trade and other payables	16	73 132	80 726	18 137	22 593	37 897	232 485
Current income tax liabilities		–	16 498	–	–	–	16 498
Loans and deposits at fair value through profit or loss	15	8 333	9 857	–	–	–	18 190
Provisions	17	–	–	–	–	–	–
Undiscounted liabilities		1 509 704	321 330	506 205	1 827 518	37 897	4 202 654
Adjustments for undiscounted liabilities to depositors		(2 961)	(28 323)	(33 744)	(574 405)	–	(639 433)
Total discounted liabilities		1 506 743	293 007	472 461	1 253 113	37 897	3 563 221
Net liquidity (shortfall)/excess		417 594	246 117	928 699	(353 146)	(150 371)	1 088 893
Cumulative liquidity (shortfall)/ excess		417 594	663 711	1 592 410	1 239 264	1 088 893	1 088 893

The contractual maturity of the financial assets and liabilities of the company are all on demand to one month.

The liquidity shortfall in the demand to one month category results from the investment of excess cash in treasury bills and South African Reserve Bank debentures with maturities in excess of one month. These instruments are highly liquid and can be converted to cash should the need arise.

30.7 Capital management

The group's principal objectives when managing capital are to:

- Address the expectations of its shareholders, and so to optimise business activities to ensure return on capital targets are achieved through efficient capital management.
- Ensure that the group and bank hold sufficient risk capital. Risk capital caters for unexpected losses that may arise, protects shareholders and depositors and thereby assures the sustainability of the bank through the business cycle.
- Comply with the capital supervisory requirements of the South African Reserve Bank (SARB) as codified in the Banks Act 1990 (as amended) and related regulations.

The group conducts a Capitec Internal Capital Adequacy Assessment Process (CICAAP) on an ongoing basis, which drives the group's position on capital management matters. The CICAAP reviews the historic, current and future capital positioning of the group both from an internal and regulatory capital perspective.

The table below summarises the composition of regulatory capital for the group and the bank:

	GROUP		BANK	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Primary (Tier 1) capital				
Ordinary share capital	**682 219**	674 369	**1 117 671**	1 117 671
Accumulated profit	**906 991**	601 099	**321 773**	117 964
Qualifying preference share capital	**154 606**	154 606	**154 606**	154 606
Prescribed deductions	**(80 127)**	(68 848)	**(80 127)**	(67 854)
	1 663 689	1 361 226	**1 513 923**	1 322 387
Secondary (Tier 2) capital				
Subordinated debt and qualifying unidentified impairments	**304 399**	31 420	**304 399**	31 420
Total qualifying regulatory capital	**1 968 088**	1 392 646	**1 818 322**	1 353 807
Total capital adequacy %	**36.8**	43.1	**33.9**	42.5
Primary %	**31.1**	42.1	**28.2**	41.5
Secondary %	**5.7**	1.0	**5.7**	1.0
Required capital adequacy %	**25.0**	25.0	**25.0**	25.0
Required regulatory capital	**1 337 194**	807 062	**1 341 025**	796 098
Risk-weighted assets				
Credit risk				
On balance sheet	**4 322 145**	2 514 674	**4 350 926**	2 512 467
Off balance sheet	**–**	–	**1 023**	1 148
	4 322 145	2 514 674	**4 351 949**	2 513 615
Operational risk	**641 853**	379 631	**643 692**	382 127
Equity risk in the banking book	**16 742**	14 704	**16 742**	14 704
Other assets	**368 035**	319 237	**351 715**	273 945
Total risk-weighted assets	**5 348 775**	3 228 246	**5 364 098**	3 184 391
Total assets based on IFRS	**9 488 223**	4 969 422	**9 506 801**	4 959 136
Total risk-weighted assets – adjustments	**(4 139 448)**	(1 741 176)	**(4 142 703)**	(1 774 745)
Total risk-weighted assets – regulatory	**5 348 775**	3 228 246	**5 364 098**	3 184 391

The total capital adequacy ratio percentage is determined by dividing total qualifying regulatory capital by total risk-weighted assets.

Assets are assigned risk-weightings according to their nature. These risk-weightings, which are prescribed by the SARB with reference to Basel II, reflect the estimate of credit, operational and market risks after considering eligible collateral. A similar treatment is adopted for off-balance sheet exposure, with adjustments to reflect the more contingent nature of the potential losses.

The adjustments made to IFRS assets reflect, in the main, the impact of risk weightings applied on calculated base IFRS values and the addition of a risk-weighted equivalent for operational risks.

30.8 Gains and losses per category of financial assets and financial liabilities

	Note	Held for trading R'000	Designated at fair value R'000	Loans and receivables R'000	Financial liabilities at amortised cost R'000	Total R'000
2010						
Interest income	21	**–**	**32 689**	**1 731 277**	**–**	**1 763 966**
Interest expense	21	**(253)**	**(281)**	**–**	**(490 102)**	**(490 636)**
Loan fee income		**–**	**–**	**1 038 905**	**–**	**1 038 905**
Loan fee expense		**–**	**8 419**	**(61 125)**	**–**	**(52 706)**
Transaction fee income		**–**	**–**	**–**	**507 438**	**507 438**
Transaction fee expense		**–**	**–**	**–**	**(212 064)**	**(212 064)**
Dividend income	22	**–**	**519**	**–**	**–**	**519**
Net impairment on loans and advances	23	**–**	**–**	**(547 731)**	**–**	**(547 731)**
Net movement in financial instruments held at fair value through profit or loss	24	**–**	**1 011**	**–**	**–**	**1 011**
2009						
Interest income	21	–	5 727	1 207 169	–	1 212 896
Interest expense	21	(174)	(5 167)	–	(264 280)	(269 621)
Loan fee income		–	–	897 502	–	897 502
Loan fee expense		–	–	(21 889)	–	(21 889)
Transaction fee income		–	–	–	281 548	281 548
Transaction fee expense		–	–	–	(121 452)	(121 452)
Dividend income	22	–	1 099	–	–	1 099
Net impairment on loans and advances	23	–	–	(467 727)	–	(467 727)
Net movement in financial instruments held at fair value through profit or loss	24	–	2 197	–	–	2 197

30.9 Classification of financial assets and financial liabilities

	Note	Held for trading R'000	Held at fair value R'000	Loans and receivables R'000	Available for sale R'000	Financial liabilities at amortised cost R'000	Total R'000	Fair value R'000
2010								
Financial assets								
Cash and cash equivalents	4	–	–	2 566 588	–	–	2 566 588	2 566 588
Investments at fair value through profit or loss	5	–	1 306 298*	–	–	–	1 306 298	1 306 298
Loans and advances to clients	6	–	–	5 225 139	–	–	5 225 139	5 248 299
Other receivables	8	9	8 419	10 643	–	–	19 071	18 596
Financial liabilities								
Loans and deposits at amortised cost	14	–	–	–	–	7 360 325	7 360 325	7 474 973
Loans and deposits held at fair value through profit or loss	15	–	–	–	–	–	–	–
Trade and other payables	16	–	23 109#	–	–	335 243	358 352	358 352
Provisions	17	–	–	–	–	7 117	7 117	7 117
2009								
Financial assets								
Cash and cash equivalents	4	–	–	1 513 989	–	–	1 513 989	1 513 989
Investments at fair value through profit or loss	5	–	150 044*	–	–	–	150 044	150 044
Loans and advances to clients	6	–	–	2 981 685	–	–	2 981 685	2 964 604
Other receivables	8	830	–	5 566	–	–	6 396	5 882
Financial liabilities								
Loans and deposits at amortised cost	14	–	–	–	–	3 298 897	3 298 897	3 328 515
Loans and deposits held at fair value through profit or loss	15	–	17 916*	–	–	–	17 916	17 916
Trade and other payables	16	–	25 923#	–	–	203 987	229 910	229 910
Provisions	17	–	–	–	–	–	–	–

** Designated at fair value through profit or loss*

 # Cash flow hedge

30.10 Fair value hierarchy

Valuation of assets and liabilities

The fair value of financial liabilities is calculated by discounting the contractual cash flows based on an appropriate market-related rate. The market-related rate is determined with reference to the movement in the risk-free rate for the remaining duration of the liabilities and adjusted for any movement in the risk premium as determined through the judgement of management taking into account their knowledge of the market including recent transactions and developments.

The difference in the present value for assets and liabilities, based on the risk premium determined at the later of the start of the financial year or the inception of the instrument compared to the risk premium at the earlier of year-end or derecognition of the financial liability is determined to be the change in fair value attributable to credit risk for the current year.

Financial assets are valued based on the nature of the item. Listed financial assets are valued with reference to the closing bid price.

Unlisted debt instruments are valued by discounting expected cash flows based on an appropriate market-related rate. The discount rate is determined as for financial liabilities, but the cash flows are adjusted for expected future service costs.

Unlisted equity instruments that will be converted to listed instruments are valued with reference to the current market value of the listed instrument, adjusted for the time to and conditions of conversion and the existence of alternative markets such as over-the-counter markets.

Other unlisted equity instruments are valued taking into account factors such as net asset value, expected cash flows, expected profitability and appropriate price-to-earnings ratios.

Valuation techniques for derivatives are set out in accounting policy note 1.3.4.

Receivables at fair value through profit or loss consist of a profit share on a credit life and retrenchment insurance policy. Total gains or losses for the period included in profit or loss are presented in loan fee expenses on the income statement. The profit share is determined in terms of the insurance contract and includes an estimate of the unreported claims as at the end of the period. A 10% change in the estimate of unreported claims would have an impact of R0.6 million on the fair value of the receivable.

IFRS 7 specifies a hierarchy of valuation techniques for assets and liabilities measured at fair value based on whether the inputs to those techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the group's market assumptions.

These two types of inputs have created the following fair value hierarchy:
Level 1 – Quoted prices in active markets for identical assets and liabilities.
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly by derivation from prices.
Level 3 – Inputs for the asset or liability that are not based on observable market data.

The group considers relevant and observable market prices where possible.

Assets and liabilities measured at fair value

2010	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Investments at fair value through profit or loss	–	1 306 298	–	1 306 298
Receivables at fair value through profit or loss	–	–	8 419	8 419
Total assets	–	1 306 298	8 419	1 314 717
Trade and other payables	–	23 109	–	23 109
Total liabilities	–	23 109	–	23 109

Reconciliation of receivables at fair value through profit or loss

	2010 R'000
Balance at the beginning of the year	–
Total profit	
– Profit or loss	8 419
– Other comprehensive income	–
– Transfers into or out of level 3	–
Balance at the end of the year	8 419

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
31. Retirement benefits				
The group contributed on behalf of all employees who elected to be members of the provident fund. The provident fund, a defined-contribution fund, is administered independently of the group and is subject to the Pension Funds Act, 1956 (Act 24 of 1956). The amount contributed is included in salaries and wages as per note 25.	**29 190**	21 033	**–**	–

Since 1 July 2001 it is compulsory for all new appointments to be members of the provident fund. The group will continue to contribute to the fund on behalf of all members. The group has no exposure in respect of any post-retirement benefits payable.

32. Related-party transactions

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Transactions with subsidiaries				
Investments in subsidiaries are disclosed in note 10.				
Dividend received				
Capitec Bank Limited	–	–	151 084	106 065
Ordinary dividend	–	–	136 921	86 938
Preference dividend	–	–	14 163	19 127
Finaid Financial Services (Pty) Limited				
Ordinary dividend (deregistration)	–	–	–	2 815
Management fees received				
Capitec Bank Limited	–	–	622	540
Loans due from:				
Capitec Bank Limited	–	–	34 808	36 338
Loans due to:				
Keymatrix (Pty) Limited	–	–	1	1

Guarantees(1)

Key Distributors has received a guarantee from a fellow subsidiary, Capitec Bank Limited. The value guaranteed is R6.5 million (2009: R6.6 million).

The balance outstanding at year-end that is covered amounted to R2.0 million (2009: R2.3 million). A market related guarantee fee of R73 307 (2009: R174 000) was paid by Key Distributors (Pty) Limited to Capitec Bank Limited.

Capitec Bank Holdings Limited

- An intra-group unlimited suretyship provided in favour of a financial institution in respect of the operating facilities of Capitec Bank Limited with a maximum exposure of R1.6 million (2009: R5.2 million)
- A suretyship limited to R600 000 (2009: R600 000) in favour of a financial institution with which Key Distributors (Pty) Limited has a mortgage bond.

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
PSG Group and subsidiaries(2)				
Brokers' fees	78	126	–	–
Sponsor fees	59	49	59	49

32. Related-party transactions *(continued)*

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Loans and advances to directors and other key management employees included in loans and advances to clients				
Loans outstanding at the beginning of the year	**1 231**	89	**–**	–
Loans advanced during the year	**3 407**	1 916	**–**	–
Interest charged on loans during the year	**202**	117	**–**	–
Loan repayments during the year	**(2 098)**	(891)	**–**	–
Loans outstanding at the end of the year	**2 742**	1 231	**–**	–
Less advanced by subsidiaries	**(2 742)**	(1 231)	**–**	–
Retail deposits from directors and other key management employees[(3)]				
Deposits at the beginning of the year	**3 591**	402	**–**	–
Interest earned during the year	**488**	264	**–**	–
Deposits/(withdrawals) made during the year	**(78)**	2 925	**–**	–
Deposits at the end of the year	**4 001**	3 591	**–**	–
Key management compensation[(4)]				
Salaries and other short-term benefits	**18 016**	16 846	**–**	–
Post-employment benefits	**1 465**	1 295	**–**	–
Share-based payments	**4 413**	2 761	**–**	–
	23 894	20 902	**–**	–
Less: paid by subsidiaries	**(23 894)**	(20 902)	**–**	–

[(1)] *Key Distributors' creditors are included in the group balance sheet on consolidation.*

[(2)] *PSG Capital is the corporate advisor and sponsor of the group. Transactions requiring the purchase of financial instruments on the open market is conducted through a number of intermediaries in an arm's length manner.*

[(3)] *Savings and deposits are unsecured, carry variable interest rates and are repayable on demand.*

[(4)] *Key management compensation excludes directors' remuneration. Refer to the directors' report for details regarding directors' remuneration.*

Key management are considered to be members of the executive management committee.

Directors

All directors of Capitec Bank Holdings Limited have given notice that they did not have a material interest in any significant contract with the company or any of its subsidiaries, which could have given rise to a conflict of interest during the year. Details relating to directors' emoluments, shareholdings and share options granted are included in the directors' report.

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	R'000	R'000	**R'000**	R'000

33. Cash flow from operations

	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
Net profit before tax	**642 356**	456 683	**151 084**	108 879
Adjusted for non-cash items				
Fair value adjustments on financial assets	**(1 011)**	(1 935)	**–**	–
Fair value adjustments on financial liabilities	**–**	(262)	**–**	–
Loan impairment charge	**125 900**	83 513	**–**	–
Depreciation	**85 222**	68 347	**–**	–
Amortisation	**23 537**	27 819	**–**	–
Movements in provisions	**7 117**	–	**–**	–
Share-based employee costs	**12 186**	8 992	**–**	–
Loss on disposal of assets	**2 287**	2 314	**–**	–
Receivables at fair value through profit or loss	**(8 419)**	–	**–**	–
Movements in current assets and liabilities				
Loans and advances to clients	**(2 369 354)**	(1 045 998)	**–**	–
Inventory	**(3 947)**	(4 379)	**–**	–
Other receivables	**(12 594)**	(767)	**(6 496)**	(81)
Deposits	**4 043 512**	1 788 954	**–**	–
Trade and other payables	**142 167**	52 766	**48**	(20)
Cash flow from operations	**2 688 959**	1 436 047	**144 636**	108 778

34. Income taxes paid

	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
Balance at the beginning of the year	**16 498**	47 456	**–**	–
Income statement charge	**193 132**	137 351	**–**	–
Movement in deferred tax	**5 516**	(300)	**–**	–
Tax effect on settlement of share options taken to equity	**506**	(8 490)	**–**	–
Tax effect on cash flow hedge taken to comprehensive income	**3 124**	(9 284)	**–**	–
Balance at the end of the year	**(34 452)**	(16 498)	**–**	–
Income taxes paid	**184 324**	150 235	**–**	–

35. Dividends paid

	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
Balance at the beginning of the year	**9 508**	8 889	**9 508**	8 889
Dividends declared during the year:				
Ordinary dividend	**136 921**	86 938	**136 921**	86 938
Preference dividend	**14 163**	19 127	**14 163**	19 127
Balance at the end of the year	**(6 941)**	(9 508)	**(6 577)**	(9 508)
Dividends paid	**153 651**	105 446	**154 015**	105 446

	GROUP		COMPANY	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000

36. Shares issued and acquired for options settled

	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Fair value of shares utilised to settle share options	**20 466**	53 705	**–**	–
184 625 (2009: 869 500) Ordinary shares issued	**7 875**	27 044	**–**	–
Shares acquired	**12 591**	26 661	**–**	–
Proceeds on issue of shares	**(7 875)**	(27 044)	**(7 875)**	(27 044)
Share issue expenses	**25**	38	**25**	38
Proceeds on settlement of options	**(16 538)**	(8 597)	**–**	–
	(3 922)	18 102	**(7 850)**	(27 006)

37. Commitments and contingent liabilities

	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Property operating lease commitments				
The future aggregate minimum lease payments under non-cancellable leases are as follows:				
Within one year	**103 479**	78 725	**–**	–
From one to five years	**265 789**	189 237	**–**	–
After five years	**18 566**	4 155	**–**	–
Total future cash flows	**387 834**	272 117	**–**	–
Straight lining accrued	**(19 778)**	(15 817)	**–**	
Future expenses	**368 056**	256 300	**–**	–
Other operating lease commitments				
Within one year	**1 607**	1 769	**–**	–
From one to five years	**2 178**	2 271	**–**	–
	3 785	4 040	**–**	–
Capital commitments – approved by the board				
Contracted for	**41 510**	22 810	**–**	–
Not contracted for	**287 961**	163 031	**–**	–
	329 471	185 841	**–**	–
Guarantees				
Issued to non-banking institutions	**–**	–	**–**	–

The value of the issued guarantees to financial institutions at fair value is nil.

Capitec Bank Holdings Limited

- An intra-group unlimited suretyship provided in favour of a financial institution in respect of the operating facilities of Capitec Bank Limited with a maximum exposure of R1.6 million (2009: R5.2 million).
- A suretyship limited to R600 000 (2009: R600 000) in favour of a financial institution with which Key Distributors (Pty) Limited has a mortgage bond.

38. Borrowing powers

In terms of the articles of association of Capitec Bank Holdings Limited, the directors may at their discretion raise or borrow money for the purpose of the business of the company without limitation.

These borrowing powers are subject to the limitations of the Banks Act, 1990 (Act 94 of 1990).

The increase in borrowings from the previous year is for the purposes of funding the general banking business, including future expansion of the loan book and capital expenditure.

39. Share incentive scheme

The share incentive scheme has been authorised and adopted by the shareholders of Capitec Bank Holdings Limited (CBHL). The trustees act in terms of the powers bestowed on them by the trust deed and receive instructions from time to time from the boards of CBHL and the bank. The bank provides the finance required from time to time by the trustees to perform their duties. Service costs of options issued to employees of subsidiaries of CBHL are financed by the relevant subsidiary.

The bank allows its employees to purchase shares in CBHL up to a value not exceeding 20.00% (2009: 20.00%) of their monthly salary. The purchase price includes a subsidy of 20.00% (2009: 20.00%) and the transaction costs are borne by the company. The shares are held by the trustees on behalf of the participants for as long as required to save the holding expenses of a broker account for participants.

The share incentive scheme prescribes that European type options, with durations ranging from three to six years, should be allocated at the market value, and determined as the weighted average price per share over a period of 30 trading days on the JSE Limited prior to the date of allocation.

Options issued to personnel of Capitec Bank Limited	2010 Number	2009 Number
Balance at the beginning of the year	**5 712 679**	5 159 306
Options granted	**903 880**	1 690 248
Options cancelled and/or lapsed	**(43 750)**	(132 500)
Options exercised	**(1 250 625)**	(1 004 375)
Balance at the end of the year	**5 322 184**	5 712 679

Analysis of outstanding share options by year of maturity	2010 Weighted average strike price R	2010 Number	2009 Weighted average strike price R	2009 Number
Financial year				
2009/10	**–**	**–**	13.25	1 259 375
2010/11	**18.25**	**1 275 826**	18.30	1 283 326
2011/12	**28.02**	**1 257 701**	28.04	1 268 326
2012/13	**33.79**	**1 098 671**	34.11	880 826
2013/14	**34.79**	**831 171**	35.62	610 826
2014/15	**34.41**	**632 845**	35.44	410 000
2015/16	**32.56**	**225 970**	–	–
	28.88	**5 322 184**	24.87	5 712 679

39. Share incentive scheme *(continued)*

	2010 Number	2009 Number
Shares available for settlement of options	–	–
Shares purchased/issued during the year	1 250 625	1 004 375
Shares utilised for settlement of options	(1 250 625)	(1 004 375)
Options exercised	(1 250 625)	(1 004 375)
Settled in cash	–	–
Settled in shares	(1 250 625)	(1 004 375)

The bank offers share options in Capitec Bank Holdings Limited to members of management who are able to make significant contributions to the achievement of the bank's objectives. The exercise price of the granted options is equal to the weighted 30-day market price of the shares on the date of the grant. Options are conditional on the employee completing the vesting period applicable to each group of options issued to that employee.

40. Share option expense

Data utilised in the valuation of options granted

The table below provides detail regarding the data used in the valuation of the share options to which IFRS 2 has been applied. Share options are reflected on an equity-settled basis and are valued at issue date. The number of options that are expected to vest are re-estimated on an annual basis.

Year granted	Strike price R	Share price on issue date R	Volatility used in valuation %	Dividend yield %	Year maturing	Risk-free rate %	Number of options out-standing	Fair value on issue/ repricing date ignoring vesting conditions R'000	Expected vesting pro-portion[1] %	Value taking into account expected vesting proportion R'000
2004/05	5.73	5.30	28	3.7	2010/11	9.9	412 500	668	98.3	656
	7.36	8.15	28	3.7	2010/11	8.9	12 500	35	94.5	33
2005/06	17.64	18.90	35	2.1	2010/11	7.5	18 750	137	95.7	131
					2011/12	7.6	18 750	148	86.1	127
	14.05	13.90	36	2.1	2010/11	8.0	366 250	1 885	97.7	1 841
					2011/12	8.1	366 250	2 051	87.9	1 803
2006/07	30.20	31.00	36	1.4	2010/11	7.3	12 500	135	99.1	134
					2011/12	7.5	12 500	151	89.2	135
					2012/13	7.6	12 500	165	80.2	132
	30.73	34.00	36	1.3	2010/11	7.3	255 000	3 304	98.8	3 264
					2011/12	7.5	255 000	3 653	88.9	3 247
					2012/13	7.6	255 000	3 952	80.0	3 162
2007/08	35.82	38.30	34	1.6	2010/11	8.0	159 250	1 905	98.4	1 874
					2011/12	7.9	159 250	2 165	88.5	1 917
					2012/13	7.8	159 250	2 384	79.7	1 900
					2013/14	7.7	159 250	2 571	71.7	1 843
	36.00	35.60	34	1.7	2010/11	8.1	13 889	138	98.8	137
					2011/12	8.0	13 889	160	88.9	142
					2012/13	7.9	13 889	179	80.0	143
					2013/14	7.8	13 889	194	72.0	140
	36.07	36.00	34	1.7	2010/11	8.2	7 500	77	99.1	76
					2011/12	8.0	7 500	89	89.2	79
					2012/13	7.9	7 500	99	80.2	79
					2013/14	7.9	7 500	108	72.2	78
	41.46	38.00	34	1.7	2010/11	9.1	5 125	51	91.2	46
					2011/12	8.8	5 125	60	82.1	49
					2012/13	8.6	5 125	68	73.8	50
					2013/14	8.5	5 125	74	66.5	49
2008/09	35.82	38.90	34	0.6	2010/11	8.8	12 562	176	97.0	171
					2011/12	8.6	12 562	201	87.3	176
					2012/13	8.4	12 562	223	78.5	175
					2013/14	8.3	12 562	241	70.7	170
	35.54	33.10	34	2.3	2011/12	9.8	400 625	3 449	88.7	3 058
					2012/13	9.6	400 625	4 055	79.8	3 235
					2013/14	9.4	400 625	4 549	71.8	3 266
					2014/15	9.3	400 625	4 960	64.6	3 206
	28.96	29.05	37	3.0	2011/12	8.1	6 250	48	82.3	40
					2012/13	8.1	6 250	55	74.0	41
					2013/14	8.0	6 250	60	66.6	40
					2014/15	8.0	6 250	65	60.0	39
2009/10	31.23	36.50	38	2.9	2012/13	7.8	209 375	2 622	79.9	2 095
					2013/14	8.1	209 375	2 898	71.9	2 085
					2014/15	8.3	209 375	3 118	64.7	2 019
					2015/16	8.4	209 375	3 289	58.3	1 917
	61.05	64.00	36	0.9	2012/13	8.2	4 095	51	75.4	39
					2013/14	8.5	4 095	57	67.9	38
					2014/15	8.7	4 095	61	61.1	37
					2015/16	8.8	4 095	64	55.0	35
	45.49	61.50	37	0.9	2012/13	9.3	12 500	157	75.7	119
					2013/14	9.3	12 500	173	68.2	118
					2014/15	9.4	12 500	186	61.3	114
					2015/16	9.7	12 500	196	55.2	108
Grand total							5 322 184	57 560	79.2	45 608

[1] Average South African executive staff turnover of 10% p.a. (2009: 10%) used to estimate likelihood of vesting conditions realising. Will be re-estimated in terms of IFRS 2 on an annual basis.

41. Share appreciation rights

Data utilised in the valuation of share appreciation rights granted

The table below provides detail regarding the data used in the valuation of the share options to which IFRS 2 has been applied. Share appreciation rights are expected to vest and are re-estimated on an annual basis.[1]

Year granted	Strike price	Year maturing	Risk-free rate	Number of options outstanding	Fair value	Portion of term expired	Expected vesting proportion[2]	Liability at year-end
	R		%		R'000	%	%	R'000
2008/09	28.96	2011/12	7.3%	6 250	330	38.0	82.2	103
		2012/13	7.6%	6 250	335	28.6	74.0	71
		2013/14	7.9%	6 250	340	22.9	66.6	52
		2014/15	8.2%	6 250	345	18.8	59.9	39
	35.54	2011/12	7.0%	400 625	18 539	61.7	88.6	10 142
		2012/13	7.3%	400 625	19 088	46.3	79.7	7 042
		2013/14	7.7%	400 625	19 660	37.0	71.8	5 223
		2014/15	8.0%	400 625	20 209	30.9	64.6	4 028
2009/10	31.23	2012/13	7.3%	209 375	10 704	28.9	79.9	2 473
		2013/14	7.7%	209 375	10 918	21.7	71.9	1 703
		2014/15	8.0%	209 375	11 130	17.4	64.7	1 250
		2015/16	8.3%	209 375	11 305	14.5	58.2	953
2009/10	45.49	2012/13	7.5%	12 500	516	11.8	75.7	46
		2013/14	7.8%	12 500	544	8.9	68.1	33
		2014/15	8.1%	12 500	569	7.2	61.3	25
		2015/16	8.3%	12 500	589	5.8	55.2	19
	61.05	2012/13	7.5%	4 095	130	10.2	75.4	10
		2013/14	7.8%	4 095	144	8.2	67.9	8
		2014/15	8.1%	4 095	156	6.3	61.1	6
		2015/16	8.3%	4 095	166	5.5	55.0	5
Grand total				2 531 380	125 717	36.3	73.0	33 231

[1] *All options were valued using the following variables:*

Dividend yield	*1.75%*
Volatility	*36.0%*
Ex dividend share price	*80.59*

[2] *Average South African executive staff turnover of 10% p.a. (2009: 10%) used to estimate likelihood of vesting conditions realising. A re-estimate in terms of IFRS 2 will be done on an annual basis.*

42. Share appreciation rights: BEE consortium

The Capitec Bank Group Employee Empowerment Trust is a 5% participant in the BEE consortium that purchased 10 million shares in the group in February 2007. Funding for the share purchase was mainly obtained from the IDC.

During February 2008, a communiqué was sent out by Capitec Bank on behalf of the Trust to employees of the bank, informing them that each permanent employee, not participating in the share incentive scheme and employed at 29 February 2008, will benefit from cash disbursements, based on the cumulative increase in value of 200 Capitec Bank Holdings shares less funding costs, paid in increments of 25% over four years. The payments will be made starting February 2010 and depend on their continued employment by the group.

The agreement constitutes a cash-settled equity-based compensation plan in terms of IFRS 2 and the Trust is considered to be a subsidiary of the group.

At 28 February 2010 1 902 (28 February 2009: 2 244) employees qualified for the rights.

Year granted	Year maturing	Risk-free rate %	Rights Number	Value per right R	Portion of term expired %	Expected vesting portion %	Adjusted value R'000
2008	2011	7.0%	95 100	30.99	67%	87%	1 716
2008	2012	7.3%	95 100	30.51	50%	76%	1 100
2008	2013	7.7%	95 100	30.37	40%	66%	760
Grand total		7.3%	285 300	30.62	52%	76%	3 576

(1) *All options were valued using the following variables:*

Dividend yield	*1.75%*
Volatility	*36.0%*
Ex dividend share price	*80.59*

(2) *Average South African executive staff turnover of 10% p.a (2009: 10%) used to estimate likelihood of vesting conditions realising. A re-estimate in terms of IFRS 2 will be done on an annual basis.*

43. Derivative financial instruments: economic hedges

Included in other receivables are the following forward foreign exchange contracts:

2010	Notional amount R'000	Fair values Assets R'000	Fair values Liabilities R'000
Forward foreign exchange contracts			
Notional amounts in ZAR	**487**	**5**	**–**
Notional amounts in USD	**63**	**–**	**–**
Notional amounts in ZAR	**1 284**	**4**	**–**
Notional amounts in GBP	**105**	**–**	**–**
Notional amounts in ZAR	**102**	**–**	**–**
Notional amounts in AUD	**15**	**–**	**–**
Notional amounts in ZAR	**515**	**–**	**–**
Notional amounts in EUR	**48**	**–**	**–**

43. Derivative financial instruments: economic hedges *(continued)*

2009	Notional amount R'000	Fair values Assets R'000	Fair values Liabilities R'000
Forward foreign exchange contracts			
Notional amounts in ZAR	2 947	830	–
Notional amounts in USD	296	–	–

Forward foreign exchange contracts represent commitments to purchase foreign currency, including undelivered spot transactions and were entered into to match corresponding expected future transactions to the amount of R2.4 million (2009: R2.9 million).

44. Derivative financial instruments: Cash flow hedges

	Notional amount R'000	Fair values Assets R'000	Fair values Liabilities R'000
2010			
Interest rate swaps	**380 000**	**–**	**23 109**
2009			
Interest rate swaps	380 000	–	25 923

	Demand to one month R'000	One to three months R'000	Three months to one year R'000	More than one year R'000	Grand total R'000
2010					
Discounted swap cash flows	**–**	**4 496**	**14 386**	**4 231**	**23 113**
Margin paid	**–**	**(4)**	**–**	**–**	**(4)**
Net	**–**	**4 492**	**14 386**	**4 231**	**23 109**
2009					
Discounted swap cash flows	–	1 809	13 648	18 210	33 667
Margin paid	–	(1 809)	(5 935)	–	(7 744)
Net	–	–	7 713	18 210	25 923

Gains and losses recognised in the hedging reserve in comprehensive income (note 20) on interest rate swap contracts as of 28 February 2010 will be continuously released to the income statement in line with the interest expense on the underlying hedged domestic medium-term notes. The forecasted cash flows presented above show how the cash flow hedging reserve, at 28 February 2010, will be released to the income statement over time. The interest rate swaps have quarterly reset and settlement dates. For the interest rate swaps the forecast cash flows were based on contracted interest rates. At 28 February 2010, the fixed interest rates were between 12.14% and 12.5% and the floating rates were based on forecast three-month JIBAR rates at 28 February 2010.

The fair value adjustment removed from the cash flow hedging reserve and transferred to the income statement, amounting to a debit of R15 917 000 (2009: R305 000), has been included in interest expense in the income statement. No gains and losses on ineffective portions of such derivatives were recognised in the income statement in 2010 and 2009. There were no transactions for which cash flow hedge accounting had to be discontinued in 2010 and 2009 as a result of highly probable cash flow no longer being expected to occur.

45. Shareholders holding more than 5% of the company's ordinary shares

Shareholder Year ended 28 February 2010	**Shares held** **Number**	**Shareholding** **%**
PSG Group Limited	28 901 269	34.83%
Limietberg Beleggings (Pty) Limited	11 756 608	14.17%
Coral Lagoon Investments 194 (Pty) Limited	10 000 000	12.05%

46. Black economic empowerment shareholding

Shareholder Year ended 28 February 2010	**Shares held** **Number**	**Shareholding** **%**
Coral Lagoon Investments 194 (Pty) Limited	10 000 000	12.05%
Thembeka Capital Limited	2 947 080	3.55%
Merlyn Claude Mehl	90 713	0.11%
Nonhlanhla Mjoli-Mncube	100 000	0.12%
	13 137 793	15.83%

47. Shareholding by executive management[1]

Shareholder Year ended 28 February 2010	**Shares held** **Number**	**Shareholding** **%**
CG van Schalkwyk	555 688	0.67%
CG Fischer	1 072 839	1.29%
A Olivier	218 184	0.26%
G Roman	–	0.00%
J Coetzee	–	0.00%
L Venter	202 926	0.24%
C Oosthuizen	53 125	0.06%
JE Carstens	–	0.00%
GM Fourie	864 489	1.04%
	2 967 251	3.56%

[1] *Executive directors' shareholding is presented in note 7.1 of the directors' report.*

Statutory information

Analysis of shareholders holding ordinary shares

	Number of shareholders	% of total	Number of shares	% of interest
1 – 1 000	**2531**	**67.28%**	**1 019 257**	**1.23%**
1 001 – 10 000	**957**	**25.44%**	**3 052 923**	**3.68%**
10 001 – 100 000	**216**	**5.74%**	**6 177 028**	**7.44%**
100 001 and over	**58**	**1.54%**	**72 733 329**	**87.65%**
	3 762	**100.00%**	**82 982 537**	**100.00%**
Shareholder spread				
Public shareholders	**3 741**	**99.44%**	**26 851 888**	**32.36%**
Holdings less than 5%	**3 741**	**99.44%**	**26 851 888**	**32.36%**
There are no public shareholders with holdings in excess of 5%				
Non-public shareholders excluding directors and their associates	**3**	**0.08%**	**38 901 269**	**46.88%**
There are no non-public shareholders (excluding directors and their associates) holding less than 5%				
Holdings of 5% or more	**3**	**0.08%**	**38 901 269**	**46.88%**
Coral Lagoon Investments 194 (Pty) Limited	**1**	**0.03%**	**10 000 000**	**12.05%**
PSG Group Limited	**2**	**0.05%**	**28 901 269**	**34.83%**
Directors (refer to page 76 for detail)	**18**	**0.48%**	**17 229 380**	**20.76%**
Directors of company or any subsidiaries	**5**	**0.13%**	**614 747**	**0.74%**
Associates of directors of company or any of its subsidiaries	**13**	**0.35%**	**18 198 366**	**21.93%**
Less holding included in Coral Lagoon Investments 194 (Pty) Limited	**(1)**	**(0.03%)**	**(1 592 500)**	**(1.92%)**
Trustees of employee share scheme	**1**	**0.03%**	**8 767**	**0.01%**
	3 762	**100.00%**	**82 982 537**	**100.00%**

Analysis of shareholders holding non-redeemable, non-cumulative, non-participating preference shares (preference shares)

	Number of shareholders	% of total	Number of shares	% of interest
1 – 1 000	**248**	**42.32%**	**133 714**	**7.94%**
1 001 – 10 000	**317**	**54.10%**	**888 602**	**52.76%**
10 001 – 100 000	**20**	**3.41%**	**525 053**	**31.18%**
100 001 and over	**1**	**0.17%**	**136 842**	**8.12%**
	586	**100.00%**	**1 684 211**	**100.00%**
Shareholder spread				
Public shareholders	**585**	**99.83%**	**1 663 211**	**98.75%**
Holdings less than 5%	**583**	**99.49%**	**1 442 159**	**85.63%**
Holdings of 5% and more	**2**	**0.34%**	**221 052**	**13.12%**
Mrs E de la H Meaker	**1**	**0.17%**	**136 842**	**8.12%**
Business Venture No 544 (Pty) Limited	**1**	**0.17%**	**84 210**	**5.00%**
Non-public shareholders excluding directors and their associates	**0**	**0.00%**	**0**	**0.00%**
There are no non-public shareholders other than a director and his associate				
Directors (refer to page 78 for detail)	**1**	**0.17%**	**21 000**	**1.25%**
None of the directors hold preference shares				
Associates of directors of company or any of its subsidiaries	**1**	**0.17%**	**21 000**	**1.25%**
Trustees of employee share scheme do not hold preference shares				
	586	**100.00%**	**1 684 211**	**100.00%**

Special resolutions of a subsidiary

Special resolutions passed by a subsidiary of the company during the financial year under review are presented below.

Capitec Bank Limited

Special resolution number 1: Acquisition of shares in holding company

It was resolved that the bank be authorised as a general approval to acquire shares issued by its holding company, upon such terms and conditions and in such amounts as the directors of the bank may from time to time decide, but subject to the provisions of sections 85 to 89 of the Companies Act, 1973 (Act 61 of 1973) ("the Act") as amended, the Banks Act, 1990 (Act 94 of 1990), the articles of association of the bank and holding company respectively and insofar as it may be applicable, the Listings Requirements from time to time of the JSE Limited ("JSE"), provided always that:

- This general approval shall expire at the date of the bank's next annual general meeting in 2010, but not later than 5 November 2010;
- Purchases of securities in the listed holding company will only be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the bank and the counter party (reported trades are prohibited);
- An announcement must be published when the bank has acquired, on a cumulative basis, 3% of the number of shares the holding company had in issue prior to the acquisition, pursuant to which the aforesaid 3% threshold is reached, containing full details thereof as well as for each 3% in aggregate of the initial number of that class acquired thereafter;
- Acquisitions by the bank of shares in its holding company will be limited to an aggregate of 10% of the holding company's issued capital as at the date this authority is granted;
- The bank will not purchase shares in the holding company at a price more than 10% above the weighted average of the market value for the five business days immediately preceding the date of acquisition. To the extent applicable, the JSE will be consulted for a ruling if the company's securities have not traded in such five business day period;
- The bank will at any point in time, if applicable, appoint only one agent to effect any purchase(s) of the holding company's shares;
- The bank will only undertake an acquisition of the holding company's shares if, after such acquisition, at least 300 public shareholders as defined in the Listings Requirements of the JSE continue to hold at least 20% of that class of the holding company's issued shares; and
- The bank will not purchase any shares in its holding company during any prohibited period as defined in par 3.67 of the Listings Requirements of the JSE, unless a repurchase programme is in place in respect of which the dates and quantities of ordinary shares to be traded during such period are fixed and full details of such programme have been disclosed in an announcement on SENS prior to the commencement of the prohibited period."

Special resolution number 2: Amendment of articles of association to allow for round robin resolutions

"Resolved, subject to the provisions of the Companies Act, 1973 (Act 61 of 1973), as amended ("the Act"), the Banks Act, 1990 (Act 94 of 1990), as amended and the Listings Requirements of the JSE Limited, as applicable, that the articles of association of the bank be amended by inclusion of the following new article 52A:

52A.1 A resolution in writing signed by –

52A.1.1 all the directors; or

52A.1.2 all the directors who may at the time be present in the Republic of South Africa and who form a quorum, shall be as valid and effectual as a resolution passed at a meeting of the directors duly called and constituted, provided that where a director is not so present, but has an alternate who is so present, then such resolution must also be signed by such alternate.

52A.2 Such resolutions –

52A 2.1 may consist of one or more documents so signed;

52A.2.2 shall have regard to the provisions of Section 236 of the Act;

52A.2.3 shall be delivered to the secretary without delay, and shall be recorded by him in the company's minute book; and

52A.2.4 shall be tabled and noted at the first meeting of the board of directors after the passing of the resolution concerned.

52A.3 Such resolution shall be deemed to have been passed on the day it was signed by the last director or alternate director who is entitled to sign it.

52A.4 A resolution referred to in 52A.1 which is not signed by all the directors or their alternates, shall be inoperative if it shall purport to authorise any act which a meeting of the directors has decided shall not be authorised, until confirmed by a meeting of directors."

Notice of annual general meeting

Notice is hereby given that the annual general meeting of the shareholders of Capitec Bank Holdings Limited ("Capitec" or "the company") will be held at Oude Libertas, corner of Adam Tas Road and Libertas Road, Stellenbosch, on Wednesday, 2 June 2010, at 12:00 to transact the following business:

To consider and, if deemed fit, approve the following resolutions as ordinary and special resolutions, as the case may be, with or without modification:

1. **Ordinary resolution number 1**

   "Resolved that the audited annual financial statements of the company and the group for the year ended 28 February 2010 be approved."

2. **Ordinary resolution number 2**

   "Resolved that Mr TD Mahloele, who retires by rotation in terms of article 77.1 of the articles of association of the company and, being eligible, offers himself for re-election, be re-elected as a non-executive director of the company."

   Summary curriculum vitae of Tshepo Daun Mahloele: Mr Mahloele, aged 43, obtained a B Proc from the University of Rhodes (1988).

   Mr Mahloele is the chief executive officer of Harith Fund Managers. He has more than 15-years' experience in project finance, private equity and investment banking. Previously he was the head of corporate finance at the Public Investment Corporation (PIC). His responsibilities included the PIC Isibaya Fund. Prior to joining the PIC he was the head of private sector investments at the Development Bank of Southern Africa ("DBSA"). Before joining the DBSA he was the managing director of Solutions at Work. Tshepo also held positions at CDC Group Plc (formerly the Commonwealth Development Corporation), Rand Merchant Bank and National Sorghum Breweries. He is the chairman of Aldwych International.

   He is a member of the directors' affairs committee.

3. **Ordinary resolution number 3**

   "Resolved that Mr PJ Mouton, who retires by rotation in terms of article 77.1 of the articles of association of the company and, being eligible, offers himself for re-election, be re-elected as a non-executive director of the company."

   Summary curriculum vitae of Petrus Johannes Mouton: Mr Mouton, aged 33, obtained a B Comm (Maths) from the University of Stellenbosch (1997).

   Mr Mouton is an executive director of PSG Group. He serves as a non-executive director on the boards of various PSG Group companies including Thembeka Capital, a black-owned and controlled BEE investment holding company. He has been active in the investment and financial services industry since 1999.

   He is a member of the directors' affairs committee and the risk and capital management committee.

4. **Ordinary resolution number 4**

   "Resolved that Mr JP van der Merwe, who retires by rotation in terms of article 77.1 of the articles of association of the company and, being eligible, offers himself for re-election, be re-elected as an independent non-executive director of the company."

   Summary curriculum vitae of Jacobus Pieter van der Merwe: Mr Van der Merwe, aged 61, obtained a BA from the University of Stellenbosch and qualified as a CA(SA) (1974).

   Mr Van der Merwe is an experienced retail banker. He commenced his career in banking as chief accountant at Boland Bank in 1974 after which he joined Volkskas Merchant Bank as general manager of finance in 1983. He joined Trustbank in 1990 and after the amalgamation of Bankorp and ABSA he was appointed as the general manager of Commercial Bank, a division of ABSA, responsible for ABSA Western Cape (1995 – 1999). In 2000 he was appointed the operating executive of this division. From 2001 to his retirement in 2006 he was an executive director of ABSA, the last two and a half years of which he was responsible for group administration, information management, IT, credit and risk.

   He is the chairman of the audit committee and a member of the directors' affairs committee and the risk and capital management committee.

5. Ordinary resolution number 5

"Resolved that the directors' remuneration for the financial year ending on 28 February 2011, including payment thereof in accordance with the scale of remuneration as set out below, be authorised:

Chairman of the board*	R960 000
Board membership**	R108 000
Chairman of the audit committee and the risk and capital management committee**	R135 000
Chairman of the remuneration and human resources committee**	R108 000
Committee membership**	R38 000

Notes:

* *The chairman of the board is paid a retainer as chairman of the board and receives no further payment for membership of committees.*

** *Non-executive directors receive a retainer fee per membership of the board and each of the board committees. No fee is paid in respect of the directors' affairs committee."*

6. Ordinary resolution number 6

"Resolved that Messrs PricewaterhouseCoopers Inc. be reappointed as auditors of the company to hold office until the conclusion of the next annual general meeting of the company."

7. Ordinary resolution number 7

"Resolved that the authority of the audit committee to determine the remuneration of the auditors be confirmed."

8. Ordinary resolution number 8

"Resolved that the payment of a dividend of 155 cents per ordinary share, declared by the board on 30 March 2010 and payable in cash on Monday, 21 June 2010, to the shareholders of the company recorded in the ordinary share register on Friday, 18 June 2010, be and is hereby authorised. The last day to trade to be eligible to receive a dividend will be Thursday, 10 June 2010."

9. Ordinary resolution number 9

"Resolved that 4 149 127 (5%) of the unissued ordinary shares in the authorised ordinary share capital of the company, save to the extent that a rights issue may be undertaken by the company, in which case the 5% limitation will not apply, and all the non-redeemable, non-cumulative, non-participating preference shares in the authorised but unissued preference share capital of the company be placed under the control of the directors until the next annual general meeting of the company and that they be hereby authorised to allot and issue any such shares as they may deem fit, subject to the Companies Act, 1973 (Act 61 of 1973), as amended, the articles of association of the company and the Listings Requirements of the JSE Limited."

10. Ordinary resolution number 10

"Resolved that, subject to ordinary resolution number 9 being approved, the directors be hereby authorised as a general approval to allot and issue ordinary shares and options or convertible securities that are convertible into an existing class of equity securities for cash without restriction, as they may deem fit, subject to compliance with the Companies Act, 1973 (Act 61 of 1973), as amended, the articles of association of the company and the Listings Requirements of the JSE Limited ("JSE"), provided that:

- This general approval shall expire at the date of the company's next annual general meeting in 2011 or 2 September 2011, whichever is the earlier;
- Any such issue will only be securities of a class already in issue, or limited to such securities or rights that are convertible into a class already in issue;
- The securities will be issued only to public shareholders as defined in the Listings Requirements of the JSE and not to related parties;
- During the period permitted in terms of this general approval:
  - the general issues of securities of a specific class will, in any financial year not exceed, in the aggregate, 5% of the company's issued share capital in that class at the date of the first such issue;

- the securities of a particular class will be aggregated with the securities that are compulsorily convertible into securities of that class and, in the case of the issue of compulsorily convertible securities, aggregated with the securities of that class into which they are compulsorily convertible;
- the number of securities which may be issued, shall be based on the number of securities of that class in issue, added to those that may be issued in future at the date of such application;
  (1) less any securities of the class issued or to be issued in future arising from options/convertible securities issued during the current financial year;
  (2) plus any securities of that class to be issued pursuant to:
    (i) a rights issue (which has been announced, is irrevocable and is fully underwritten); or
    (ii) acquisition (which has had final terms announced) which may be included as though they were securities in issue at the date of application;

- In determining the price at which an issue of equity securities may be made in terms of this general authority, the maximum discount permitted will be 10% of the weighted average traded price of the equity securities as measured over the 30 business days prior to the date that the price of the issue is agreed between the company and the party subscribing for the securities. The JSE will be consulted for a ruling if the company's securities have not traded in such 30 business day period; and
- At least 75% of the equity security holders present in person or by proxy at the annual general meeting of the company must cast their vote in favour of this resolution."

11. Ordinary resolution number 11

"Resolved that the amendments to the Capitec Bank Holdings Share Trust IT 3044/2000 ("the trust") deed ("the deed") in terms of which the share incentive scheme of Capitec Bank Limited ("the scheme"), wholly owned subsidiary of Capitec is governed and which amendments are required in terms of schedule 14 of the Listings Requirements of the JSE Limited ("JSE"), the salient details of which are set out below, be approved."

The nature of the trust

The trust has been established to incentivise key employees of Capitec Bank Limited to remain in the long term employ of the group and align their interests in the group with that of the shareholders of Capitec. The deed of the trust was approved by shareholders of Capitec on 7 February 2002. In terms of the trust, employees can be offered shares or granted options to subscribe for shares in the ordinary share capital of Capitec or redeemable debentures that will compulsorily convert to shares in the ordinary share capital of Capitec upon redemption of such debentures. The trustees of the trust currently are Mr JA Swanepoel and Prof MM Loubser. Mr Swanepoel is a chartered accountant, now retired and Prof Loubser is a practicing attorney as well as professor in law at the Faculty of Law, University of Stellenbosch.

Salient amendments to the deed

- The maximum number of equity securities which may be utilised for purposes of the scheme is 16 596 507 (the scheme allocation). Equity securities acquired in the market and utilised to date to settle options granted in terms of this scheme will not be counted to determine the number of equity securities remaining under the scheme allocation. Shareholder approval must be obtained before the scheme allocation may be exceeded (previously, this number was 20% of issued ordinary share capital of Capitec).
- The maximum number of equity securities that may be granted to any one participant is 4 149 127 (the maximum amount). Shareholder approval must be obtained before the maximum amount may be exceeded (previously, this number was 5% of issued ordinary share capital of Capitec).
- It is proposed that the clauses of the deed listed below, be amended to read as follows:
  - 1.2.27 "option date" means the date upon which the directors recommend that an option be granted to an employee or such later date as determined by the directors from time to time.
  - 1.2.29.2 "purchase price" means an amount equal to the market value of a share being the weighted average value per share determined over a period of 30 (thirty) trading days on the JSE (as evidenced by a certificate issued by the company's then sponsor) immediately preceding the offer date or the option date, as the case may be, or the par value of a share, whichever is the greater unless the directors determine an alternative pricing mechanism provided that any such alternative pricing mechanism shall not be implemented without obtaining the prior approval of shareholders and such other approvals as may be required by law or regulation.

– 1.2.35 "scheme allocation" means the maximum number of shares that may be issued to the trust by the company for the purposes of the scheme, being 16 596 507, as may be adjusted in accordance with the provisions of clause 16.1 hereafter.

– 13.1.1 The directors may from time to time offer shares to the trustees and/or grant options to the trustees (and simultaneously recommend to the trustees in writing to offer such shares and/or grant options to employees named in the offer) in respect of shares which do not exceed the scheme allocation. Such shares shall be offered for subscription or purchase to employees in terms of an offer and/or pursuant to the grant of an option at the purchase price subject to a maximum entitlement per employee, taking into account any shares forming the subject matter of an offer and/or an option and any shares that will be issued pursuant to the conversion of debentures in accordance with the provisions of appendix 1, not exceeding 4 149 127 shares.

– 4.3 No person who is a trustee shall be entitled to be a beneficiary under the scheme and no executive director may be a trustee.

– 15.4 Save as is contemplated in clause 16.2.2.3 and 20.1, scheme shares and debentures will only be acquired by the trust once a beneficiary or a group of beneficiaries have been identified to receive any offers or options in regard thereto.

– 16.1.1 The maximum number of scheme shares in respect whereof any one offeree shall be entitled to accept an offer and/or exercise an option pursuant to the deed, shall not exceed 4 149 127 shares which number may be adjusted from time to time by the directors subject to such approvals as are required from beneficiaries and shareholders and subject further to the provisions of the Listings Requirements provided that no such maximum imposed shall be less, in respect of any beneficiary, than the number of shares in respect of which such beneficiary has already accepted offers or been granted options prior to the date upon which such maximum is imposed.

– 16.1.2 The number of shares comprising the scheme allocation and the maximum number of scheme shares in clause 16.1.1, and to the extent necessary the purchase price payable in terms thereof, shall be adjusted in such manner as the auditors certify to be in their opinion fair and reasonable as a result of:

16.1.2.1 the subdivision or consolidation of ordinary shares; or

16.1.2.2 the issue of additional ordinary shares whether by way of a capitalisation issue, a dividend capitalisation issue or a rights issue.

– 20.3 scheme shares may only be sold:

20.3.1 once the employment of a beneficiary has been terminated or a beneficiary is deceased; or

20.3.2 on behalf of a beneficiary, once the rights of ownership have vested in the beneficiary.

– 27.1.3 no amendment in respect of the following matters shall operate unless such amendment has received the approval of the company in general or annual general meeting at which meeting the votes attached to shares owned or controlled by beneficiaries in the scheme will be excluded if such employee is an existing beneficiary participating in the scheme at the time that the meeting is held:

27.1.3.1 the category of persons to whom or for the benefit of whom shares may be purchased or issued under the scheme;

27.1.3.2 the aggregate number of shares which may be utilised for purposes of the scheme;

27.1.3.3 the fixed maximum number of shares which may be issued to any one beneficiary under the scheme;

27.1.3.4 the basis for determining the purchase, subscription or option price of scheme shares which shall be a fixed mechanism for all beneficiaries under the scheme;

27.1.3.5 the period in which payments, or loans to provide the same, may be paid or after which payments or loans to provide the same must be paid;

27.1.3.6 the terms of any loan other than the interest rate payable thereon; and

27.1.3.7 the voting, dividend, transfer and other rights (including those arising on the liquidation of the company) attaching to scheme shares;

27.1.3.8 the basis upon which offers are made or options are granted;

27.1.3.9 the treatment of options (vested and unvested) in instances of mergers, takeovers or other corporate actions;

27.1.3.10 the rights of beneficiaries who leave the employment of the company, a subsidiary or an associate company whether by termination, resignation, retirement or death.

– 36. Scheme shares will not have their votes taken into account at any general meeting or annual general meeting for Listings Requirements resolution approval process. In addition, scheme shares will not be taken into account for purposes of determining categorisations as detailed in section 9 of the Listings Requirements.

– 37.	The trustees and the company shall in the implementation of the scheme comply with all applicable Listings Requirements unless appropriate dispensations have been received from the JSE to deviate from any such Listings Requirements.
Appendix I	
– 12.2	All amounts of capital owning to any debenture holder shall be repayable on the redemption date and settled by the conversion of the debentures into shares in accordance with the provisions of clause 16 hereafter. All interest owing to any debenture holder shall- (12.2.1 remains unchanged.)
– 24.10.2	Notwithstanding anything to the contrary contained herein, for as long as the company is a listed company:
24.10.2.1	debentures that form part of the scheme shares shall not be taken into account for voting purposes in respect of any matter requiring approval from shareholders in terms of the JSE Listings Requirements;
24.10.2.2	the votes attaching to shares acquired or debentures acquired in terms of the scheme by debenture holders shall not be taken into account in the circumstances contemplated in section 14.2 of the JSE Listings Requirements.

- The above amendments must be approved by 75% of shareholders present in person or represented by proxy at the annual general meeting of the company.
- The deed of the trust is available for inspection at the registered office of Capitec at 1 Quantum Street, Techno Park, Stellenbosch and at the offices of Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 during ordinary business hours from 18 May 2010 to 2 June 2010.

12. Special resolution number 1

"Resolved that the company be authorised as a general approval, to repurchase any of the ordinary shares issued by the company upon such terms and conditions and in such amounts as the directors may from time to time decide, but subject to the provisions of sections 85 to 88 of the Companies Act, 1973 (Act 61 of 1973), as amended, the Banks Act, 1990 (Act 94 of 1990), as amended, the Listings Requirements of the JSE Limited ("JSE") and the articles of association of the company, provided always that:

- This general approval shall expire at the date of the company's next annual general meeting in 2011 or 2 September 2011, whichever is the earlier;
- The repurchase will only be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty (reported trades are prohibited);
- An announcement as contemplated in the Listings Requirements of the JSE will be published when the company has acquired, on a cumulative basis, 3% of the number of shares of the relevant class it had in issue prior to the acquisition. Such announcement must contain full details of the acquisition as well as for each 3% in aggregate of the initial number of that class acquired thereafter;
- Aggregate repurchases under this general authority will not exceed 20% of the company's issued share capital of that class in any one financial year as at the date this authority is granted;
- The company will not make the repurchases at a price more than 10% above the weighted average of the market value of the securities of that class in issue for the five business days immediately preceding the date on which the transaction is effected. The JSE will be consulted for a ruling if the company's securities have not traded in such five business day period;
- The company will, at any point in time, appoint only one agent to effect any repurchase(s) on the company's behalf; and
- The company will not repurchase its securities during any prohibited period as defined in paragraph 3.67 of the Listings Requirements of the JSE unless a repurchase programme is in place in respect of which the dates and quantities of ordinary shares to be traded during such period are fixed and full details of such programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period."

13. Special resolution number 2

"Resolved that the company, insofar as it may be necessary to do so, hereby approves, as a general approval, and authorises the acquisition by any subsidiary of the company of shares of any class issued by such subsidiary and/or by the company upon such terms and conditions and in such amounts as the directors of such subsidiary/ies may from time to time decide, but subject to the provisions of sections 85 to 89 of the Companies Act, 1973 (Act 61 of 1973), as amended, the articles of association of the company and, insofar as they may be applicable, the Banks Act, 1990 (Act 94 of 1990) and the Listings Requirements of the JSE Limited ("JSE"), provided always that:

- This general approval shall expire at the date of the company's next annual general meeting in 2011 or 2 September 2011, whichever is the earlier;
- A repurchase of securities in the company will only be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty (reported trades are prohibited);
- An announcement as contemplated in the Listings Requirements of the JSE, will be published when the subsidiary has acquired, on a cumulative basis, 3% of the number of securities of that class which the company had in issue prior to the acquisition, containing full details thereof as well as for each 3% in aggregate of the initial number of that class acquired thereafter;
- Acquisitions by any company of its own securities under this general approval may not exceed 20% in the aggregate of the acquiree company's issued share capital of that class in any one financial year as at the date this authority is granted and in the case of the subsidiary acquiring shares in the company limited to an aggregate of 10% of the company's issued share capital of that class as at the date this authority is granted;
- The subsidiaries will not acquire securities in the company at a price more than 10% above the weighted average of the market value of securities of that class for the five business days immediately preceding the date of acquisition. To the extent applicable, the JSE will be consulted for a ruling if the company's securities have not traded in such five business day period;
- The subsidiaries will, at any point in time, appoint only one agent to effect any purchase(s) of the company's securities if applicable; and
- The subsidiaries will not purchase any securities in the company during any prohibited period as defined in paragraph 3.67 of the Listings Requirements of the JSE unless a repurchase programme is in place in respect of which the dates and quantities of securities to be traded during such period are fixed and full details of such programme have been disclosed in an announcement on SENS prior to the commencement of the prohibited period."

14. Other business

To transact such other business as may be transacted at an annual general meeting.

EXPLANATORY NOTES

The reasons for and effect of the two special resolutions set out above are:

Special resolution number 1 – General authority to purchase own shares

The reason for this special resolution is that the company seeks a general authority to repurchase its shares in the market subject to the Companies Act, 1973 (Act 61 of 1973), as amended ("the Act"), the Banks Act, 1990 (Act 94 of 1990), as amended ("the Bank Act") and the Listings Requirements of the JSE Limited ("JSE"). The directors have no present intention of making any purchases under this authority but believe that the company should retain the flexibility to take action if future purchases should be considered desirable and in the best interest of shareholders.

In terms of the Listings Requirements of the JSE, any general repurchase by the company must, inter alia, be limited to a maximum of 20% of the company's issued share capital of that class in any one financial year at the time the authority is granted.

The directors intend to use this authorisation only to repurchase if after such repurchase:

- The company and the group will each be able to repay its debt as it becomes due in the ordinary course of business for a period of twelve months from the date of the notice of the annual general meeting;
- The assets of the company and the group, valued in terms of International Financial Reporting Standards, will exceed the liabilities of the company and the group for a period of twelve months from the date of the notice of the annual general meeting; and
- The share capital and reserves and working capital of the company and the group will be adequate for ordinary business purposes for a period of twelve months from the date of the notice of the annual general meeting.

General information in respect of directors and management (page 24 to 27), major shareholders (page 135), directors' interests in securities (page 76 to 78), material changes (page 79) and the share capital of the company (page 107) is contained in the annual report to which this notice is attached.

The directors, whose names are given on page 24 and 25 of the annual report, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous twelve months, a material effect on the financial position of Capitec.

The directors, whose names are given on page 24 and 25 of the annual report, collectively and individually accept full responsibility for the accuracy of the information given and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all information required by the Listings Requirements of the JSE.

The effect of this special resolution, if approved, is to grant a general authority to the directors of the company to repurchase the company's shares in the market subject to the provisions of the Act, the Banks Act, the articles of association of the company and the Listings Requirements of the JSE, where applicable.

Special resolution number 2 – General authority to subsidiaries to acquire shares

The reason for this special resolution is that the company seeks a general authority to empower directors of subsidiaries to resolve that the said subsidiaries acquire shares issued by such subsidiaries and/or by the company in terms of the Companies Act, 1973 (Act 61 of 1973), as amended ("the Act"), their respective articles of association and where applicable, the Banks Act, 1990 (Act 94 of 1990) ("the Banks Act") and the Listings Requirements of the JSE Limited ("JSE").

The directors have no present intention of making any acquisition under this authority but believe that its subsidiaries should retain the flexibility to take action if future acquisitions should be considered desirable and in the best interests of shareholders. One such eventuality could be the acquisition of shares in the company by subsidiaries for delivery in terms of the Capitec Bank Holdings Share Trust (the share incentive scheme), the terms of which have been approved by shareholders at a general meeting held on 7 February 2002.

In terms of the Act, subsidiaries may acquire shares in the company to a maximum of 10% in the aggregate of the number of issued shares of the company. In terms of the Listings Requirements of the JSE, any general acquisition by a company of its listed shares must, inter alia, be limited to a maximum of 20% of that class of the issued share capital of the acquiree company in any one financial year at the time the authority is granted.

The authorisation provided to subsidiaries to acquire their own shares or shares in the company will only be exercised by the directors of such subsidiaries if, at the discretion of the board of the company, circumstances should merit such purchase and if after such acquisition:

- The company, relevant subsidiaries and group will each be able to repay its debts as they become due in the ordinary course of business for a period of twelve months from the date of the notice of this annual general meeting;
- The assets of each of the company, relevant subsidiaries and the group valued in terms of International Financial Reporting Standards, will be in excess of the liabilities of the company, relevant subsidiaries and the group respectively, for a period of twelve months from the date of the notice of this annual general meeting; and
- The share capital, reserves and working capital of the company, relevant subsidiaries and the group will be sufficient to meet the respective needs of the company, relevant subsidiaries and the group for a period of twelve months from the date of the notice of the annual general meeting.

General information in respect of directors and management (pages 24 to 27), major shareholders (page 135), directors' interests in securities (page 76 to 78), material changes (page 79) and the share capital of the company (page 107) is contained in the annual report to which this notice is attached.

The directors, whose names are given on page 24 and 25 of the annual report, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous twelve months, a material effect on the financial position of Capitec.

The directors, whose names are given on page 24 and 25 of the annual report, collectively and individually accept full responsibility for the accuracy of the information given and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all information required by the Listings Requirements of the JSE.

The effect of this special resolution, if approved, is to grant a general authority to the directors of the company's subsidiaries to acquire shares issued by such subsidiaries and/or by the company, subject to the provisions of the Act, the articles of association of the subsidiaries and the company and where applicable, the Banks Act and the Listings Requirements of the JSE.

Special resolution numbers 1 and 2 are renewals of resolutions approved at the previous annual general meeting held on 29 May 2009.

VOTING

Shareholders entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, speak and vote thereat in their stead. A proxy need not be a member of the company. A form of proxy, in which are set out the relevant instructions for its completion, is enclosed for use by a shareholder holding his/her shares in certificated format or who has dematerialised his/her shares with own name registration and who wishes to be represented at the annual general meeting. Completion of a form of proxy will not preclude such shareholder from attending and voting (in preference to that shareholder's proxy) at the annual general meeting.

Proxy forms must be delivered at or posted to Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) to be received by no later than 12:00 on Monday, 31 May 2010.

Shareholders present in person, by proxy or by authorised representative ("delegates") shall, on a show of hands, have one vote each and, on a poll, will have one vote in respect of each share held. It is intended that voting will be conducted electronically by poll. Upon arrival, delegates are registered, linked to their respective profiles on the share register and given an electronic keypad with which to cast their respective votes. Upon voting, a message is displayed on the keypad screen, confirming that the vote has been registered. Results are displayed on an overhead screen.

Beneficial owners who have dematerialised their shares through a Central Securities Depository Participant (CSDP) or stockbroker, other than those whose shares are registered in their own name, must provide the CSDP or stockbroker with their voting instruction. Beneficial owners must verify with the relevant CSDP or stockbroker the cut-off time to lodge such voting instruction. Alternatively, they must request the CSDP or stockbroker to provide them with a letter of representation should they wish to attend the meeting in person in terms of the custody agreement entered into between the beneficial owner and the CSDP or stockbroker.

By order of the board

CG van Schalkwyk
Company secretary

7 May 2010

our solution for the easiest daily money management is called Global One – we didn’t know it would be that accurate

Capitec Bank, home of the Global One facility, is the only African brand to be recognised by Credit Suisse as one of the 27 Great Brands of Tomorrow*, including Amazon, Apple, Facebook, Mercedes-Benz and Swatch.

Thank you to our over 2 million active clients and 4 000 employees.

*Source: Credit Suisse Great Brands of Tomorrow report 2010

Proxy form

Capitec Bank Holdings Limited (Incorporated in the Republic of South Africa)
(Registration number 1999/025903/06) ("Capitec" or "the company")
(JSE share code: CPI ISIN: ZAE000035861)

For use of shareholders who are:
(1) registered as such and who have not dematerialised their Capitec ordinary shares; or
(2) hold dematerialised Capitec ordinary shares in their own name,
at the Capitec annual general meeting to be held at Oude Libertas, corner of Adam Tas Road and Libertas Road, Stellenbosch, on Wednesday, 2 June 2010, at 12:00.

Beneficial owners who have dematerialised their shares through a CSDP or stockbroker, other than those in own name must provide the CSDP or stockbroker with their voting instruction. Beneficial owners must verify with the relevant CSDP or stockbroker the cut-off time to lodge such voting instruction. Alternatively, they must request the CSDP or stockbroker to provide them with a letter of representation should they wish to attend the meeting in person in terms of the custody agreement entered into between the beneficial owner and the CSDP or stockbroker.

I/We (Full name(s) in BLOCK LETTERS please) ____

of (address) ____

being the registered holder(s) of ______________________________ ordinary shares hereby appoint:

1. of ____ or failing him/her,

2. of ____ or failing him/her,

3. the chairman of the meeting, as our proxy to vote on my/our behalf at the annual general meeting to be held on Wednesday, 2 June 2010 and at each adjournment thereof for purposes of considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions to be proposed thereat and to vote for and/or against the resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name/s in accordance with the following instructions (see notes on the reverse side of this page):

		Number of shares		
Ordinary resolutions		**In favour of**	**Against**	**Abstain**
1.	Approve annual financial statements			
2.	Re-elect Mr TD Mahloele as a director			
3.	Re-elect Mr PJ Mouton as a director			
4.	Re-elect Mr JP van der Merwe as a director			
5.	Approve the directors' remuneration for the financial year ending on 28 February 2011 including payment thereof			
6.	Re-appoint auditors			
7.	Confirm the authority of the audit committee to determine the auditors' remuneration			
8.	Authorise payment of a cash dividend of 155 cents per share			
9.	Approval to place 4 149 127 (5%) of the unissued ordinary shares in the authorised ordinary share capital of the company, and all the non-redeemable, non-cumulative, non-participating preference shares in the authorised but unissued preference share capital of the company under the control of the directors. In the event of a rights issue, the 5% limitation will not be taken into account			
10.	General approval to allot and issue ordinary shares for cash			
11.	Amendments to the Capitec Bank Holdings Share Trust in accordance with schedule 14 of the Listings Requirements of the JSE			
Special resolutions				
12.	General approval to the company to repurchase shares issued by the company			
13.	General approval to any subsidiary of the company to acquire shares issued by such subsidiary and/or by the company			

(Indicate instruction to proxy by way of a cross in the space provided above)

Signed at ____________________ on this __________ day of ____________________ 2010.

Signature(s) ____

Assisted by (where applicable) (state capacity and full name) ______________________________

Each Capitec shareholder is entitled to appoint one or more proxy(ies) (who need not be a shareholder(s) of the company) to attend, speak and vote in his/her stead at the annual general meeting.

Notes to the form of proxy

1. A Capitec shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space(s) provided, with or without deleting the chairman of the annual general meeting. The person whose name appears first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. A Capitec shareholder's instruction to the proxy must be indicated clearly by the insertion of the relevant number of ordinary shares to be voted on behalf of that member in the appropriate box provided. Failure to comply with the above will be deemed to authorise the chairman of the annual general meeting, if he/she is the authorised proxy, to vote in favour of the resolutions at the annual general meeting, or any other proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit, in respect of all the ordinary shares concerned. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or his/her proxy, but the total of the votes cast and in respect whereof abstentions are recorded may not exceed the total of the votes exercisable by the shareholder or his/her proxy.

3. When there are joint registered holders of any shares, any one of such persons may vote at the meeting in respect of such shares as if he/she is solely entitled thereto, but, should more than one of such joint holders be present or represented at any meeting, that one of the said persons whose name stands first in the register in respect of such shares or his/her proxy, as the case may be, shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member, in whose name any shares stand, shall be deemed joint holder thereof.

4. Every member present in person or by proxy shall, on a poll, have one vote for every ordinary share held, whereas on a show of hands, members present in person, by proxy or by authorised representative shall have one vote each. It is intended that voting at the annual general meeting will be conducted by poll, electronically.

5. Forms of proxy must be completed and returned to be received by the transfer secretaries of the company, Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), by no later than 12:00 on Monday, 31 May 2010.

6. Any alteration or correction made to this form of proxy must be signed in full by the signatory/ies and not initialled.

7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's secretaries or waived by the chairman of the annual general meeting.

8. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.

9. The chairman of the annual general meeting may reject or, provided that he is satisfied as to the manner in which a member wishes to vote, accept any form of proxy which is completed other than in accordance with these instructions.

10. Beneficial owners who have dematerialised their shares through a CSDP or stockbroker, other than those in own name, must provide the CSDP or stockbroker with their voting instruction. Beneficial owners must verify with the relevant CSDP or stockbroker the cut-off time to lodge such voting instruction. Alternatively, they must request the CSDP or stockbroker to provide them with a letter of representation should they wish to attend the meeting in person in terms of the custody agreement entered into between the beneficial owner and the CSDP or stockbroker.

Shareholders' calendar

Financial year-end
28 February 2010

Profit announcement
31 March 2010

Annual report
May 2010

Annual general meeting
2 June 2010

Interim report
September 2010

Ordinary dividend

JSE Code
CPI

ISIN
ZAE 000035861

Last date to trade to be considered for the dividend payment
Thursday, 10 June 2010

Record date in respect of the dividend payment
Friday, 18 June 2010

Payment date
Monday, 21 June 2010

Share certificates may not be dematerialised or rematerialised, both days inclusive, 11 to 18 June 2010.

Administration and addresses

Capitec Bank Holdings Limited

Registration number
1999/025903/06

Auditors
PricewaterhouseCoopers Inc

Directors
MS du P le Roux (Chairman)
R Stassen (Chief executive officer)
AP du Plessis (Financial director)
TD Mahloele
MC Mehl (Prof)
NS Mjoli-Mncube (Ms)
PJ Mouton
CA Otto
JG Solms
JP van der Merwe

Secretary
CG van Schalkwyk

Registered address
1 Quantum Street, Techno Park,
Stellenbosch 7600

Postal address
PO Box 12451, Die Boord,
Stellenbosch 7613

Website
www.capitecbank.co.za