CAPITEC
Bank

Capitec Bank Holdings Limited

2009 annual report


ultimate sophistication

the way to bank

2009
annual report

Highlights

Headline earnings ________ **42**%

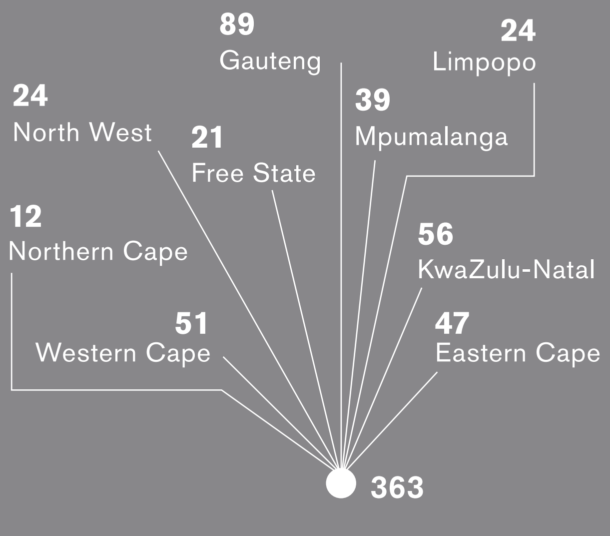
Final dividend per share ________ **110** cents

Return on equity ________ **27**%

Clients ________ **1.8** million

Shareholders' funds ________ **R1.4** billion

National Branch Network



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Key Performance Indicators

		09	08	Change % 09/08	07	06
PROFITABILITY						
Income from banking operations	Rm	1 983	1 315	51	1 010	761
Net loan impairment expenses	Rm	(468)	(231)	103	(161)	(96)
Banking operating expenses	Rm	(1 065)	(763)	40	(607)	(500)
Non-banking operations	Rm	6	3	100	1	1
Tax	Rm	(137)	(95)	44	(76)	(51)
Preference dividend	Rm	(19)	(17)	12	(8)	-
Earnings attributable to ordinary shareholders						
• Basic	Rm	300	212	42	159	115
• Headline	Rm	302	212	42	160	116
Cost-to-income ratio banking activities	%	54	58		60	66
Return on ordinary shareholders' equity	%	27	22		26	23
Earnings per share						
• Attributable	cents	364	259	40	221	163
• Headline	cents	366	259	41	222	165
• Diluted attributable	cents	357	250	43	209	155
• Diluted headline	cents	359	251	43	211	156
Dividends per share						
• Interim	cents	30	25	20	20	-
• Final	cents	110	75	47	60	45
Dividend cover	x	2.6	2.6		2.8	3.7
ASSETS						
Total assets	Rm	4 969	2 936	69	2 191	1 251
Net loans and advances	Rm	2 982	2 019	48	803	455
Cash and cash equivalents	Rm	1 514	618	145	1 044	582
Investments	Rm	150	14	971	112	7
Other	Rm	323	285	13	232	207
LIABILITIES						
Total liabilities	Rm	3 563	1 719	107	1 074	687
Deposits	Rm	3 317	1 528	117	897	595
Other	Rm	246	191	29	177	92
EQUITY						
Shareholders' funds	Rm	1 406	1 217	16	1 117	564
Capital adequacy ratio	%	43.1	36.4		78.9	56.0
Net asset value per ordinary share	cents	1 512	1 297	17	1 175	784
Share price	cents	3 001	3 900	(23)	3 700	3 105
Market capitalisation	Rm	2 485	3 195	(22)	3 031	2 233
Number of shares in issue	'000	82 798	81 928	1	81 928	71 928

		09	08	Change % 09/08	07	06
EQUITY CONTINUED						
Share options						
• Number outstanding	’000	**5 713**	5 159	**11**	6 191	**5 841**
• Average strike price	cents	**2 487**	1 815	**37**	1 151	**648**
• Average time to maturity	months	**25**	24	**4**	24	**28**
• Charge on settlement	Rm	**34**	48	**(29)**	22	**31**
OPERATIONS						
Branches		**363**	331	**10**	280	**253**
Employees		**3 414**	2 800	**22**	2 129	**1 901**
Active clients	’000	**1 835**	1 371	**34**	1 010	**706**
ATMs						
• Own		**368**	328	**12**	264	**210**
• Partnership		**571**	437	**31**	143	**-**
Capital expenditure	Rm	**133**	117	**14**	86	**72**
SALES						
Loans						
Value of loans advanced	Rm	**6 273**	5 162	**22**	3 449	**2 863**
Number of loans advanced	’000	**3 536**	3 155	**12**	2 924	**2 650**
Average loan amount	R	**1 774**	1 636	**8**	1 180	**1 080**
Gross loans and advances	Rm	**3 223**	2 192	**47**	914	**547**
Loans past due (arrears)	Rm	**326**	247	**32**	106	**104**
Loans past due to gross loans and advances	%	**10.1**	11.2		11.6	**19.0**
Provision for doubtful debts	Rm	**241**	173	**39**	111	**93**
Provision for doubtful debts to gross loans and advances	%	**7.5**	7.9		12.1	**16.9**
Arrears coverage ratio	%	**74.0**	70.2		104.7	**89.0**
Loan revenue	Rm	**2 054**	1 284	**60**	1 001	**768**
Loan revenue to gross loans and advances	%	**63.7**	58.6		109.5	**140.2**
Gross loan impairment expense	Rm	**514**	265	**94**	183	**116**
Recoveries	Rm	**46**	35	**34**	22	**21**
Net impairment expense to loan revenue	%	**22.8**	18.0		16.1	**12.5**
Net impairment to gross loan book	%	**14.5**	10.6		17.6	**17.5**
Net impairment expense to repayments	%	**7.2**	5.1		4.1	**2.9**
Deposits						
Retail savings deposits	Rm	**1 306**	842	**55**	554	**314**
Retail fixed deposits	Rm	**265**	-	**-**	-	**-**
Number of savings clients	’000	**1 129**	783	**44**	583	**375**
Net transaction fee income	Rm	**138**	79	**75**	35	**15**

The Market

A view of the market

Industry sentiment – A market observer recently reflected as follows on the banking industry: "People are frustrated by the complex offers by banks, suspicious that they are being done in and resentful that they have no other options. They do not believe that banks work for them to make their lives easier or better."

Complexity, rigidity, uncertainty, misunderstanding that causes suspicion, a lack of personal support and unexpected fees on accounts, are all recent characteristics of the industry that contribute to this negative sentiment towards banking. Few processes offered by banks are ever seen as easy or convenient, and few products are seen as significantly different to any alternatives in the market.

Even though banking is an integral part of consumers' lives it is regarded as a grudge purchase and in many instances seen as a commodity.

Leading technology

It is surprising that this perspective has evolved towards South African banks, as the technology and quality of systems used by the players in the industry are of the best in the world. The problem possibly stems from the approach followed by the traditional banks towards process design and the use of technology as a solution. This has primarily been from a bank perspective, focusing on administration and control, rather than from a client perspective, focusing on ease of use. Whatever the cause, it has resulted in procedures that are complex, cumbersome and inconvenient for the average consumer.

The need for easy everyday banking

Everyday banking is about daily transacting, saving and lending. Ideally, it should offer personal support on an ongoing basis, to help clients manage their cash flows in times of surpluses and shortages. This personal support should focus on providing options and enabling clients to make choices that best suit their needs.

Mortgage bonds, asset finance and foreign exchange, on the other hand, have become commodities, where pricing generally determines the choice of supplier. Intermediaries or originators are a part of this segment of the industry and they will continue to entrench the "commodity status" of this sector over time.

Everyday banking, however, centres on client relationships and addresses daily client needs in an easy, cost-effective and convenient way.

Innovation focused on simplicity and ease of access

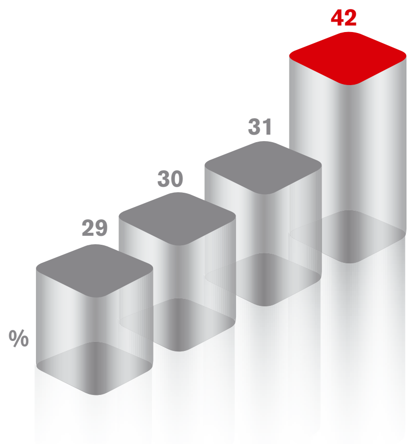
Antoine de Saint-Exupery said, "Perfection is achieved, not when there is nothing more to add, but when there is nothing left to take away."

Koichi Kawana reflected on simplicity: "Simplicity means the achievement of maximum effect with minimum means."

Capitec Bank strives to make banking as simplified and accessible as possible with personal support which empowers clients to make their own best choices. The bank's innovative system design has concentrated on client usage, where the focus is on immediate delivery of flexible products and services with the least amount of input and effort from the client. An open-ended, single-product solution to manage cash flows will ultimately deliver a range of saving and lending options that clients can specify and design themselves.

All branch processes are controlled by a single card, a Personal Identification Number (PIN) and biometric verification. Innovative process design on the system, backed by biometric verification and photo confirmation, provides an in-branch process where clients never fill in forms. A deposit need not take longer than 60 seconds. This results in an efficient process that is both low-cost and highly convenient to clients.

Market challenges



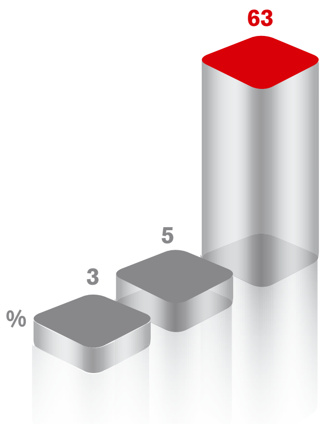
Financial understanding

29% need advice on how to calculate interest |

30% need advice on how to budget and plan |

31% need advice on how to use savings products |

42% have lower education than grade 10 |



Banked clients – adult population

3% of banked clients have a personal loan |

5% of banked clients have a home loan |

63% of population are banked clients |

Transparency

Our philosophy is to apply transparent pricing to all our products and transactions. Few clients making use of the traditional banks are aware of their total monthly banking costs. We do not apply ad valorem fee structures, and transactions are not packaged with volume limits which, when exceeded, result in increased fees to the client. Capitec Bank's fees are fixed per transaction and are less than half those of traditional banks. This empowers clients to make choices which minimise uncertainty regarding monthly banking costs and eliminates discontent regarding unexpected fees. It also reduces the need for balance enquiries and statements, often used by clients to understand their cash flows and fees on their accounts.

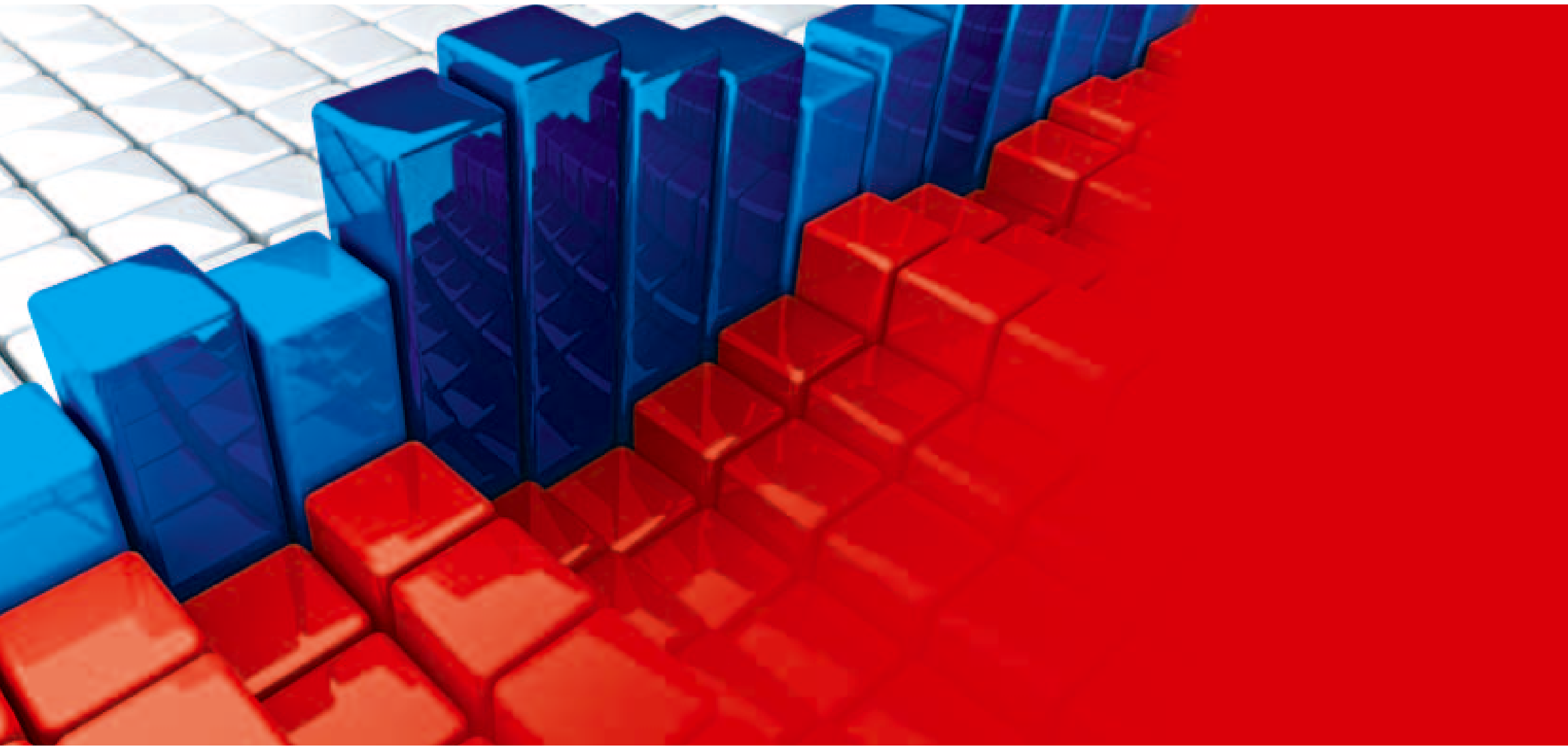
Our cashless branches offer cash via ATMs only. This provides an environment that supports overall client safety. The safer environment in turn enables the bank to offer extended banking hours beyond 08:00 and 17:00 and to reduce costs of access control and safety barriers. This philosophy also supports an open environment that facilitates better client interaction and support.

The realtime capability of our open-ended system means that clients never enter a branch with a need that is not fully addressed immediately. Clients in rural areas often travel long distances to access a bank to address an urgent need. The immediate support of this client is therefore important to us.

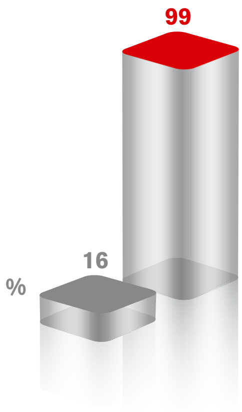
The introduction of Internet banking and SMS Update during 2008/09 has provided more convenience, control and information on accounts for our clients. SMS Update automatically informs clients of deposits or withdrawals on accounts, subject to a minimum transaction value which a client chooses. The uptake of these services, particularly SMS Update, has been exceptional and emphasises the need for information and control in the market. It is furthermore handy to curtail fraud on client acounts.

Biometric verification in branches was extended during 2008/09 from the identification of consultants on the system, to include client verification and verification of each client transaction. This enables signing agreements by fingerprint which reduces the administrative burden on clients in branch.

Capitec Bank will continue to be innovative to meet the needs of the overall market and deliver solutions to everyday banking that are the ultimate in simplicity and at the lowest cost available in the market. We believe we have delivered unique banking solutions to date, but we know that many challenges still exist. Future plans therefore include more significant innovations which will continue to revolutionise banking in South Africa.



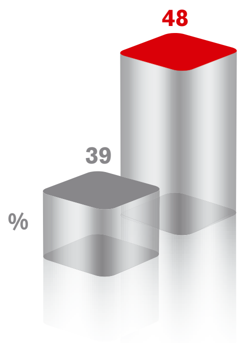
Market challenges



Cash society

| Only 16% regularly use debit cards for purchases

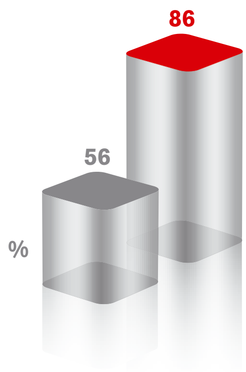
| 99% regularly do cash withdrawals



Information required

| 39% request statements regularly

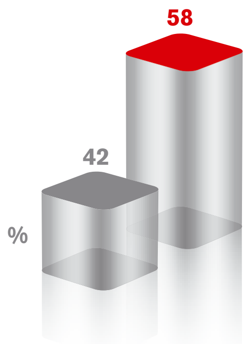
| 48% regularly do balance enquiries



Access to banks

| 56% use public transport to get to a bank

| 86% of all employees work from 08:00 to 17:00 every day



How people receive money

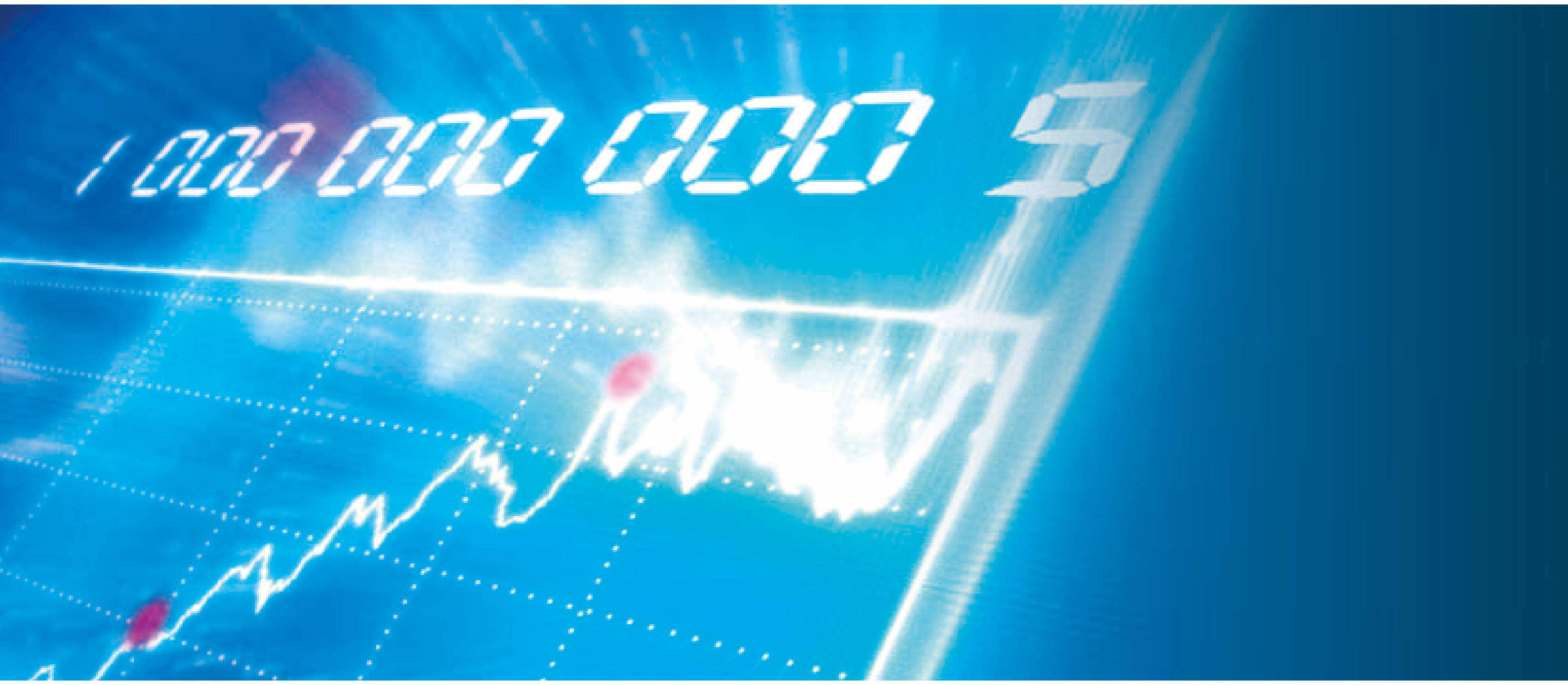
| 42% into a bank account

| 58% in cash

Change is inevitable, growth is intentional

Glenda Cloud

Letter to Shareholders



The banking systems of the most sophisticated financial nations on earth remain in intensive care, but Capitec Bank has hardly been affected at all. How is this possible?

The answer is surprisingly simple: Although we use plenty of sophisticated technology, the Capitec Bank model is a very old-fashioned one. We borrow long and lend short. We avoid complex products. We have plenty of capital. We manage arrears zealously. These are the main reasons for our stability in turbulent times.

In the equity markets, stability and success are often seen as opposites. We are immodest enough to believe that Capitec Bank is now a growing success and this success combines with stability. There are more reasons for our success than just for our stability. We define our market narrowly and concentrate exclusively on this market.
Our management knows our market well. Most of our competitors underrate this market. We have few products, but they are all the best available to our clients and offered at the lowest prices in the market. We treat our clients as the valued clients they are. We spend huge sums of money training our employees to be professional. Our most important source of income is unsecured personal loans. Because this is a high-risk product, we try to identify and minimise all other risks in our bank, not to embrace further risk. We reward our management for building a solid bank, not for short-term performance.

How well do we do what we do? Not very well. We have a long way to go before we will be satisfied with what we do. We will keep on improving because our ambitions remain huge: we want to be the best retail bank in the world. We are building an infrastructure able to accommodate many more clients than we have at the moment.

It will take decades to achieve our goal. Fortunately for our shareholders, decades are not the only timeframe we use for evaluating what we are doing. Profits in 2009 indicate that we are on track.

Simplicity is the ultimate sophistication

Leonardo da Vinci

Profitability

Increasing profits by 42% to R302 million in current circumstances is very satisfactory, even if only to illustrate the difference between our banking model and traditional banking.

- We gained 464 000 new clients during the year and now have 1.8 million active clients.
- Our sales during the year – the total value of loans granted – increased by 22% to R6.3 billion.
- Sales of the three-year loan, launched in October 2007, grew by 128%. This made a significant contribution to the growth of our total book by 48% to R3.0 billion.
- The number of loans granted increased by 12% to 3.5 million. The average loan amount increased to R1 774.
- Net transaction income grew by 75% and represents 9% of our revenue, the other 91% deriving from loans.
- We concentrate exclusively on personal banking. We have no business clients and do no treasury trading.
- Operating expenditure grew by 40%. We opened 32 new branches and plan to open another 40 in the next twelve months.
- We remain extremely cost conscious. At Capitec Bank, nobody flies business class.

Capital

The amount of capital that a bank has is the measure of its ability to withstand shocks. Banks are highly geared. Banks make their money by borrowing from one group of clients and lending to a second group of clients. The bank's own capital absorbs any unexpected losses. Obviously the pricing of loans must cater for all expected losses. Even if normal losses are high, they should never cause problems.

At year-end Capitec Bank had equity of R1.4 billion and assets of R3.5 billion, excluding cash. This gives a "crude" capital adequacy ratio of 40%. A more correct way of measuring our capital is to weigh the loans according to risk as prescribed by the Basel convention, for example, money invested in government bonds carry hardly any risk, compared to any other loan. Our risk-weighted capital adequacy ratio was 43% at year-end. Whichever way you look at it, we have plenty of capital and this is a source of comfort to our depositors.

Such security does not come cheap. Our return on capital would double should we halve our capital. This is not a thought to entertain under current circumstances, yet shareholders should appreciate that, like all good things in life, enhanced bank security comes at a price.

Liquidity

In a bank liquidity refers not only to our current cash position, but also to the ability over time to survive a loss of confidence. A famous and profitable bank like Lehman Brothers went under because markets lost confidence in it and its access to money collapsed. It was borrowing short and lending long. At Capitec Bank we do the opposite. Like all banks, we do a theoretical exercise, liquidity gap management. This theory 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 that. In such a doomsday scenario, what would happen to our bank?

- At year-end Capitec Bank would have been able to repay all its saving deposits immediately and on average throughout the year, within two weeks.
- Thereafter we will receive more money in repayments of loans than we will have to pay out as retail and wholesale deposits mature.
- This situation where Capitec Bank will receive money from its borrowers before it needs to repay its depositors is called a positive liquidity gap and is pretty unusual.
- Most banks are negatively geared.
- This is purely a theoretical exercise. Of course, a bank like Capitec Bank which is positively geared, can expect never to go through this exercise as nobody demands their money back with immediate effect if they know the bank can pay out. Lehman Brothers in the USA and Northern Rock in the UK have shown that a negatively geared bank will sometimes be called upon to repay loans as soon as depositors can demand their money back. And it meant the end of both those banks.
- Again, 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 went under 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 our own bank, we decided that Capitec Bank should never put itself in a position where a bad day in the market can destroy a bank built over a lifetime.

The main source of funding for Capitec Bank used to be corporate deposits (with a term of more than six months). During the past year, we have broadened our funding approach:

- In May 2008, we launched a domestic medium-term note programme, comprising a listed three-year bond, which raised R490 million.
- We launched an innovative retail product in November 2008 for funds of 6 to 24 months' duration. This product has grown to R265 million.
- We have received a R150 million loan from the development agency, Proparco.

Arrears and bad debts

Our net bad debts (after taking into account recoveries) grew by more than a hundred percent from R231 million to R468 million. R206 million of the growth in bad debts is attributable to growth in our loan book and R76 million due to increased default rates. The balance is due to improved data history, recoveries and the valuation placed on handed-over loans. Bad debts are higher than we would like them to be and the major impact of recessionary times on our business. Another way of comparing bad debt performance in a changing business is to look at arrears as a percentage of gross loans extended. This figure has deteriorated from 8.3% last year to 9.1% this year.

- Our bad debt ratio is very sensitive to retrenchments and strikes. We are prepared for further bad news on this front.
- We write off all arrears after three months, and in the case of a term loan the full outstanding balance is written off. This is a conservative but realistic approach. That is why we use the terms "bad debts" and "arrears" pretty much as meaning the same thing.
- We have tightened our lending criteria. We channel more risky clients to the shorter-term products.
- Our longer-term products are more profitable on a risk-weighted basis than the short-term loans. At the same time we provide more for doubtful debts on term loans in the initial months of the loan term than in the later months. The bad debt ratio will therefore increase rapidly as a new product is launched and the new book starts growing.
- 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.

Management remuneration

In the popular press bankers' bonuses have been identified as a culprit in the international bank crisis. We agree that the structure of management remuneration is important and that bonuses to achieve short-term goals can distort behaviour. In the past we used modest short-term bonuses to reward management for achieving specific goals. Such bonuses tend to be open-ended, and exceptional performance by management meant that a modest scheme suddenly produced not so modest bonuses. Early in the current

financial year we paid a bonus of R2.4 million to the CEO in respect of the results achieved in 2008. His salary was then R2.75 million and there was a risk that the bonus was becoming more significant than was intended. We therefore agreed a high salary for our CEO for the current year, with a modest bonus scheme. This is the way we intend to go forward: with a substantial salary, reflecting the importance of the challenge and the size of the achievements, but no, or a modest, short-term bonus. The same approach is followed with the management team.

Share options

We consider share options to be the right mechanism for us to reward management for building a successful bank. The structure of any option scheme is important to reduce risk and to foster a long-term approach by management. Once a year, shortly after the previous year-end, the remuneration committee evaluates the salaries and option exposure of management. The value of options granted is based on a multiple of annual salary. This multiple is higher for more senior executives. From this target value of options, we subtract the value of existing options at strike price to calculate the value of new options to be allocated. Options are granted at the volume-weighted share price of the company for the last thirty trading days. Options mature in equal tranches over a period of three, four, five and six years.

Share options must be exercised within six months of reaching maturity. This is important. Many schemes allow management to exercise options any time until ten years after the grant date. In practice this means that executives of these schemes can accumulate large numbers of mature options that can be exercised at any time at the discretion of the individual. This may create the wrong incentive for management: big rewards for gains, no penalties for losses. Our scheme, however, ensures that management will be rewarded for a high share price over many years. The best way to ensure that is not to indulge in risk but to build an excellent company.

We are proud of the fact that our senior management are all significant shareholders in Capitec Bank. When they exercise options and acquire shares, most of them permanently hold on to a big slice of the shares. The number of shares held by directors (and their associates) is, as required, detailed on page 61. Although not required and in some ways a private matter, we have convinced members of the management committee to divulge their shareholding in Capitec as well (see page 108).

When a participant exercises an option, he or she must pay the strike price (the original grant price) and income tax on the potential profit between the strike price and the current market price. In order to cater for this need for cash, half of all options granted since 2008 will actually not be options but share appreciation rights: the right, not to buy shares at the strike price but a cash amount equal to the difference between the original strike price and the future market price, net of tax.

The cost of options are accounted in our annual financial statements by a formula based on the Black-Scholes model. Any under- or overprovision for the cost of options calculated against market price, when the options are exercised, is directly accounted for against our equity account. The share appreciation rights will be accounted for monthly at the market price. This can expose the bank to significant profit fluctuations based purely on our own share price movement. To some extent this exposure will be counter-cyclical: as the share price increases, presumably when profits and prospects look good, the cost will increase, and periods of low share prices will reduce the cost of these rewards.

The main disadvantage of a share option scheme is the potential dilution of all other shareholders. To prevent this, we prefer to purchase shares in the open market. We attempt to do this without having an undue impact on the share price. In the event, over the last five years we have issued only 869 500 new shares for this purpose. Should the opportunity arise, we may purchase shares in future to neutralise this share issue.

Thanks

Regulators have a thankless task. We want to thank the registrar of banks, Mr Errol Kruger, for creating a stable environment in South Africa when stability has evaporated elsewhere.

We have a relatively small group of committed shareholders and wish to thank them for their loyal support during the last difficult year. PSG Group is our major shareholder and we want to thank them for guidance and support in difficult times.

Our success is due to our people: all our employees but, particularly, our far-sighted executive management team. As shareholders, we appreciate their dedication.

Innovation

Innovation is the foundation on which Capitec Bank was built. For this reason we appreciate the recent review provided by the asset management company RE:CM. They concluded that over the past 15 to 20 years there have been only five "true" entrepreneurs listed on the JSE: Aspen, Capitec, Discovery, MTN and City Lodge Hotels. We thank them for this recognition: We always aim to be truly entrepreneurial.

Prospects

Caution and prudence are necessary under the present conditions. However, plenty of opportunities exist in the market and we are well placed to capitalise on the difficult economic conditions. We will continue to invest in expansion. We plan to open a further 40 branches in the next year and expect to obtain much better retail locations due to the market downturn. Our credit policy will be adjusted as conditions change to ensure the ideal balance between growth through new client acquisition and bad debts. The cloud on the horizon could be the ability of our clients to keep on servicing their loans. Wholesale and retail funding growth has been very gratifying and we do not anticipate changes in our ability to access loan capital.

We expect that the 2010 financial year will be another one of growth and success.

Michiel le Roux
Chairman

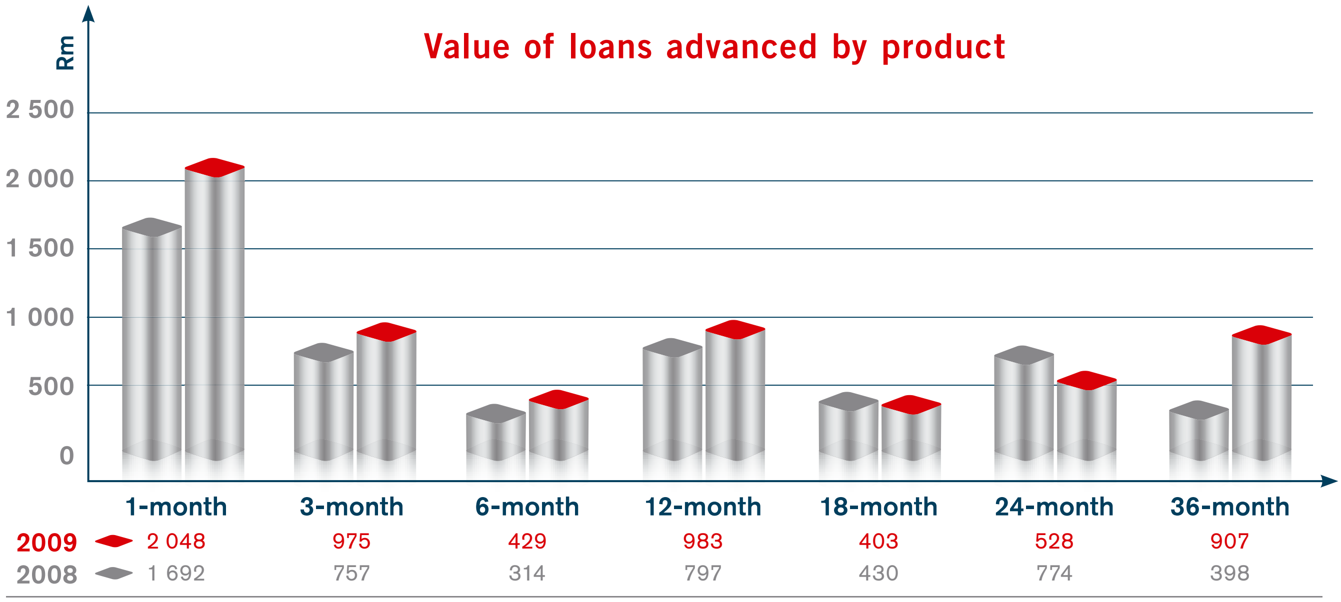
Financial Director's Report

Results summary

- In the current economic climate, affordable, accessible and simplified banking becomes even more important to people. This has resulted in our client base increasing by 34% from 1.4 million to 1.8 million, of which 0.4 million deposit their salaries at Capitec Bank.
- The value of loans granted increased by 22% to R6.3 billion. The number of loans granted increased to 3.5 million, which represents a 12% increase. The difference between the two growth percentages is due to the mix of loans granted and the fact that the average loan amount increased from R1 636 to R1 774.
- Gross transaction fees grew by 67% and now contributes R282 million. Net transaction fees grew by 75% and represents 9% of our revenue.
- As indicated in last year's annual report, we continued with our ongoing expansion programme and we now employ 3 414 people, up from 2 800 in 2008, and we have 368 ATMs.
- We continued to drive down costs as a philosophy when developing products and services but never at the expense of quality.
- Our cost-to-income ratio improved steadily over the year as the growth in banking activities, transaction and loan volumes and the impact of the longer-term loans on our revenue base filtered through. We embarked on a process to streamline and improve our branch processes further in order to accommodate continued growth.
- The cost-to-income ratio for the year was 54%, compared to 58% in 2008 and we expect it to continue decreasing in 2010 as volumes pick up and our infrastructure is used more efficiently.
- Although our branches have increased by only 10% to 363 branches, our net revenue from banking operations grew by 40%. This is mainly due to the annuity income on the longer-term loans which were launched in 2006 and 2007, more transaction fees on banking activities and the costs increasing at a lower rate than the increase in income.
- Our attractive pricing on banking transactions was maintained and is generally half that of other banks. We have in most instances chosen to price our loans at levels below the prescribed National Credit Act rates. Margins and profitability per product are at levels expected for the longer-term future.
- Headline earnings attributable to ordinary shareholders increased by 42% to R302 million. Included in this amount is an adjustment of R11.3 million representing the present value of future recoveries (see arrears and bad debts on page 20). Without this adjustment the headline earnings growth would have been 37%.

Loan book performance

Growth in loans granted for the year was well balanced between long-term and short-term products. We adjusted the loan criteria continuously during the year in anticipation of the tough economic environment, inflationary increases in the cost of living and reduced personal disposable income due to downscaling and retrenchments.



This led to more sales channelled to lower risk products of 12 months and shorter, with lower-risk clients taking up the 36-month product. We review our loan criteria and affordability computations regularly in order to ensure that funding growth, book growth and arrears remain syncronised and within our risk appetite.

We continuously monitor our exposure to specific employers and industries. This is due to the fact that our clients' payment performance is directly dependent on the stability of their employers and the result of retrenchments. This is also considered in our credit-granting criteria.

We introduced a three-year loan in October 2007, and now have 17 months of historical data. Most of the sales on this product were to new clients. This product enables us to attract higher-income clients and is often used by clients to finance capital items such as home improvements and household equipment, without the costs and administrative requirements that accompany secured lending.

The three-year product contributed most of the loan book growth for the year as can be seen in the loan book by product graph on page 18.

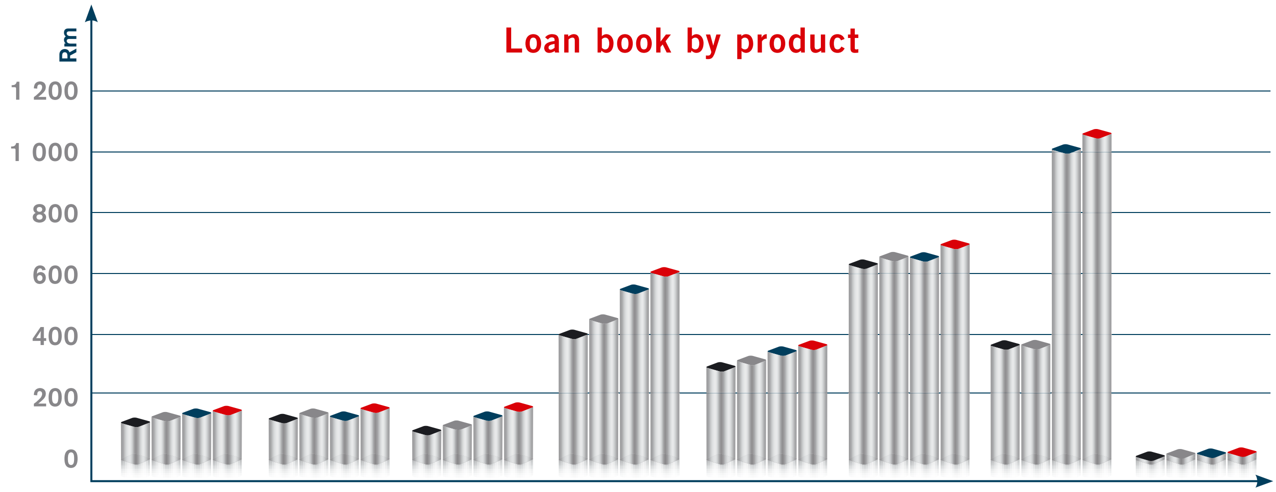
The one-month product makes up an extremely small portion of the outstanding loan book, but represents a substantial portion of the loans granted, instalments collected and loan revenue. The advantage of the short-term product is the limited exposure to high-risk clients who could otherwise not access finance in the formal banking sector. We mitigate the risk through smaller loan amounts and shorter-term risk.

The main disadvantage of the product is its impact on the activity levels in our branches and the correspondingly high cost of providing these loans, relative to loan value. This is also the reason for the higher pricing on this product. We shall continue developing methods to provide this product as efficiently as possible.

It should be noted that the loan book by product graph 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 96.

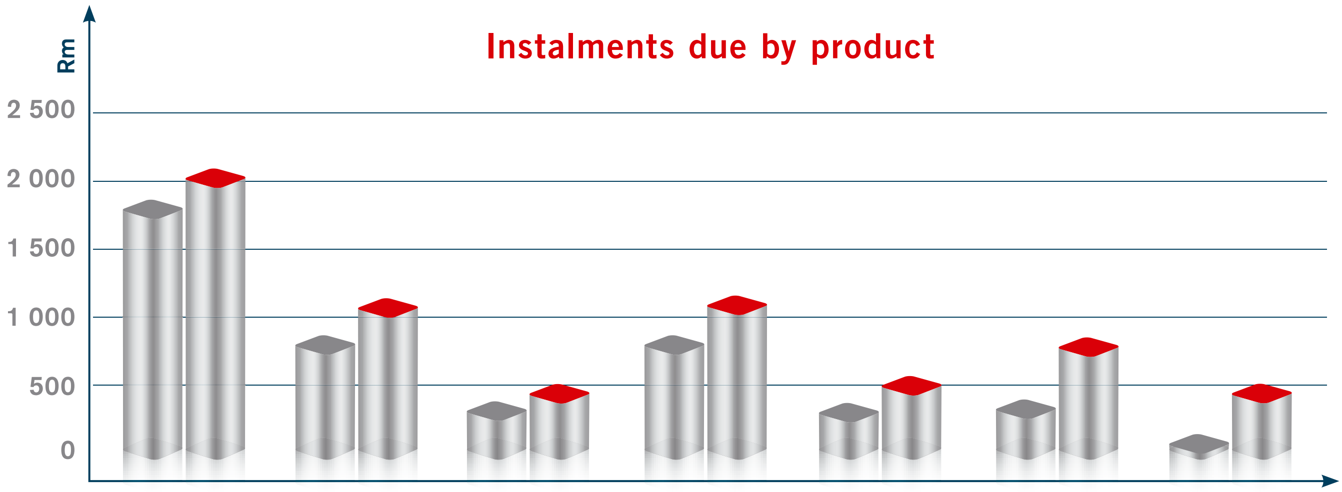
The growth in long-term loans has a significant impact on the number and value of instalments collected each month and we are investing significant resources in centralised monitoring and collections.

Loan book by product



	1-month	3-month	6-month	12-month	18-month	24-month	36-month	Other
2009 Gross	137	147	150	609	372	703	1077	28
2009 Net	126	130	133	556	343	661	1008	25
2008 Gross	118	138	104	449	314	660	384	25
2008 Net	109	121	89	408	292	622	370	8

Instalments due by product

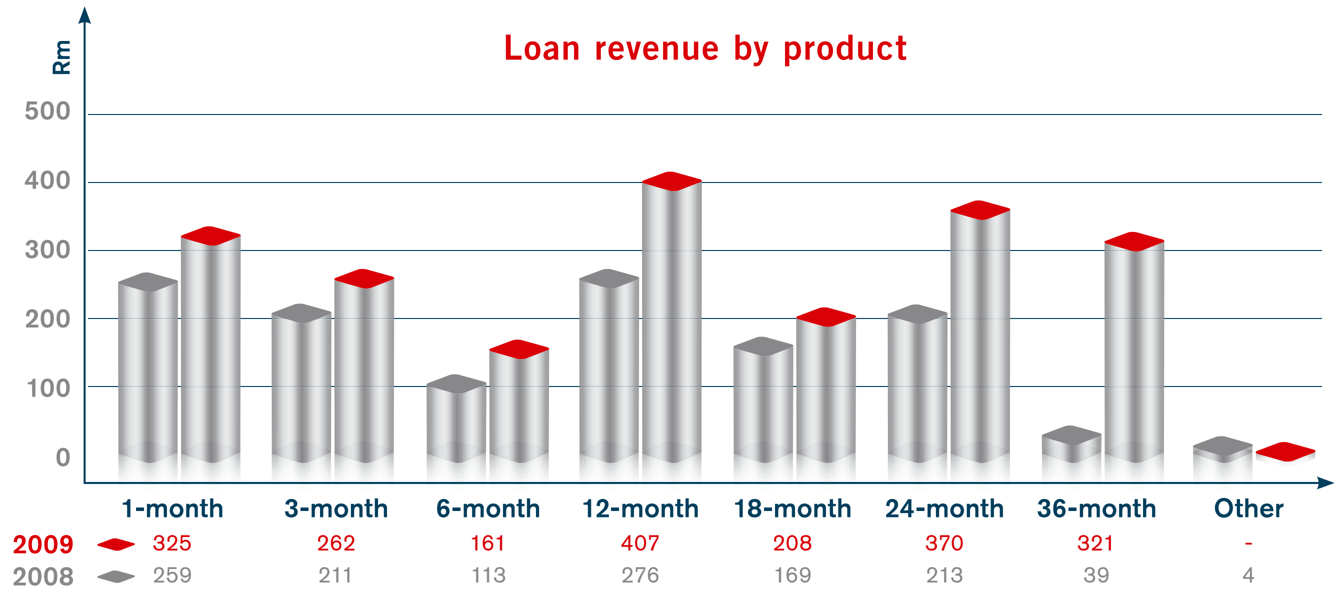


	1-month	3-month	6-month	12-month	18-month	24-month	36-month
2009	2 075	1 081	496	1 123	503	775	486
2008	1 785	853	363	748	361	369	48

Pricing

Our price structure has remained consistent throughout the year, though interest rates have increased at the beginning of the year and decreased in the latter half, in line with overall interest rate movements in the market. All our loan rates are fixed which means clients are not exposed to interest rate fluctuations. Our prices remain competitive in relation to the ceilings prescribed by the National Credit Act regulations and are inclusive of credit life insurance for the six-month and longer products. Most competitors add a credit life insurance premium on top of their loan pricing. We plan to move towards more sophisticated price differentiation in the second half of the financial year in order to target lower-risk clients.

Loan revenue on 24-month loans increased significantly in spite of the flat loan book movement. This is due to the fact that 2008 started from a low base, with significant growth throughout that year, whereas 2009 started from a high revenue base. We expect a similar pattern for the three-year product in 2010.



Arrears and bad debts

Gross loan impairment expense (before recoveries)

The gross loan impairment expense before recoveries (see graph on page 21) followed the revenue growth trend, though the bad debt charge-to-income ratio on longer-term products is higher. This is compensated for by lower infrastructure cost in relation to the revenue as the costs of vetting and granting long-term loans are absorbed by larger loan amounts and longer-term revenue streams.

Charge as percentage of instalments

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

	09 %	08 %
I-month	**1.4**	1.0
3-month	**4.3**	3.8
6-month	**6.7**	5.1
12-month	**12.7**	10.2
18-month	**11.4**	13.0
24-month	**12.7**	15.8
36-month	**21.7**	29.4
Weighted average	**7.9**	5.9
Recoveries	**(0.7)**	(0.8)
Net bad debts	**7.2**	5.1

On the short-term products it is better to measure arrears and impairments 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 impact of a missed instalment on longer-term loans is more severe at the beginning of a loan repayment period, as the full loan amount may be at risk (see page 7 for vintage graphs). 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. This is why the impairment expense of 18-, 24- and 36-month loans has improved significantly. The 36-month loans are, however, only 17 months old and not yet through a full cycle. The level of impairment is therefore still high, but we expect the figure to reduce significantly towards maturity.

Loan recoveries

All loans are written off in full after three months. In the current year we performed a valuation on the increase in the expected cash flows of loans which have been written off. This was then discounted at the effective contractual interest rate to a present value that reflects the estimated recovery.

Our statistics relating to the recoveries of handed-over loans (amounts written off) are based mainly on shorter-term and lower-value products. Furthermore, the economic environment for which we have historical experience is quite different from what we expect in the future. We have accordingly adjusted the results of our valuation model to take this into account. The growth in the book resulted in a substantial growth in the recoveries of the handed-over book and we therefore had to start taking the future value of recoveries into consideration. We will continue to adjust our forecasts as we obtain further clarity on the recoveries of higher-value handed-over loans and the impact of the economic environment.

Included in headline earnings is an adjustment of R11.3 million after tax to reflect the present value of future recoveries. This increased our headline earnings by 5.4% over the previous year.

Performance analysis

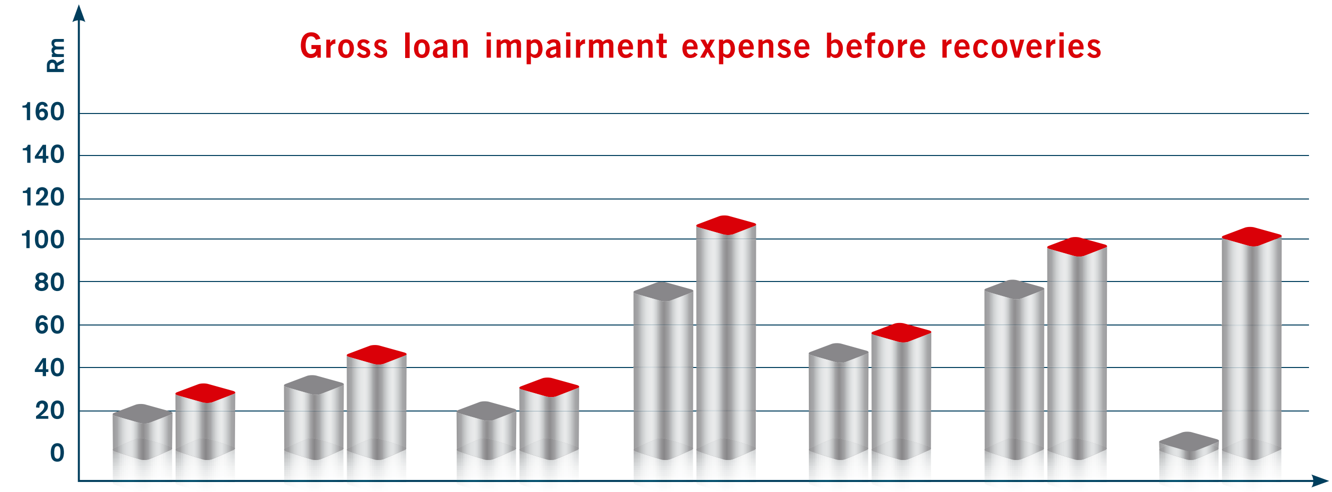
The gross loan impairment expense (before recoveries) for the year increased by R248 million compared to last year. The increase comprised R206 million due to loan book growth and R76 million due to increased default rates. This was offset by R18 million due to improved data history and R16 million due to the valuation placed on handed-over loans. All loan impairments are calculated using actual experience and are being done on an account level basis.

The loan impairment expense in the second half of the financial year increased by R16 million compared to the first half of the year. The increase comprised R44 million due to loan book growth and R6 million due to increased default rates. This was offset by R18 million due to improved data history and R16 million due to the valuation placed on handed-over loans. The performance of the one-month products improved by R2 million and the 24-month product deteriorated by R8 million. The 36-month product performance was in line with the first half of the year and contributed R25 million to the book growth component of the increased expense.

Our loss provisioning model is based on historical experience. We are well aware that past performance cannot predict future performance in a rapidly changing economic environment. We are, however, comfortable that we monitor performance trends closely and that appropriate consideration for more recent trends and events has been taken into account in our models.

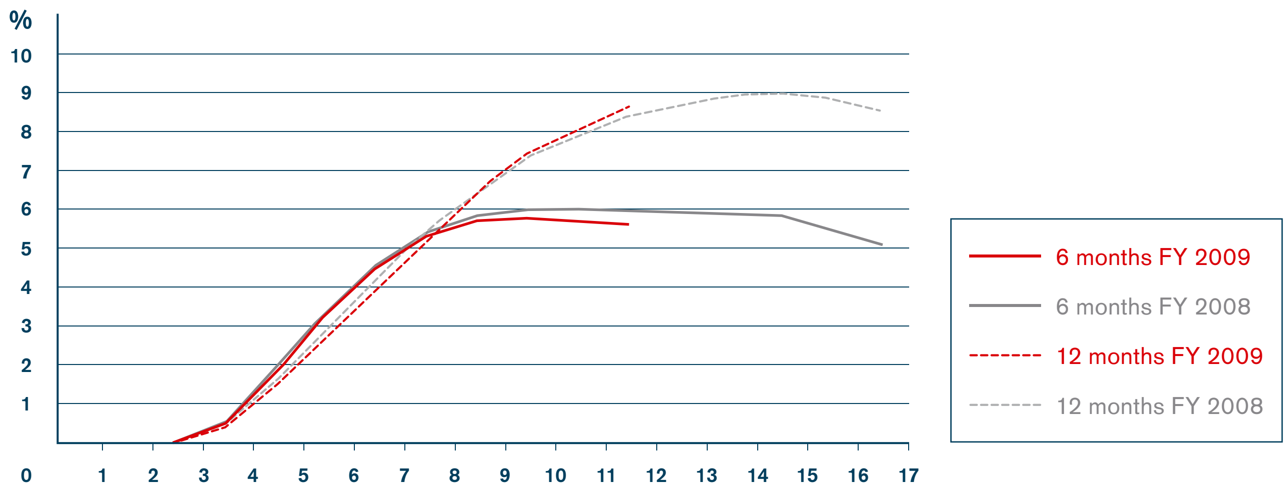
The breakdown of the loan book between current loans, loans in arrears and estimated incurred but not reported arrears, as well as the movement in the loan provision account, is set out in Note 6 to the financial statements.

Gross loan impairment expense before recoveries

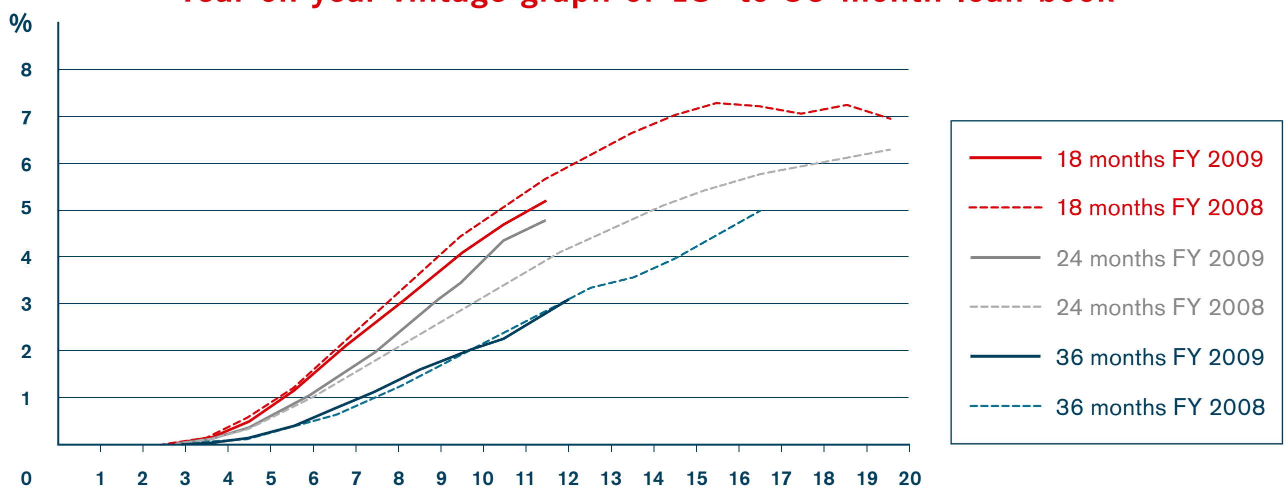


	1-month	3-month	6-month	12-month	18-month	24-month	36-month
2009	30	47	33	143	58	98	105
2008	19	33	19	76	47	58	14

Year-on-year vintage graph of 6- and 12-month loan book



Year-on-year vintage graph of 18- to 36-month loan book



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.

Retail funding/Deposit book

Client growth and transaction volumes continued to increase consistently through the year.

The high volume and value of cash-based transactions remain one of our most significant cost drivers and we will continue to use pricing, communication and education to encourage clients to pay electronically and use their cards to transact. We introduced an SMS-based update system during the year and more than 221 000 clients have subscribed to this service in less than four months after its launch. The benefit of the system is that clients are aware of activity on their accounts and this reduces the cost of branch-based enquiries and queries.

We launched the innovative Fixed Term Savings Plan (six months to 24 months) in November 2008 and raised R265 million in four months. This is an ideal form of funding due to the distributed funding base, rolling maturities and the fact that we can manage the uptake on the product through pricing. The wholesale funding market considers higher pricing to indicate only higher risk instead of demand relative to a shortage of supply, whereas this product responds to pricing in a manner that more closely approximates an efficient market.

Wholesale funding

The credit crunch had an impact on the availability and cost of funding. Despite this, we have been successful in increasing our wholesale contractual deposits by a total of R1.1 billion over the year. This was made up as follows:

- A domestic medium-term note programme (DMTN) was launched in May 2008 and raised R490 million with a maturity of three years.
- A R150 million loan with a maturity of five years was obtained from Proparco (foreign-based aid organisation) in March 2008.
- A bilateral funding agreement signed in November 2008, which has a maturity of three years.
- We continued to raise various sources of funding with terms between three months and one year, mainly through promissory notes, bilateral funding agreements and negotiable certificates of deposit with the aim of further diversifying our funding resources. This increased our funding base by R303 million.

We are constantly developing relationships with fund and asset managers as well as foreign-based aid organisations.

Liquidity

In a year of tight market liquidity, the bank has improved its liquidity position, whilst growing the asset book significantly. Our liquidity philosophy remains extremely conservative, as can be seen in the maturity analysis set out on page 96. We will continue to manage our liquidity position conservatively and balance book growth and arrears appetite against available funding. At year-end we would have been able to repay all our saving deposits immediately, on an average throughout the year, within two weeks.

Capital

Our risk-weighted capital adequacy ratio remains extremely conservative at 43%. We expect this ratio to remain fairly stable over the next year, as capital growth, through retained profits, is expected to meet the anticipated demand for book growth.

The Group's return on ordinary shareholders' equity for 2009 was 27%. Our minimum goal had been set at 25%. This percentage decreased to 22% in 2008 due to shares issued to our BEE shareholder at full price in February 2007. Our goal was therefore again achieved in 2009.

Taxation

We have a very low appetite for taxation risk. The model, products and services we offer are simplistic and represent cash profits. We therefore do not have complex tax structures in place.

Our tax contribution during the year consists of:

	09
	R'000
PAYE	**70 236**
UIF	**5 782**
VAT	**96 323**
Normal tax – current	**117 268**
Normal tax – deferred	**9 584**
STC	**10 499**
	309 692

Credit rating

In May 2008, Moody's Investors Service upgraded the short-term national scale credit rating for Capitec Bank to P-1.za (from P-2.za). Following a review by Moody's in November 2008, the bank's long-term national scale rating of A2.za and short-term national scale credit rating of P-1.za remain unchanged and have a stable outlook. According to Moody's, the upgrade reflects Capitec Bank's demonstrated ability to cautiously manage its liquidity and funding over the past few years.

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.

We have continuous discussions with the rating agency in order to keep them informed of our strategy, growth and liquidity management.

Dividend

Although the Group does not have a fixed dividend policy, it is the desire of the Board of Directors to maintain the current dividend approach as maintained in recent years.

André du Plessis
Financial Director

Board of Directors

Independent non-executive

Michiel Scholtz du Pré le Roux (59) BComm LLB
Michiel is 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 Managing Director of Distillers Corporation (SA) from 1979 to 1993, and from 1995 to 1998, Managing Director of Boland PKS, NBS Boland and BoE Bank.

Merlyn Claude Mehl, Prof (66) PhD (Physics)
Merlyn serves on the boards of various companies. He was previously Chancellor of Peninsula Technikon and Chief Executive of the Independent Development Trust. He is presently Executive Chairman of Triple L Academy.

Nonhlanhla Sylvia Mjoli-Mncube, Ms (50)
MA City and Regional Planning
Nonhlanhla runs her own investment company, Mjoli Development Company. She was formerly Economic Advisor to the Deputy President of South Africa. She has chaired several companies and has worked in leadership positions in South Africa and the USA. Nonhlanhla sits on the boards of, inter alia, Cadiz Holdings, Wilson Bayly Holmes-Ovcon Limited (WBHO) and Pioneer Foods.

Jan Georg Solms (54) 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 Holdings.

Jacobus Pieter van der Merwe (60) 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 Bank as General Manager of finance in 1983. 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. In 2001 up to his retirement in 2006 he was 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.

Non-executive

Tshepo Daun Mahloele (42) BProc
Tshepo is Chief Executive Officer of the Pan African Infrastructure Development Fund and Deputy Chairman of Circle Capital Ventures. He has more than 15 years of experience in project finance, private equity, investment banking and corporate finance. Previously he was Head of Corporate Finance and the Isibaya Fund at the Public Investment Corporation (PIC). Prior to joining the PIC he was Head of Private Sector Investments at the Development Bank of Southern Africa (DBSA). Before joining the DBSA he was 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.

Petrus Johannes Mouton (32) BComm (Maths)
Piet is an Executive Director of PSG Group. He serves as 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 (59) BComm LLB
Chris has been an Executive Director of PSG Group since its formation and has served as Non-executive Director since 16 February 2009. He has been involved in PSG Group's investment in microfinance and subsequent establishment of Capitec Bank of which he has been a Non-executive Director since establishment. He is also a Director of Zeder Investments and Kaap Agri.

Executive

Riaan Stassen (55) BComm (Hons), CA(SA)

Chief Executive Officer

Riaan joined Capitec Bank as 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 (47) BComm (Hons), CA(SA)

Financial Director

André joined Capitec Bank in 2000 as Executive: Financial Management and was appointed Financial Director of Capitec and Capitec Bank in May 2002. He has 25 years' experience in business advisory services, financial consulting and strategic & financial management. He was Chief Executive of Financial Management of Boland PKS and NBS Boland from 1996 to 2000 and a partner at Arthur Andersen from 1986 to 1996.

Life is really simple, but we insist on making it complicated

Confucius

Executive Management Committee

Riaan Stassen (55) BComm (Hons), CA(SA)
Chief Executive Officer
See Board of Directors

André Pierre du Plessis (47) BComm (Hons), CA(SA)
Financial Director
See Board of Directors

Jacobus Everhardus Carstens
(40) 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.

Carl Gustav Fischer (52) BComm (Hons), MBA
Executive: Marketing and Corporate Affairs
Carl joined Capitec Bank in 2000. He was 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 (45) 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.

Sbusiso Kumalo* (30) AIM
Brand Manager
Sbusiso joined Capitec Bank in 2007. He has more than ten years of experience both locally and in the United Kingdom in all areas of sales, marketing and market analysis in the Fast Moving Consumer Goods Industry. Previously he was National Marketing Manager at Pres Les Textiles and Sales Manager at SAB Miller. He is currently responsible for crafting the image of the bank and perceptions of the brand. He was a finalist for the 2008 Black Management Forum Manager of the Year award.

Graham Lee* (34) BBusSci (Hons), ACMA, MBA

Head: Management Information Systems

Graham joined Capitec Bank in 2003 as Accountant: Management Information. Prior to that he gained significant international experience at financial institutions in Zimbabwe, the United Kingdom and Australia. Positions include Derivatives Analyst at Morgan Stanley, Business Accountant at HSBC and Systems Architect at Rogen International. He is currently responsible for the development of Business Intelligence within the bank. He also lectures Financial Management at the University of Stellenbosch Business School.

André Olivier (41) BComm (Hons), CA(SA)

Executive: Business Development

André joined Capitec Bank in 2000 and was responsible for business development ever since. He was Financial Risk Manager at Boland PKS, after which he was Head of Operations of PEP Bank, the microlending division of the bank from 1997 to 2000. He gained extensive audit and business advisory experience with Arthur Andersen.

Christiaan Oosthuizen (54)

Executive: Information Technology

Chris joined Capitec Bank as Head of Information Technology in 2000. He held the position of Chief Executive of Information Technology at Boland PKS, where he was employed from 1976 to 2000.

Christian George van Schalkwyk

(53) 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 tax consultant at Arthur Andersen (1985).

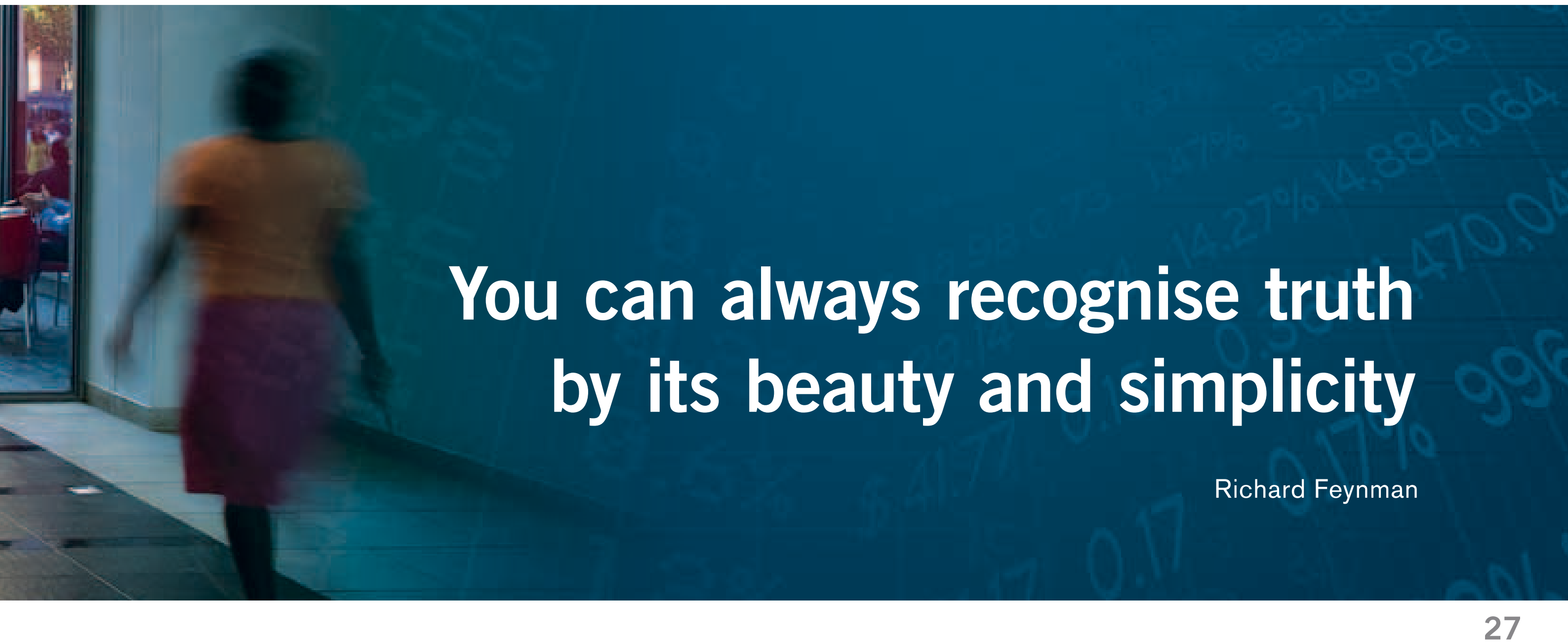
Leonardus Venter

(47) BA (Hons), MA (Industrial Psychology)

Executive: Human Resources

Leon joined Capitec Bank as Head of Human Resources in 2000. He was Human Resources Manager at Iridium Africa from 1998 to 1999. Previous positions include 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 2008 these positions were filled by Faick Davids and Ian Abrahams. The individuals confirmed that they have gained valuable experience through their exposure at executive level. Graham Lee and Sbusiso Kumalo were appointed to the committee effective 15 February 2009.



Corporate Governance and Risk Management Review

Primary responsibility for Capitec rests with its board. They fulfil this duty with due emphasis on corporate governance and risk management.

Board functioning and effectiveness

The Capitec board meets six times per annum. A record of attendance by each board member is published as per Annexure A (see page 46). Capitec's board operates in terms of an approved charter which, apart from detailing the powers, duties and responsibilities of the board, also specifies the reserved powers of the board. The charter is reviewed annually.

Board of directors

To allow non-executive directors the opportunity to familiarise themselves with the Group's business outside of board meetings, they are invited to executive management meetings and taken on branch visits. An annual board conference is held at which senior managers present the various aspects of the business to directors. This approach facilitates access by board members to company information, records, documents and resources. It also exposes them to the market in which the Group operates.

The board monitors the implementation of their plans and strategies through various board committees.

Board structure and continuity

The board comprises a majority of non-executive directors, consisting of a proper balance of two executive, three non-executive and five independent non-executive directors. A Directors' Affairs Committee comprising all the non-executive and independent non-executive directors and chaired by the chairman of the board has been established and in terms of its board-approved charter, inter alia, is responsible for recruitment and selection of new directors. It also oversees the compliance function and receives reports from the compliance officer, including events of non-compliance, if any.

New appointees are recommended to the board for approval, subject to the approval of the Registrar of Banks. To facilitate continuity of the board, one third of the board retires at each annual general meeting and has to date been re-elected by shareholders.

Chairman/Chief Executive Officer power balance

The roles and responsibilities of the Chairman and Chief Executive Officer are separated. Capitec has a Non-executive Chairman with proven business acumen and of good standing in the South African business community.

He participates actively in the selection of board members and ensures that all directors are given opportunity to add value to the formulation of the strategy of the company.

The Chief Executive Officer's responsibilities include:

- Developing and implementing company strategy
- Taking initiative in managing relationships with stakeholders and the investment public in general
- Acting as the chief spokesperson on behalf of the company.

The performance of the Chief Executive Officer and the board as a whole, including its committees, is appraised at least annually.

Directors' selection, orientation and training

A formal orientation programme, consisting of extensive discussions on the company's business environment and operations, is used to introduce the company to new directors. In addition, directors are provided with company records such as copies of board minutes, applicable legislation and board committee charters. Board meetings include presentations by management on selected topics to enhance board members' understanding of the business of the Group. Directors are invited to attend presentations by independent specialists on matters relevant to the board in the Group's environment and, when considered necessary, such presentations are arranged in-house. Directors also attend industry-specific training, inter alia, as initiated by the Registrar of Banks.


CAPITEC
Bank
No forms
for all transaction

Directors' remuneration

The Remuneration and Human Resources Committee, comprising one non-executive director and at least two independent non-executive directors, considers matters relating to director and executive remuneration as well as that of employees. This committee executes its responsibilities in accordance with the terms and references incorporated in the board-approved remuneration committee charter. Remuneration of directors is disclosed in the directors' report on page 64.

Board oversight

To assist the board in reviewing processes and procedures to determine the effectiveness of internal systems of control in the Group, the board has established committees with specific mandates to cover all aspects of the Group's business. These committees report their findings to the board, thereby ensuring that the decision-making capability of the board and the accuracy of its reporting and financial results are maintained at high levels. Information assessed by the board comprises financial as well as non-financial information and enables the board to assess the adequacy and efficiency of corporate governance and internal controls in operation. This information is generated from internal as well as external sources, an example of the latter being participation in a survey conducted by the Ethics Institute of South Africa.

Board committees

The board has established various subcommittees such as the Executive Management, Directors' Affairs, Audit, Remuneration and Human Resources, and Risk and Capital Management committees, each with an approved charter containing terms of reference for these committees. Further particulars on each of the committees are set out under the risk framework on page 32 and Annexure B on page 46.

Board/Director evaluation

The Directors' Affairs Committee meets at least twice a year to assess, amongst other things, the skills needs of the board. The committee feels satisfied that the board composition currently represents an adequate mix of skills and diverse backgrounds and that the board and the individuals comprising same, fulfil their respective functions adequately.

Dealing in securities

The board has approved a policy in accordance with the JSE Listings Requirements in terms of which directors, senior management and employees with access to management reports are required to obtain clearance to deal in the shares of the company prior to transacting. This policy also bars any trading in the shares of the company during a prohibited period; standard closed periods are year-end up to publication of year-end results and at half-year up to publication of interim results. Emphasis is placed on proper and correct declaration of interest by directors in compliance with relevant legislation, including their shareholding in the company. A register of directors' and senior managers' interests is circulated at every board meeting and signed by all members present.

Company Secretary's role

The Company Secretary administers corporate governance within the company, supports the Chairman in ensuring the effective functioning of the board and provides the board and directors individually with guidance on the proper discharging of their responsibilities. As such the Company Secretary:

- Informs the board of relevant legislation
- Makes information on the company available to board members
- Ensures compliance with statutory and regulatory matters
- Acts as primary point of contact with shareholders.

Reporting

The annual and interim financial results, as well as public regulatory disclosures, are submitted to the Audit Committee for consideration and recommendation to the board for final approval.

The Audit Committee's mandate includes the authority to determine whether or not the interim report should be subject to an independent review by the auditors.

The facts and assumptions used by the board to assess the going concern status of the Group at each year-end are recorded and submitted annually, in terms of the Banks Act (Act 94 of 1990), to the Registrar of Banks.

Audit Committee

The Audit Committee is chaired by an independent non-executive director with years of experience in banking. The Chairman of the board is not a member of the Audit Committee. The Audit Committee derives its authority and responsibilities from a board-approved charter with which it has complied during the year under review.

The external auditors attend all Audit Committee meetings. Committee meetings are structured in a manner that provides for the committee to meet with the external auditor without senior management being present.

The Audit Committee considered and expressed, at its meeting held on 27 January 2009, its satisfaction with the experience and expertise of the Financial Director of the Group.

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

Audit

Both the external auditors and Internal Audit department of the Group 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

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

External audit fees are set annually in advance by the Audit Committee in a manner which should not impact on the scope of the audit.

Non-audit services rendered by our 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 90 of this report, together with details of non-audit services provided and the fees paid in respect thereof.

Rotation of the engagement partner responsible for the audit happens 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 and reporting to the Chief Executive Officer. Apart from own employees it functions on a co-sourced basis with KPMG as external consultants (they replaced Deloitte after year-end) 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 attends all Audit and Risk and Capital Management Committee meetings and submits a report to each Audit Committee meeting.

Role and function of Internal Audit
The internal audit function focuses on adding value to the operations of the Group. To this end it emphasises:

- Adherence to company policies and procedures
- Prevention of theft and fraud
- Production of quality management information

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 drafted 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 functioning adequately. Increased emphasis is placed on development of centralised monitoring. In this process, any deficiency detected in governance is referred to management for action.

Risk management framework and responsibility

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 Group 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 and every employee of the Group.

The board has established a Risk and Capital Management Committee, chaired by an independent non-executive director. The committee has a formal charter in accordance with which it assists the board in reviewing the processes followed to identify risk and consider 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 risk
- Assets and Liability Committee (ALCO) – interest rate, market, liquidity, counterparty, currency and capital adequacy risk
- Operational Risk Committee (ORCO) – technology, compliance, legal, human resources, reputational, operational and regulatory risk.

RISK AND 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 inherent uncertainty related to expectations of the future, the potential for unexpected losses as well as losses expected to occur in the future not fully captured, accounted and provided for in terms of International Financial Reporting Standards (IFRS).

In addressing capital matters, the Group manages both the supply and demand factors that impact capital adequacy. Supply-side risk is the risk related to procuring appropriate capital resources at appropriate pricing and times to fund operations and meet the stipulated requirements of regulators 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 capital requirement.

Capital management

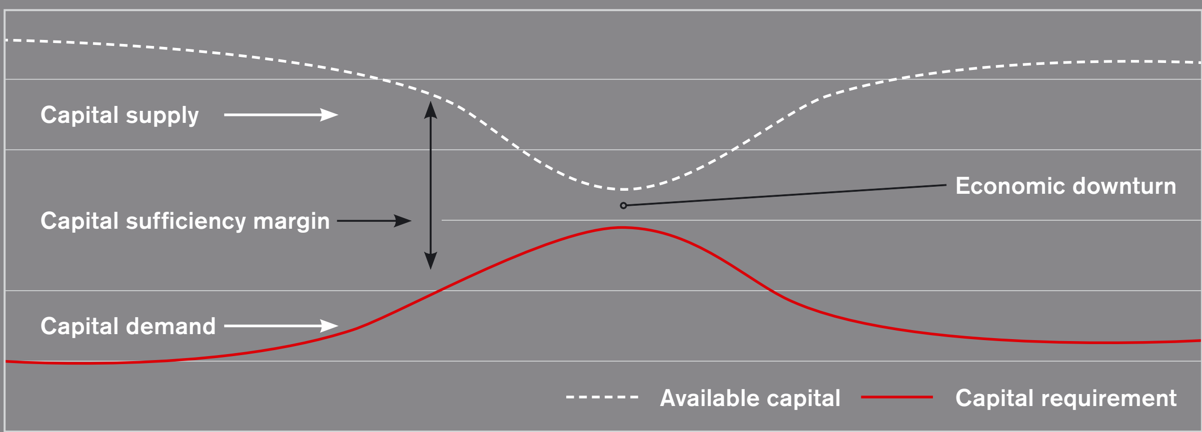
The Group's principal policies when managing capital are:

- 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.
- To ensure that the Group holds sufficient risk capital, including capital to be held as a buffer for unexpected losses to protect shareholders and depositors, to assure the sustainability of the Group through the business cycle. This view is consistent with the Group's long-term strategy of building value.

The above two principles counterbalance each other by aiming to maximise returns to shareholders, but not at the expense of sacrificing the requirements of other stakeholders.

This approach safeguards the long-term sustainability of the Group and its ability to continue as a going concern so that it can continue to provide satisfactory returns for all its stakeholders. Implicit in this responsible approach is compliance with the capital requirements of the Banks Act and Regulations thereto (Regulations) and the maintenance of a strong capital base to support the development and growth of the business.

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.

Capital risk governance

ALCO considers reports on the capital status of the Group 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 set out in the Regulations.

Capitec Internal Capital Adequacy Assessment Process (CICAAP)

In the achievement of its policy objectives the Group conducts a CICAAP on an ongoing basis, which drives the Group's position on capital management matters. The CICAAP addresses the management of capital or solvency risk and the risks arising from the procyclicality of the Group's specific business operations through the economic cycle.

The CICAAP reviews the historical, current and future capital positioning of the Group both from a regulatory and management or internal capital perspective. An essential element of the process includes forecasting the Group's 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, whilst 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.

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.

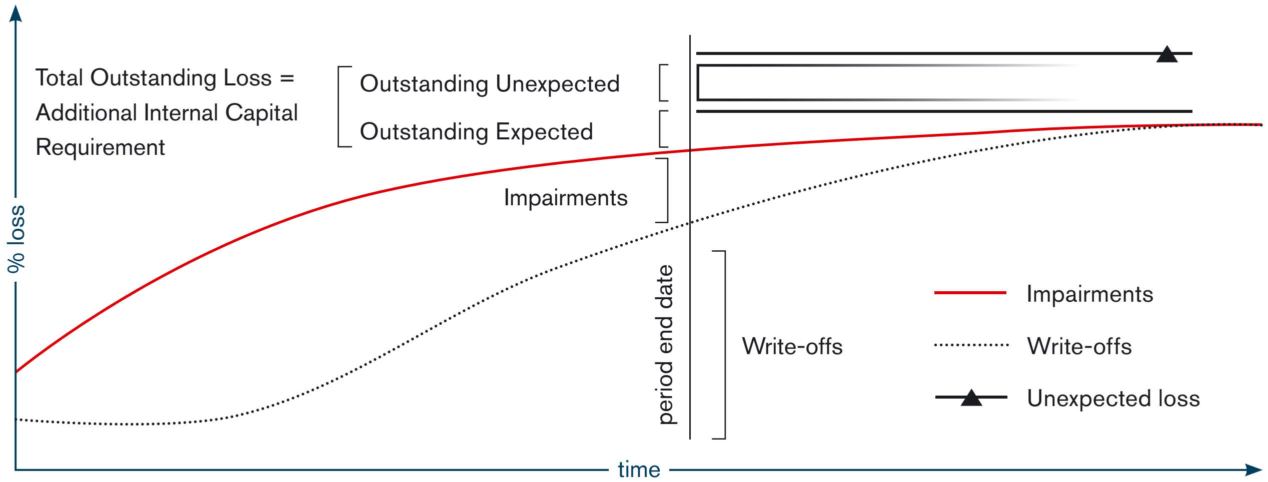
Broad participation by management

The CICAAP involves broad-based participation from all the key risk owners in the Group and it is subject to 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 Group's risk-weighted assets. There are various methods used for the calculation of risk-weighted assets in terms of the 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, whilst its calculation of operational risk was governed by the

CICAAP credit stress testing



In considering the capital requirement for credit risk, from a management perspective, the Group assesses what outstanding losses, i.e. losses not written off or provided for, exist. These are typically the future and unexpected losses not captured in terms of the IFRS framework.

To stress test the sufficiency of capital, statistical projections are made, on a product level, using expected loss percentages. These are adjusted using various factors that address a hypothetical future downturn in the economy, its impact on key arrears drivers and the likely impact of management actions to address any potential for deterioration in credit quality in the client base. These projections are designed to also capture the unexpected losses inherent in current and projected portfolio positions.

Alternative Standardised Approach (ASA) [2008 Basic Indicator Approach (BIA)]. In terms of the ASA, the Group operates a mono-line banking business, 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 that operational risk capital shall constitute at least 12% of the total regulatory capital requirement, calculated for all risks, in terms of the Regulations for minimum capital. Quantitative information on capital adequacy is presented below and in Note 30.6 of the Group's annual financial statements on page 97.

Developments

During the year under review we made a successful application to apply the ASA approach for operational risk which resulted in an improvement in the capital adequacy ratio from 36%, using the BIA at 29 February 2008, to 53% if the ASA had been used. Use of the approach became effective as of 1 April 2008.

Our current internal capital calculations indicate that we are more than sufficiently capitalised from a business and regulatory perspective. However, we can achieve greater regulatory capital efficiency by applying a more advanced approach to quantifying credit risk management in terms of the Basel II methodologies.

This approach is known as the Advanced Internal Ratings Based (AIRB) approach. We have begun investigations into this approach and its requirements and the composition of our current processes. The aim is to align these to support a future application for use of this approach in the capital calculation.

Restrictions on transfer of capital

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

Consolidation for the purposes of determining Group regulatory capital

Consolidation for regulatory purposes relates to the consolidation of Capitec. 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 consolidation entries giving rise to a difference between Group and bank capital relate 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.

Total regulatory capital requirement

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

	Group		Bank	
	09	08	09	08
	R'000	R'000	R'000	R'000
Total regulatory capital requirement	**807 062**	817 462	**796 098**	814 568
Credit risk	**628 669**	400 197	**628 404**	400 885
on balance sheet	**628 669**	400 197	**628 117**	400 634
off balance sheet	**-**	-	**287**	251
Operational risk	**94 908**	342 440	**95 532**	339 105
Equity risk	**3 676**	3 606	**3 676**	3 606
Other assets	**79 809**	71 219	**68 486**	70 972
Property and equipment	**60 034**	49 043	**51 569**	48 547
Intangible assets (software)	**6 917**	9 405	**6 892**	9 405
Other receivables	**12 858**	12 771	**10 025**	13 020

Risk management

The biggest risks facing the Group reside in credit extension, liquidity management, information technology and human resources. The emphasis thus tends to fall in these areas. However, to enhance shareowners' and other stakeholders' interests, all risks are mitigated to an acceptable level relative to the return produced by the activity concerned. This remains a central theme of the manner in which the Group conducts business. The company operates in a structured manner with defined processes and procedures enabling risk assessment within a controlled environment. Existing controls are assessed and, if necessary, adjusted. Thereafter reports are generated at regular intervals to enable monitoring of risk levels.

The Group's concept of day-to-day financial risk management extends beyond the IFRS accounting definitions of financial risks and includes the following: credit, liquidity, interest rate, equity risk in the banking book, currency, solvency or capital risk. The Group does not have market or counterparty risk, as understood in terms of the Regulations, as the Group does not conduct trading activities as part of its business strategy. Those risks not already addressed above are discussed:

Retail credit risk

Credit risk management governance

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
- Executive: Risk Management
- Financial Director
- Chief Credit Officer
- Executive: Operations
- Executive: Business Development
- Credit managers

The Credit Committee formally meets on a monthly basis to consider the activities of the Credit division and operations, to consider and debate results from new business, arrears and provisioning analysis, as well as regulatory compliance, and to set credit policy going forward.

Representation at the weekly executive credit meetings is broad-based and includes the majority of the Credit Committee members. These meetings are held every Monday afternoon and also include key senior members from the Financial Management division.

At the first meeting after month-end, issues such as the previous month-end arrears and events listed in the credit events log that had or would be expected to have an impact on arrears are discussed. These items are then considered in the evaluation of the month's impairments figure.

At every weekly meeting arrears events, arrears trends, concentration risk, training requirements, technical requirements, change management issues, scoring model shifts and new business referral trends are discussed, actions agreed, implemented and monitored.

Credit risk management structure

Credit assessment

Granting policy	: Application processing with Rules Engine (BAS)
Referrals policy	: Central Assessment Team (CAT)
Economic reviews	: External publications and internal analysis

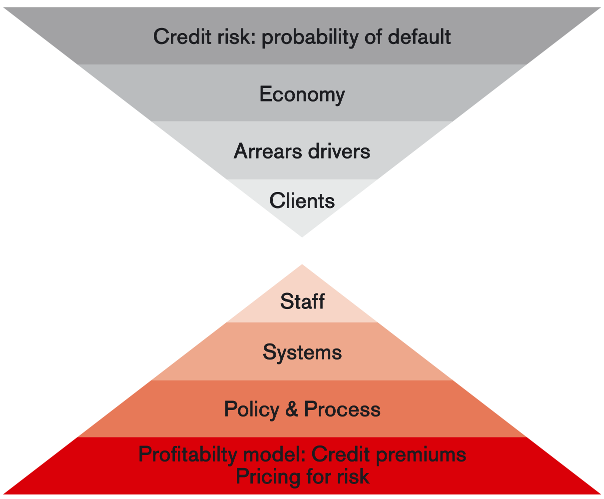
Credit monitoring

Arrears dashboards	: High arrears investigations
Paydate management	: Central & branch credit control
Follow-up policy	: 1 – 35 days in arrears
Soft collections policy	: 36 – 120 days in arrears

Capitec Collections Service (CSS)
Hand over to collecting agents (legal)
Debt review applications and under administrations
Deceased claims, sequestrations, etc.

Support
Decision analytics
Reporting and modelling/forecasting
Scoring and validations

Basic Credit Risk Management Framework



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.

Risk acceptance
New business – quality of new business
We utilise vintage graphs to measure the quality of credit screening as the trends indicate improvement or deterioration in each month's sales (a tranche).

We track the cumulative arrears figures at 90 days or handed-over status (deceased, under administration, etc.) for each tranche and divide that into the total original instalments payable (late delinquency).

We also track early delinquency trends 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).

Credit-granting criteria
We base our credit acceptance decision 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 in the automated bureau enquiry.

Ability to pay
The ability to pay is assessed after authentication and capturing of certain information (system-driven).

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

Process and policy changes
We have proactively made the required changes in our credit risk management model to maintain and improve levels of arrears against the backdrop of a deterioration in the economic climate and evident growth in volumes and exposure due to the rollout of our longer-term products (18-month and 24-month loans in October 2006 and 36-month loans in October 2007).

We have enhanced the areas of scoring, affordability assessments, paydate management, collections and the end-to-end automation of our processes.

Risk control

Credit Monitoring

Our 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.

Arrears percentages are reported daily and are evaluated on product, branch, industry, 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, soon to be the National Credit Register). These payment profiles form the basis of our 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 continuously to branches and operational management.
- *Pay date management*
  Pay dates for large employers are set centrally and pay dates are confirmed proactively.

Credit control

- *Collection method*
  Capitec utilises the regulated NAEDO system to collect instalments on the pay dates of clients who do not deposit their salaries with the bank. Collections are as mandated by our clients in terms of their loan contracts; collections are made from their external bank accounts or clients can deposit their salary with Capitec and collections are then made from their Capitec accounts under the same conditions as external NAEDO debits.
- *Daily collection processes*
  Branches proactively reconfirm the pay dates of employers. Success is evaluated on the morning of pay date. Follow-up on early-stage arrears is performed by the branches.
- *Late-stage collection*
  Late-stage collections are performed centrally from an internal credit call centre.

Loss recovery

Our 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 periodically. These agents, the handed-over-accounts database and recoveries are managed by our Capitec Collection Services (CCS) department.

The Specialised Services area within CCS has the legal skills, with the support of our 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 expected future receivable instalments, adjusted with a probability of default. 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 charge.

Analysis of regulatory credit exposure

Group	Average gross exposure[1]		Aggregate gross year-end exposure[2] [4]		Exposure post risk mitigation[2] [3] [4]		Risk weights[5]
	09	08	09	08	09	08	%
Asset class	R'000	R'000	R'000	R'000	R'000	R'000	
On balance sheet							
Corporate	**17 145**	16 193	**16 723**	16 582	**16 723**	16 582	**100**
Sovereign	**243 538**	131 831	**362 469**	139 249	**362 469**	139 249	**0**
Banks	**435 607**	125 458	**605 457**	46 284	**605 457**	46 284	**20**
Retail personal loans							
Performing	**2 788 960**	1 616 886	**2 878 741**	1 929 021	**2 878 741**	1 929 021	**75**
Retail personal loans							
Impaired	**376 900**	184 506	**325 811**	246 537	**325 811**	246 537	**100**
	3 862 149	2 074 874	**4 189 201**	2 377 673	**4 189 201**	2 377 673	
Off balance sheet							
Corporate guarantees	**-**	7 500	**-**	7 500	**-**	-	**100**
Total exposure	**3 862 149**	2 082 374	**4 189 201**	2 385 173	**4 189 201**	2 377 673	

Bank	Average gross exposure[1]		Aggregate gross year-end exposure[2] [4]		Exposure post risk mitigation[2] [3] [4]		Risk weights[5]
	09	08	09	08	09	08	%
Asset class	R'000	R'000	R'000	R'000	R'000	R'000	
On balance sheet							
Corporate	**37 770**	21 031	**63 424**	20 797	**63 424**	20 797	**100**
Sovereign	**243 538**	131 831	**362 469**	139 249	**362 469**	139 249	**0**
Banks	**434 900**	124 990	**605 129**	45 816	**605 129**	45 816	**20**
Retail personal loans							
Performing	**2 779 248**	1 614 114	**2 873 827**	1 926 248	**2 873 827**	1 926 248	**75**
Retail personal loans							
Impaired	**376 433**	184 157	**325 281**	246 188	**325 281**	246 188	**100**
	3 871 889	2 076 123	**4 230 130**	2 378 298	**4 230 130**	2 378 298	
Off balance sheet							
Corporate guarantees	**2 609**	9 507	**2 295**	9 507	**2 295**	1 883	**100**
Total exposure	**3 874 498**	2 085 630	**4 232 425**	2 387 805	**4 232 425**	2 380 305	

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.

(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 40) 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 23 and 30.6 in the annual financial statements, respectively, for information on movements on 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.

The following 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 whilst impaired exposures attract a standard 100% risk weight.

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
Long-term credit assessment	**A-1/P-1**	**A-2/P-2**	**A-3/P-3**	**Other**		
Banks and corporate entities	20	50	100	150		

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

All exposures are performing unless otherwise stated.

Sector	Group 09 R'000	Group 08 R'000	Bank 09 R'000	Bank 08 R'000
Finance intermediation (banks)	605 457	46 283	605 129	45 816
Wholesale and retail trade	8 512	14 168	9 446	17 617
Sovereign (central government and central bank)	362 469	139 249	362 469	139 249
Retail personal loans				
Performing	2 870 759	1 922 353	2 870 717	1 922 353
Impaired	325 281	246 538	325 281	246 188
Other	16 723	16 582	59 383	16 582
	4 189 201	2 385 173	4 232 425	2 387 805

Ageing of impaired advances

Sector	Group 09 R'000	Group 08 R'000	Bank 09 R'000	Bank 08 R'000
< 60 days	271 902	219 905	271 445	219 555
60 – 90 days	53 909	26 633	53 836	26 633
	325 811	246 538	325 281	246 188

Liquidity risk

The Group manages liquidity cautiously and conservatively. It operates an uncomplicated liquidity profile with a preference for long-term, fixed-rate funding. The Group has exposure to funding liquidity risk but not to market liquidity risk as the Group does not conduct a trading operation. The management of liquidity risk takes preference over the optimisation of interest rate risk.

Liquidity risk governance

Liquidity risk is managed by ALCO in terms of the Group risk framework. ALCO comprises broad representation by executive and senior management and meets monthly to consider the activities of the treasury desk which operates in terms of an approved treasury management policy and in line with approved limits. The Group also has the benefit that it has an uncomplicated structure – a single treasury desk with a direct reporting line to the Financial Director in line with the general Group ethos of flat reporting structures. A separate back-office structure is in place to control and monitor all treasury activities.

Cashback transactions at selected stores offer convenience and safety.

ALCO receives reports on a monthly basis of daily balances on ATMs and funds in transit with cash management service providers, teller cash and money market balances. Other reports include a 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 prepare reports on the number of transactions and rand value volumes transacted on the various payment mechanisms that the Group 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. We are not exposed to the uncertainty that accompanies the use of corporate call deposits as a funding mechanism, and our asset structure, whilst growing in term, is still relatively short-term in nature. The principal risk management policies governing the management of liquidity risk as defined in the Asset and Liability Management (ALM) policy are:

- Wholesale deposit funding is limited, in the main, to contractual maturities of two months or more.
- Utilisation of short-term retail deposit funding is limited to funding short-term assets. Surplus retail funding is maintained in call accounts with highly rated South African banks.
- Adequate liquid assets must be 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

The Group's 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 the in- and out-of-branch 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 Group's large wholesale depositors to understand their intentions regarding the rollover of wholesale deposits and negotiation of funding from time to time.

The treasury desk maintains portfolios of highly liquid assets that can be liquidated to meet unexpected variances in forecast requirements. In line with the Group's preference for long-term fixed-rate funding, the treasury actively pursues medium- and long-term funding opportunities to fund the budgeted growth in the activities of the Group. During the year under review the Group also launched a retail fixed deposit to further diversify funding sources whilst also improving the matching of funding maturities to assets.

Deposit management

Management take care in assessing the relative permanency and volume exposure of various funding sources, be they wholesale or retail. For fixed-term funding, efforts are directed towards managing rollover risk, whilst for demand savings deposits attention is focused on monitoring and managing the "core" or "stable" element within the retail demand savings deposit base.

We utilise statistical techniques to estimate this core having due regard for the fluctuations in day-to-day cash requirements, the related supporting historical data, as well as our future expectation of daily 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. Our internal definitions of core and fluctuating deposits are formally authorised by ALCO.

Interest rates are reviewed at least monthly to ensure that deposit rates remain competitive. Treasury management assesses concentration risk within the deposit portfolio and maintains a diversified funding base. Treasury management constantly reviews the efficient utilisation of cash resources and evaluates new liquidity initiatives to improve the liquidity profile of the Group.

Liquidity contingency planning

ALCO receives, on a monthly basis, a stress mismatch report which simulates a stress scenario based on the current asset and liability structure of the Group for the reporting month. The report also considers the available sources of stress funding to address any strain on the cash flows of the Group that may occur.

In addition, the Group also has a documented contingency funding plan (CFP) that specifies qualitative and quantitative measures that must be monitored to identify early warning indications of liquidity stress. The plan then provides management with a menu of possible actions to address potential liquidity threats. These actions cover necessary changes to 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 30.5 on page 95 of the annual financial statements for quantitative detail on the Group's static, contractual liquidity maturity gap analysis.

Interest rate risk

The Group currently has a conservative interest rate profile and is less interest sensitive than the general banking industry due to a lower correlation of Group asset and liability rates to repo.

The Group's equity and profit and loss have limited uncontrolled exposure to changes in floating and adjustable interest rates. Most of the Group's assets and liabilities have fixed or discretionary interest rates. Significant liabilities with floating or adjustable interest rates and long terms are swapped to fixed rates. The Group does not trade in fixed-income investments.

Interest rate risk governance

ALCO meets formally at least monthly to, inter alia, consider the sensitivity of the Group 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 rate repricing analysis.

The principal policy governing the management of interest rate risk is that management should avoid taking speculative or trading positions on the banking book. This requires that asset and liability repricing positions are matched as far as possible. ALCO reviews the matching of assets and liabilities on a monthly basis and evaluates the extent of the repricing gaps as a percentage of assets against specific risk limits.

The Group uses derivative instruments such as interest rate swaps, where possible and appropriate, to match interest rate sensitivity of liabilities to the asset profile. In a declining interest rate environment the Group's Treasury Management department may, on approval of the ALCO, swap out fixed rate exposure if the Group is of the view that the environment is entering a period of sustained low interest rates in order to minimise funding costs. ALCO also considers the rates and terms of longer-term funding arrangements in view of the medium- to long-term interest rate environment when negotiating pricing.

Although loan rates are fixed, the regulations to the 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 2.2% below the NCA ceilings. A reduction of 1% in the SARB repo rate reduces the ceiling by 2.2%.

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.

Regulatory sensitivity analysis

	09		08	
	R'000	%	R'000	%
			Sensitivity of equity	
200 basis points shift				
Increase	39 196	6.6	5 169	0.6
Decrease	(47 386)	8.0	(8 768)	1.0

The above equity sensitivity is calculated by modelling the impact on equity of parallel interest shifts of 200 bps in the yield curve, both up and down, on the balance sheet. The analysis is performed on a discounted, run-off basis in line with the requirements of the Banks Act. The increase in the equity sensitivity is primarily due to the growth in the long-term funding book.

Equity risk in the banking book

Capitec does not deal or maintain a proprietary position in equity investments. Equity investments in the Group at the 2009 year-end are strategic in nature, being a consequence of normal strategic operational transactions.

All unrealised gains and losses were included in the Group's income statement. There are no latent unrealised gains or losses on equities not recognised in the income statement and balance sheet.

The Group did not invest in listed equities other than shares in Capitec Bank Holdings Limited, purchased from time to time, by the banking subsidiary, for delivery to participants in the share incentive scheme.

Currency risk

All the Group's operations are within South Africa. The Group hedges its limited exposure to currency fluctuations which arise on the importation of capital equipment and technological support services. The Group also has some currency exposure on its strategic investments in Visa and MasterCard.

Hedging

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

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.

During the year, in line with ALM policy and particularly given the recent market turmoil and uncertainty, ALCO approved the use of interest rate swaps to hedge against upward movements in floating rate bond interest payments. Further information on interest rate hedging strategy is discussed under interest rate risk and in Note 30.3 on page 94 and Note 44 on page 107 to the annual financial statements.

Operational risk

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 is managed in terms of the Group's Operational Risk Framework (ORF), which is a subset of the risk management framework. The Operational Risk Committee (ORCO) has been established to oversee the operational risk profile of the Group. The role of the ORCO is to direct, govern and coordinate operational risk management processes in the Group, in accordance with an approved policy that sets out the expectations and responsibilities relating to operational risk management.

The heads of the Forensic, Internal Audit, Legal and Compliance and Operational Risk Management units are members of the ORCO and provide independent monitoring. ORCO also addresses the aspect of technological risk and both the Executive: Information Technology and the Head of Risk of the Information Technology division are members of the Operational Risk Committee.

Management of operational risk

The management of operational risk is inherent in the day-to-day execution of duties by management and always has been a central element of the management process.

A dedicated Operational Risk Manager is responsible for policy, 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 in the Group are risk assessment, loss data collection and the tracking of key 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

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

Fraud prevention

The Group has a zero-tolerance approach pertaining to fraud, theft and dishonesty. Information regarding any irregularities received from employees, management or our 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 throughout the year.

Various channels are available to employees and clients alike for disclosing malpractice in the workplace, including:

- Toll-free number
- Client Care Centre
- Website

Occupational health and safety

The Head of Physical Security oversees the drafting, implementation and maintenance of policies and procedures required to ensure safe working conditions at the Group's premises.

Business continuity and disaster recovery planning

The Group has a documented business continuity and disaster recovery plan (BCP) that documents processes to be followed should an extreme event occur. The BCP is tested periodically.

Operational Risk Management Framework

Compliance risk

The Group defines compliance risk as the risk that the procedures, implemented by Capitec to ensure compliance with relevant statutory, regulatory and supervisory requirements, are not adhered to and/or are inefficient and ineffective. The Group has a Compliance Management System (CMS).

To achieve successful implementation of the CMS, software was sourced to assist with the assessment of compliance risks, with the documentation of controls and with monitoring activities. Compliance champions were identified, appointed and trained to assist the Compliance Officer in addressing compliance in the Group.

Capitec has identified the Banks Act, Companies Act, Financial Intelligence Centre Act, National Payments System Act, Security Services Act and the National Credit Act as key aspects of legislation that should be focused on in terms of CMS activities. This focus achieves a balanced application of compliance activities relative to the ambit of the business of the Group.

Compliance risk is dealt with by the Operational Risk Committee. The compliance officer also submits a report to the Directors' Affairs Committee as required by the Banks Act.

Reputational risk

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

Reputational risk is managed on an ongoing basis through compliance with the disclosure and communication policies of the Group. Disclosure of Group information is made in our annual financial statements, via public statements by authorised spokespersons and through periodic disclosure of information on our website 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 Group's annual financial statements on pages 70 to 77.

Annexure A Attendance of Meetings by Directors

Committees	Board	Directors' Affairs	Audit	Remuneration and Human Resources	Risk and Capital Management
Number of meetings in the period of review	6	3	3	2	2
MS du P le Roux (Chairman)	6	3	3*	2	-
AP du Plessis	6	-	3*	-	2*
KA Hedderwick(1)	3	2	-	-	-
TD Mahloele(2)	2	1	-	-	-
MC Mehl	6	3	3	-	2
NS Mjoli-Mncube	5	2	3	-	-
PJ Mouton	6	3	-	-	2
CA Otto	6	3	3*	2	2
JG Solms	6	3	3	2	-
R Stassen	5	-	3*	2*	1*
JP van der Merwe	6	2	3	-	2

Notes:
(1) Resigned from the board effective 24 November 2008.
(2) Mr Mahloele did not attend meetings for part of the year due to exceptional circumstances and with the permission of the chairman of the board.
* Attendance by invitation

Annexure B Composition of Board and Board Committees

	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 company**	**The board consists of: Five independent non-executive directors MS du P le Roux (Chairman) KA Hedderwick (resigned 24 November 2008) MC Mehl (Prof) NS Mjoli-Mncube (Ms) JG Solms JP van der Merwe Three non-executive directors TD Mahloele PJ Mouton CA Otto Two executive directors R Stassen (CEO) AP du Plessis (CFO)**	**A 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) IC Abrahams* JE Carstens F Davids* AP du Plessis CG Fischer GM Fourie S Kumalo** G Lee** A Olivier C Oosthuizen CG van Schalkwyk L Venter	The majority of members, including at least three of the CEO, CFO, Exec: Risk Management and Exec: Operations	Three times a week and an extended meeting once a month

	Committees	Purpose	Composition	Quorum	Frequency of meetings
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	A quorum for any meeting will be 50% but not less than two members	Three times a year
5.	**Remuneration and Human Resources Committee********	**Directors' and senior executives' remuneration is discussed and determined. 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) KA Hedderwick (Resigned 24 November 2008) MS du P le Roux JG Solms Management attendees R Stassen L Venter**	**Majority of members**	**Twice a year**
6.	Risk and Capital Management Committee****	Identification of all risks and assists the board in reviewing the risk management systems and processes and the significant risk facing the Group	MC Mehl (Chairman) PJ Mouton CA Otto JP van der Merwe Management attendees J-HC de Beer J Delport (Operational Risk) AP du Plessis J Gourrah R Stassen CG van Schalkwyk	Majority of members	Twice a year (from March 2009 the number of meetings increases to four times a year)

* Appointed on an annual rotation basis to the Executive Management Committee from 15 February 2008 to 14 February 2009

** Appointed on an annual rotation basis to the Executive Management Committee from 15 February 2009

*** Reconstituted in March 2008

**** Reconstituted in April 2008

Sustainability Review

The Capitec philosophy is to build a sustainable business. Our reporting on sustainability is thus interwoven into the entire annual report. The following sustainability report must therefore be read in conjunction with the Chairman's letter to shareholders and the report on corporate governance and risk management to get a clear overview of the sustainable nature of our business.

Capitec participated successfully in the JSE SRI (Socially Responsible Investment) index in 2008. Through its successful participation Capitec gained recognition for its continued endeavours to do business in a manner that is beneficial to all stakeholders, including shareholders, employees, clients, suppliers, the communities it operates in as well as the environment. This confirms the undertaking of the Capitec Group of companies to maintain healthy governance principles and practices, an ethical and responsible approach towards society and a business operation that is environmentally sensitive and conscious.

Stakeholder engagement

At Capitec we recognise that our continued prosperity revolves around stakeholder involvement. We therefore strive persistently to engage our stakeholders, and through transparency, seek to build trust and superior relationships with these parties.

Employees

Leadership development

A development programme was introduced in 2008 whereby two employees are appointed to the Executive Management Committee on an annually rotating basis. Ian Abrahams (Head: Credit Monitoring) and Faick Davids (Head: Distribution Systems and Procedures) were the first two employees appointed to the committee. They were succeeded by Sbusiso Kumalo (Brand Manager) and Graham Lee (Head: Management Information Systems).

Employee wellbeing: Life-threatening diseases

Life-threatening diseases such as HIV/Aids and tuberculosis have a severe impact on our industry and communities. A life-threatening diseases policy has been established to provide procedures for managing employees with life-threatening diseases or long-term illnesses in a manner that would ensure fair and non-discriminatory treatment of these employees, while at the same time safeguarding Capitec's operational needs and business interests as well as the interests of other employees. We are committed to empowering our employees to prevent the spread of life-threatening diseases through education in our internal newsletter.

Employee Assistance Programme

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 – available to all permanent employees.

The EAP offers access to information and life management counselling for:

- Stress – work or personal
- Finances – money and debt management and retirement planning
- Legal matters – maintenance, child custody, divorce law and consumer rights
- Relationships – family, work, partners and friends
- Family matters – pre-natal care, childcare, parenting, adoption, care of the elderly, education, state benefits and allowances
- Health issues – support for chronic illness
- Work – stress, career matters, maternity, harassment or managing others
- HIV/Aids – issues related to HIV/Aids, pre- and post-test counselling.

Ombudsman for Banking Services

The Ombudsman for Banking Services presented a series of independent awards to affiliated banks in recognition of their performance in handling and resolving customer complaints in November 2008. Ronel Prinsloo (Designated Official: Banking Ombudsman) was rewarded for her contribution to dispute resolution within Capitec Bank and the bank received an award in recognition of banks that excelled at dispute resolution during the year.

Empowering employees

In 2008 we employed 1 156 new employees of whom 90% were employment equity appointments.

An Employment Equity Forum was established in 2006. All levels of employees within the company are represented at this Forum. Forum meetings took place in the Western Cape in 2006, 2007 and 2008.

Skills development

All new recruits undergo five weeks of training of which two weeks are spent at the Stellenbosch training centre. During the training course, called Firm Foundations, new employees are introduced to and trained in the Capitec banking offer. In this financial year R9.6 million was allocated to training at Firm Foundations.

Capitec Bank Bursary Scheme

Employees are offered the opportunity to obtain quality tuition. Financial support is granted in the form of bursaries, paid from the Capitec Bank Bursary Scheme, to our permanent employees who want to study part-time for secondary or tertiary qualifications. This past year we allocated bursaries to the value of R422 969. 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.

Communication

Capitec's Communication department plays an important role in communicating all company and strategic initiatives.

C.Hive is a weekly informal electronic newsletter that gives employees frequent updates on current operational news and events at Capitec.

CFacts is an electronic communiqué that communicates factual and newsworthy information to all employees via email. This includes organisational facts, departmental news and policy or procedure changes and is distributed on an ad hoc basis as and when news becomes available.

CInside is a glossy 16-page magazine published bimonthly and covers developmental issues, performance and recognition, social issues, image, style and culture and departmental or branch news.

Employee share ownership schemes

The Capitec Group has established two employee schemes to augment employee share ownership in Capitec. 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. Employees hold 0.2% interest in Capitec through this scheme. A total of 67.3% of employees participating in this scheme are black.

In February 2007, Capitec issued a 12.2% interest at the time in the issued share capital of Capitec 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 will benefit from the growth of Capitec through increased share value.

Clients

Capitec Bank focuses relentlessly on differentiating itself in the eyes of the client by using innovative technology that delivers the most accessible, lowest-cost banking in the market. This accessibility is underpinned by simplified banking processes and procedures which require no completion of forms by clients for transactions. The bank system is unique in that it is also geared to deliver realtime solutions to client needs on a technology platform that is open-ended. This platform allows clients to define product parameters and features which suit them rather than conform to predefined features structured by the bank.

Clients want to feel in control of their financial lives. Capitec Bank delivers the easiest and most simplified product use and pricing available which empowers clients to make the best choices, while knowing exactly what costs they are committing to. This is enhanced by a service platform that simplifies decision-making at the front-end. It enables consultants to focus on explaining options to clients rather than managing administrative procedures.

The bank's focus will remain on continuous innovation of the banking processes to make sure that Capitec Bank remains a unique deliverer of banking products and services.

Investors

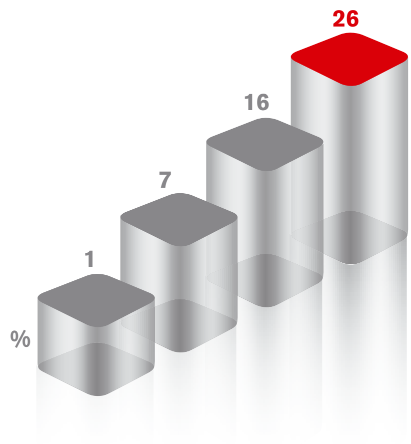
Equity ownership and control

Major shareholders of Capitec are:

- PSG Group – 34.5%
- Limietberg Beleggings – 14.2%
- Coral Lagoon Investments – 12.1%.

PSG Group is a financial services company listed on the JSE and is presented on the Capitec board by Chris Otto and Piet Mouton. Limietberg Beleggings is controlled by Michiel le Roux, Chairman of the Capitec board. Coral Lagoon Investments is controlled by a BEE consortium consisting of a number of black individuals, companies and trusts and is represented on the Capitec board by Tshepo Mahloele.

Control	09 %	08 %
Black directors at board level	30	27
Black women at board level	10	9
Black people at senior management level	13	11



Shareholder groupings

1% foreign investors |

7% fund managers |

16% BEE groups and individuals |

26% board and management |

Investor communication

Annual and interim results are published on the JSE SENS and in the media and the relevant financial statements are distributed to all shareholders within the regulatory time frame.

The capital adequacy of Capitec Bank is reported, as required by Regulation 43 of the Banks Act, to the public on a quarterly basis.

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.

Issued capital

	Ordinary shares	Preference shares	Total shares
Shares in issue at 28 February 2009	**82 797 912**	1 684 211	**84 482 123**
Shares in issue at 29 February 2008	**81 928 412**	1 684 211	**83 612 623**

Performance on the JSE

	09 12 months ended 28 February 2009	08 12 months ended 29 February 2008
Market price		
High (cents)	**4 000 (7 April 2008)**	5 649 (13 November 2007)
Low (cents)	**2 550 (3 July 2008)**	3 000 (22 January 2008)
Closing price (cents)	**3 001**	3 900
Market capitalisation (Rm)	**2 485**	3 195

Dividends – ordinary shares

Dividends in respect of:	09 12 months ended 28 February 2009	08 12 months ended 29 February 2008	07 12 months ended 28 February 2007
Final (cents)	**110**	75	**60**
Payment date	**15-Jun-09**	17-Jun-08	**18-Jun-07**
Interim (cents)	**30**	25	**20**
Payment date	**1-Dec-08**	3-Dec-07	**4-Dec-06**
Total dividend (cents)	**140**	100	**80**

Dividends – preference shares

Dividends in respect of:	09 12 months ended 28 February 2009	08 12 months ended 29 February 2008	07 12 months ended 28 February 2007
Year-end (cents)	**564.55**	527.77	**452.26**
Payment date	**23 March 2009***	25 March 2008*	**26 March 2007***
Half-year (cents)	**571.13**	482.26	**-**
Payment date	**22 September 2008***	25 September 2007*	**-**
Total dividend (cents)	**1 135.68**	1 010.03	**452.26**

Note:
* Preference share dividents are paid at the earliest date possible in terms of the JSE Listings Requirements.

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.

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 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 all 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 200 shareholders attending this annual meeting. The event is used to present shareholders with an update on the activities of Capitec and its performance over the past year.

Regulators

It is important for Capitec to ensure healthy relations with regulators as they play an integral role in the continued sustainability of the financial services industry and it is a priority to ensure compliance with their rules and regulations. The Compliance department of Capitec facilitates compliance with South African legislation and the regulations enforced by its various regulators.

All banks are closely monitored by the Bank Supervision department of the SARB as the systemic health of the banking industry is fundamental for economic sustainability. Regular interaction with the SARB is appreciated and ensures open dialogue with the Bank Supervision team.

National Payment System (NPS) department (NPS Act)
The SARB oversees the safety and soundness of the national payment system and implements risk-reduction measures in the payment system to reduce systemic risk. The NPS Act and SARB support the principle of self-regulation in the NPS; as such the Payment Association of South Africa (PASA) was recognised by SARB as the official payment system management body. Capitec Bank is a member of PASA and actively participates in the payment environment and strives to ensure compliance with the industry rules in the provision of our payment services. The bank has regular interaction with the NPS Department and PASA to discuss matters relating to payments.

National Credit Regulator (NCR) (National Credit Act)
The NCR is responsible for the regulation of the South African credit industry. Capitec Group complies with the provisions of the NCA to ensure that it can provide affordable credit to the market in a responsible manner. No penalties or regulatory sanctions were issued against Capitec Group for the year under review.

Financial Intelligence Centre (FIC)
– Financial Intelligence Centre Act (FICA)
Capitec Bank is an accountable institution and is serious about the fight against crime, money laundering and terror financing to ensure it does its part to protect the integrity and stability of South Africa's financial system, develop economically and to be a responsible global citizen. No penalties or administrative actions were directed against Capitec Bank for the year under review

Broad-based Black Economic Empowerment Act
The Group has subscribed to the Financial Sector Charter since the inception of the latter. However, due to the unresolved impasse in having same gazetted, we have also had to take cognisance of the Codes of Good Practice issued under the Broad-based Black Economic Empowerment Act, No. 53 of 2003.

In terms of the latter, Capitec Bank is a level-five contributor at a BEE procurement recognition level of 80%. Due to differences in the scorecards, we have achieved a somewhat lesser rating as a level-eight contributor under the Financial Sector Charter.

JSE Limited
Capitec and its board have complied with the requirements of the JSE Listings Requirements for the year under review.

Policies and procedures
A Policies and Procedures department (Polproc) ensures that company policies and procedures are established as required, approved, implemented and communicated to employees in accordance with a board-approved policy framework. The board is kept updated, on a periodic basis, on the status of policies that are required by the Group to achieve its operational and financial objectives, to comply with applicable laws and to conform to the acceptable standards of corporate governance and best practice.

Suppliers

We have measured our BEE spend for the financial year ended 28 February 2009 on the Broad-based Black Economic Empowerment (BBBEE) approach.

We have implemented a BEE policy in 2004 in terms of which all suppliers must state their shareholding in terms of BEE, or supply us with a formal rating. The policy expects procurement spend over preset minimum ranges to be from qualifying BEE suppliers, except for procurement in terms of a global policy for technical (specifically non-commercial) reasons that must be pre-approved by the Executive Management Committee.

All suppliers' BBBEE rating is recorded on the procurement system and is updated annually. The procurement spend per supplier is multiplied by a contributing factor according to the BBBEE formula. Suppliers who cannot supply us with BEE information are multiplied by 0%. In terms of this system, our total rated procurement spend is 78.6%.

Communities

We believe that we have a responsibility to assist in improving the lives of individuals and communities in South Africa through our work. Our Corporate Social Investment (CSI) strategy is directed toward sustainable programmes that help to drive financial skills and education.

CSI programme objectives
The Capitec offer gives value to the communities that we serve. By extending credit in a responsible manner which may contribute to the relief of poverty, we strive to contribute in the long-term to relieving pressure and create sustainability within these communities. This is augmented

by improving access to banking facilities through the positioning of our branches and banking facilities in the areas where the majority of our client base operates.

CSI focus areas

In allocating resources to the outlined focus areas, we are guided by the need to:

- Focus on communities within which we operate
- Focus on investments in disadvantaged communities
- Support programmes that promote development.

Programme focus

The focus area is financial education and literacy.

The remainder of the CSI budget is allocated to smaller social investments that fall within one of the following sectors:

- Job creation
- Skills training
- Disadvantaged communities within South Africa
- Children, young adults and the aged as main beneficiaries.

Criteria for selecting projects

Organisations are considered if they can show that their efforts have a long-term impact and affect significant numbers of people, regardless of race, national origin, gender, age, disability, religious beliefs or income levels. Financial and in-kind requests from organisations and institutions are considered subject to meeting the following criteria:

- Have non-profit tax exemption status under Internal Revenue Service code 501(c)(3)
- Have a responsible board of directors serving without compensation
- Show financial stability as evidenced by annual financial statements
- Employ ethical methods of publicity, promotion and solicitation of funds
- Raise funds without payment of commissions, street solicitations or mailing of unordered tickets
- Operate from a detailed annual budget
- Request funds for programmes or operations with a minimal portion applied to overhead
- Use in-kind donation to benefit organisational members or constituents.

Our CSI strategy does not consider funding or in-kind donations for the following:

- Sponsorship of professional athletic or amateur sports teams or individuals
- Single events such as walk-a-thons, fundraisers, workshops, seminars, golf days, etc.
- Religious causes
- Political parties, candidates or issues
- Organisations that are in any way exclusive
- Trips, tours
- Independent film/video productions
- Requests from individuals.

CSI budget

The major part of funding is allocated to selected identified projects with the balance allocated to smaller projects. The budget runs from 1 March to the end of February each year.

Projects in 2009

We are committed to empowering individuals through our CSI programme which is aimed at financial skills training and job creation. The purpose of these interventions is to educate individuals – especially learners, parents, teachers, trainers, employees, entrepreneurs and school leavers – in basic financial skills.

Consumer education

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

There are also Financial Skills Workshops which are presented free of charge by our Employer Sales team as part of Capitec Bank's commitment to the market it serves. This includes schools and places of employment, and teaches consumers the basic skills needed to become financially empowered.

We also partnered with various consumer publications such as Daily Sun, The Teacher, and Isolezwe to run consumer editorials highlighting financial skills topics from the Financial Skills curriculum.

Support of Teach Children to Save Day

The Banking Association of South Africa launched the Teach Children to Save Day (TCTS), endorsed by the National Department for Education. This pilot programme coincided with Savings Month in South Africa. The prime partner of the Banking Association for the rollout of this programme is The South African Saving Institute.

Through TCTS, the banking industry committed to teach young people the lifelong habit of saving. On 25 July 2008 volunteer bankers visited identified schools across the country to teach a standardised one-hour savings lesson to Grades 4 to 7. The lessons focused on why saving is important, how to design a budget, recognise needs and wants and how interest makes money grow.

We support numerous non-profit organisations with education or community upliftment as objectives. The following organisations benefited from a long-term partnership with the Group through our CSI funding.

Stellenbosch University Legal Aid Clinic

The Legal Aid Clinic's Debt Rehabilitation and Counselling Service provides debt counselling and legal advice free of charge to people who cannot afford these services.

The Group and the Legal Aid Clinic are both committed to uplifting the community by improving basic financial skills as research has identified a need for better financial planning and control in most South African households.

We also supported the following non-profit organisations (NPOs)

Paul Roos Academy

Groups of children from disadvantaged backgrounds attend the Paul Roos Academy for teaching and coaching. By supporting the Academy we believe that we make a meaningful contribution towards the development of children from the broader community.

Carel du Toit Centre for Hearing-impaired Children

The Carel du Toit Centre cares for deaf English, Afrikaans and Xhosa children in their mother tongue and, for the past 34 years, has successfully placed 90% hearing-impaired pre-schoolers in normal mainstream schools. Satellite centres have been established in Pretoria, East London and Bloemfontein.

Kos vir Skole

Kos vir Skole project feeds approximately 24 000 children from needy and disadvantaged homes, where parents are not able to provide for the daily physical needs of the children. They are active in the Western Cape, Eastern Cape and the North West province.

Employee involvement in CSI projects

Casual Day

The Group employees support the annual Casual Day enthusiastically. Employees dress up according to the Casual Day theme and enter the internal Casual Day competition in a drive to raise funds for people with disabilities. This initiative is very well supported and even our executive team joins in the drive to raise awareness and funds for people debilitated by physical or mental disabilities.

Environment

The Capitec business operations have a very limited impact on the environment. The business strategy of Capitec Bank, the main operating company in the Capitec Group, is to focus on providing individuals with accessible, affordable, simplified and personal service. Our lending and investment strategies are thus centred on individuals and therefore Capitec funds are not used, directly or indirectly, in a way that materially impacts on the environment.

Capitec Bank does not own the properties in which its branches are situated. All of these properties, including currently the premises where our head office and regional offices are located, are rented. Land has, however, recently been acquired to develop a head office for Capitec Bank in the future. This property is in an unpreserved area that is already much disturbed by developments and surrounding farmland, thus will not significantly disturb any natural environment. Construction of the property will be aligned with environmentally friendly construction processes to the extent that it does make sustainable business sense.

Our business is to the greater extent centrally managed due to our highly modern banking platform. For this reason, our branches do not have back-offices; on average, seven employees are employed per branch resulting in reduced floor space required to service clients, and also reduced demand for air conditioning, lighting and other energy-consuming functions. Due to the advanced level of technology used by the bank, paper usage is limited. Branch and helpdesk employees generally make use of public transport to commute to work. All those reduce our carbon footprint.

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 highlights the following:

- Reduction of paper usage by implementing and promoting efficient technology and practices
- Recycling of paper and signage
- Car-pooling when travelling for work purposes as enforced by the travel and accommodation policy
- Location of branches close to public transport routes, thereby promoting the use of public transport among employees. This, combined with our longer banking hours, also reduces the amount of travel that clients have to do to perform their banking activities.
- Technology, such as virtualisation to reduce the need for electricity and to reduce the carbon emissions produced by computer facilities
- Use of energy-saving components such as energy-efficient light fittings and globes, centrally controlled air conditioners and air curtains to improve the efficiency of air conditioners
- Eco-friendly cleaning products
- Reporting of company usage of natural resources such as paper, water, electricity and fuel to the management committee and the board

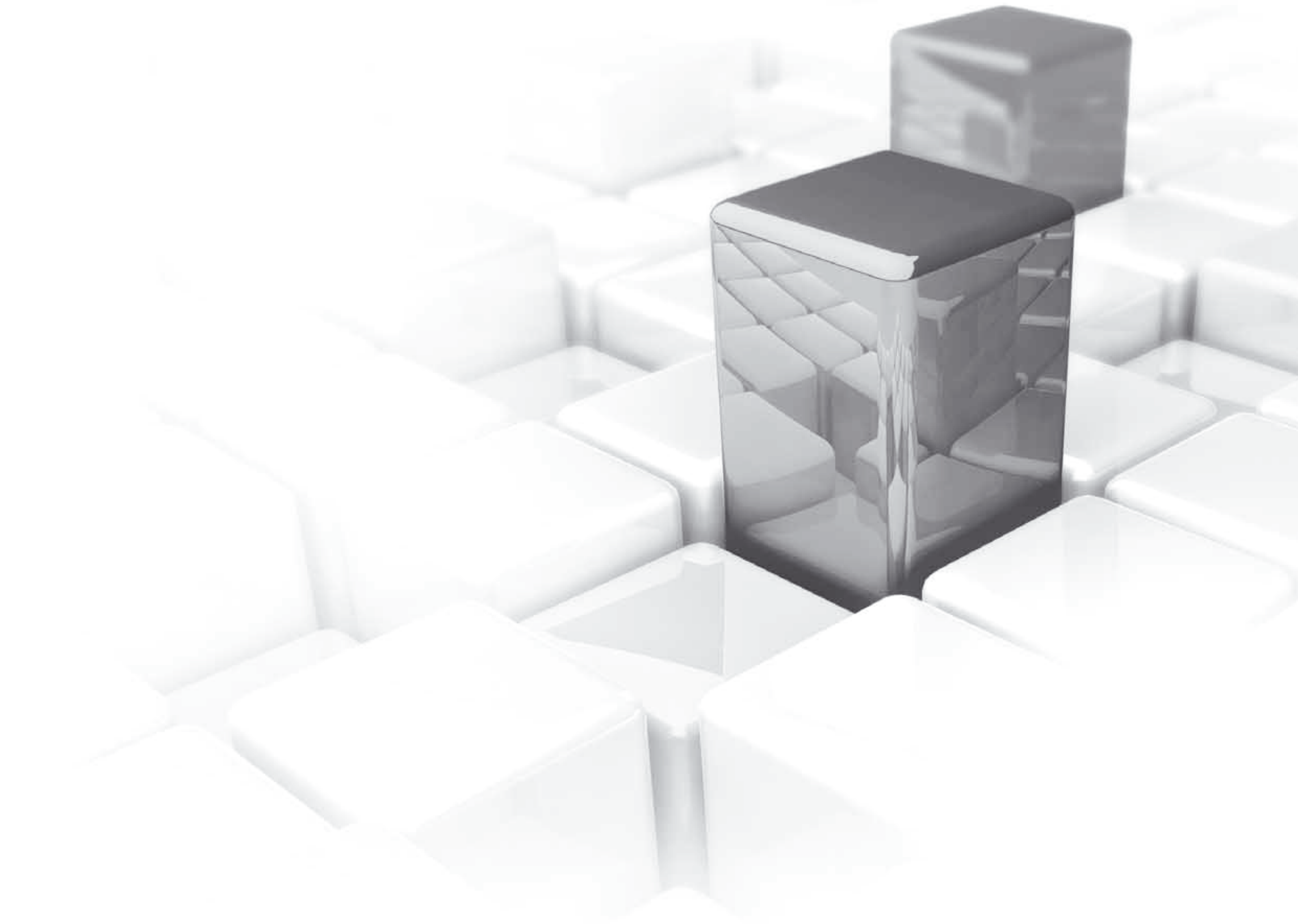
Use of scarce resources such as electricity, water, paper and fuel is reported to management on a monthly basis and to each board meeting. Used paper is recycled quite successfully.

	09	08
Number of branches	**363**	331
Number of clients	**1 835 487**	1 371 176
Number of employees	**3 414**	2 800
Paper usage (reams*)	**81 016**	84 804
Electricity usage (R)	**7 816 834**	5 770 702
Fuel (L)	**475 757**	425 718

Notes: * A ream equals 500 pages.

The paper that is being recycled includes all types of paper-based material brought into the company, be that office paper, magazines, newspapers, books, etc.

Employees are required to dump all disposable and recyclable paper in special bins provided for this purpose. Shredded paper is similarly recycled.



Annual Financial Statements

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 60 to 108 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 59.

The financial statements were approved by the Board of Directors on 31 March 2009 and are signed on its behalf by:

Michiel le Roux
Chairman

Riaan Stassen
Chief Executive Officer

Certificate by the Company Secretary

"I hereby certify, in terms of section 268G of the Companies Act, No. 61 of 1973, that to the best of my knowledge, for the year ended 28 February 2009, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date."

Christian van Schalkwyk
Stellenbosch
31 March 2009

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 2009, and the consolidated and separate income statements, the consolidated and separate statements of changes in equity and consolidated and separate cash flow statements 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 60 to 108.

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 2009, 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: HD Nel
Registered Auditor
Cape Town
31 March 2009

Directors' Report

Year ended 28 February 2009

The directors present their annual report, which forms part of the audited financial statements of the company, for the year ended 28 February 2009.

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 changes in equity, cash flow statements and notes thereto. The Group's earnings attributable to shareholders amounted to R319.3 million (2008: R229.1 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.

2009

	DPS	Rands	Declared	LDT	Date Paid
Ordinary dividend					
Interim	30.0	24 839 374	01 Oct 08	21 Nov 08	01 Dec 08
Final*	110.0	91 077 703	31 Mar 09	05 June 09	15 June 09
Preference dividend					
Interim	571.13	9 619 034	29 Aug 08	12 Sept 08	22 Sept 08
Final	564.55	9 508 294	27 Feb 09	13 March 09	23 March 09

2008

	DPS	Rands	Declared	LDT	Date Paid
Ordinary dividend					
Interim	25.0	20 482 103	27 Sept 07	23 Nov 07	03 Dec 07
Final	75.0	62 098 434	01 April 08	07 July 08	17 Jul 08
Preference dividend					
Interim	482.26	8 122 276	31 Aug 07	14 Sept 07	25 Sept 07
Final	527.77	8 888 760	29 Feb 08	13 Mar 08	25 Mar 08

*An ordinary dividend of 110 cents per share was declared by the directors on 31 March 2009 (2008: 75 cents). No accrual was made for this dividend, which is in line with accounting practice.

4. SHARE CAPITAL

Ordinary shares: 869 500 shares were issued this financial year and share issue costs of R38 000 was allocated against share premium. In the previous year there were no changes in share capital.

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

Settlement of share options

The Group settled 1 004 375 options (2008: 1 769 744 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 in the annual report.

6. GROUP DETAILS

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

Registered office: 10 Quantum Street, Techno Park, Stellenbosch, 7600

Directors' Report

Year ended 28 February 2009

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 18 744 200 (2008: 17 886 900) Capitec Bank Holdings Limited shares, equivalent to 22.65%, (2008: 21.83%) of the issued share capital of Capitec Bank Holdings Limited. The individual interests of the directors were as follows:

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

2008

Number of shares held

	Beneficial		Non-beneficial		Total	
	Direct	Indirect**	Direct	Indirect**	Shares	%
AP du Plessis*	-	900 000	-	-	900 000	1.10
MS du P le Roux (Chairman)	-	-	-	12 443 402	12 443 402	15.19
KA Hedderwick[2]	-	-	-	-	-	0.00
TD Mahloele[3]	-	-	-	1 592 500	1 592 500	1.94
MC Mehl	106 713	-	-	-	106 713	0.13
NS Mjoli-Mncube	100 000	-	-	-	100 000	1.12
PJ Mouton[4]	-	-	-	-	-	0.00
CA Otto	967	-	-	459 539	460 506	0.56
JG Solms	33 779	-	-	-	33 779	0.04
R Stassen*	200 000	-	-	2 050 000	2 250 000	2.75
JP van der Merwe[5]	-	-	-	-	-	0.00
	441 459	900 000	-	16 545 441	17 886 900	21.83

*Executive

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

(1) Resigned on 24/11/2008

(2) Appointed on 10/12/2007

(3) Appointed on 10/04/2007

(4) Appointed on 05/10/2007

(5) Appointed on 27/09/2007

Directors' Report

Year ended 28 February 2009

7.2 At year-end the directors were participants in the Capitec Bank Holdings Limited share incentive scheme in respect of 1 466 000 (2008: 1 053 500) Capitec Bank Holdings Limited share options.

The directors were also participants in the Capitec Bank Holdings Limited share incentive scheme in respect of share appreciation rights of 500 000 (2008: Nil) as follows:

2009

				Opening balance	(Options exercised)/ Options granted			Closing balance
	Maturity date	Issue date	Strike price	Number of share options	Number of share options	Market price	Exercise date	Number of share options
Directors			R			R		
AP du Plessis								
(direct beneficial)	20 May 08	20 May 05	14.05	17 500	(17 500)	31.45	20 May 08	
	12 Apr 09	12 Apr 06	30.73	13 125	-			13 125
	20 May 09	20 May 05	14.05	17 500	-			17 500
	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
	23 Apr 12	21 Apr 08	35.54	-	31 250			31 250
	26 Apr 12	26 Apr 07	35.82	19 000	-			19 000
	22 Apr 13	21 Apr 08	35.54	-	31 250			31 250
	26 Apr 13	26 Apr 07	35.82	19 000	-			19 000
	21 Apr 14	21 Apr 08	35.54	-	31 250			31 250
(indirect beneficial)	29 Apr 08	29 Apr 04	5.73	25 000	(25 000)	31.45	20 May 08	-
	29 Apr 09	29 Apr 04	5.73	25 000	-			25 000
	29 Apr 10	29 Apr 04	5.73	25 000	-			25 000
				273 500	82 500			356 000
R Stassen								
(indirect non-beneficial)	29 Apr 08	29 Apr 04	5.73	100 000	(100 000)	30.00	2 Jun 08	-
(direct beneficial)	20 May 08	20 May 05	14.05	70 000	(70 000)	30.00	2 Jun 08	-
	12 Apr 09	12 Apr 06	30.73	50 000	-			50 000
	29 Apr 09	29 Apr 04	5.73	100 000	-			100 000
	20 May 09	20 May 05	14.05	70 000	-			70 000
	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
	23 Apr 12	21 Apr 08	35.54	-	125 000			125 000
	22 Apr 13	21 Apr 08	35.54	-	125 000			125 000
	21 Apr 14	21 Apr 08	35.54	-	125 000			125 000
				780 000	330 000			1 110 000
Total				1 053 500	412 500			1 466 000

Share Appreciation Rights (SAR)

	Maturity date	Issue date	SAR exercise price	Opening balance Total	(SAR exercised)/ SAR granted Number of SAR	Market price	Exercise date	Closing balance Number of SAR
Directors			R			R		
AP du Plessis	21 Apr 11	21 Apr 08	35.54	-	31 250			31 250
(direct beneficial)	23 Apr 12	21 Apr 08	35.54	-	31 250			31 250
	22 Apr 13	21 Apr 08	35.54	-	31 250			31 250
	21 Apr 14	21 Apr 08	35.54	-	31 250			31 250
					125 000			125 000
R Stassen	21 Apr 11	21 Apr 08	35.54	-	125 000			125 000
(direct beneficial)	23 Apr 12	21 Apr 08	35.54	-	125 000			125 000
	22 Apr 13	21 Apr 08	35.54	-	125 000			125 000
	21 Apr 14	21 Apr 08	35.54	-	125 000			125 000
					500 000			500 000

7.3 At year-end, the directors, in aggregate, were indirectly non-beneficially interested in 21 000 (2008: 40 899) Capitec Bank Holdings Limited non-redeemable, non-cumulative, non-participating preference shares, equivalent to 1.25% (2008: 2.43%) of the issued preference share capital of Capitec Bank Holdings Limited.

The individual interest of the directors were as follows:

	2009 Number of shares		2008 Number of shares	
Non-beneficial indirect		%		%
JG Solms	-	0.0	19 899	1.18
R Stassen	21 000	1.25	21 000	1.25
	21 000	1.25	40 899	2.43

Directors' Report

Year ended 28 February 2009

7.4 The directors' remuneration in respect of the financial year ended 28 February 2009 was as follows:

2009	Salaries	Fringe benefits	Bonuses	Fees	Total
	R'000	R'000	R'000	R'000	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

The total share option expense relating to directors amounts to R2 366 931 (2008: R1 527 855) and share appreciation rights amounted to R578 000.

2008	Salaries	Fringe benefits	Bonuses	Fees	Total
	R'000	R'000	R'000	R'000	R'000
Executive					
AP du Plessis	2 285	153	477	-	2 915
R Stassen	2 280	249	2 431	-	4 960
Non-executive					
MS du P le Roux (Chairman)	-	-	-	563	563
KA Hedderwick	-	-	-	17	17
TD Mahloele	-	-	-	68	68
MC Mehl	-	-	-	150	150
NS Mjoli-Mncube	-	-	-	100	100
JF Mouton	-	-	-	88	88
PJ Mouton	-	-	-	30	30
CA Otto	-	-	-	175	175
JG Solms	-	-	-	150	150
JP van der Merwe	-	-	-	53	53
J van Z Smit	-	-	-	86	86
	4 565	402	2 908	1 480	9 355

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 company, has occurred between the balance sheet date and the date of approval of the financial statements.

Balance Sheets

Year ended 28 February 2009

	Notes	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
Assets					
Cash and cash equivalents	4	**1 513 989**	617 901	**-**	-
Investments at fair value through profit or loss	5	**150 044**	14 424	**-**	-
Loans and advances to clients	6	**2 981 685**	2 019 200	**-**	-
Inventory	7	**22 120**	17 741	**-**	-
Other receivables	8	**20 114**	19 347	**81**	-
Group loans receivable	9	**-**	-	**36 338**	8 843
Investment in subsidiaries	10	**-**	-	**819 724**	821 127
Property and equipment	11	**240 134**	196 173	**-**	-
Intangible assets	12	**27 669**	37 619	**-**	-
Deferred income tax assets	13	**13 667**	13 967	**-**	-
Total assets		**4 969 422**	2 936 372	**856 143**	829 970
Liabilities					
Loans and deposits at amortised cost	14	**3 298 897**	1 475 696	**-**	-
Loans and deposits held at fair value through profit or loss	15	**17 916**	52 425	**-**	-
Trade and other payables	16	**229 910**	143 368	**9 508**	8 909
Current income tax liabilities		**16 498**	47 456	**-**	-
Provisions	17	**-**	-	**-**	-
Group loans payable	18	**-**	-	**1**	4 247
Total liabilities		**3 563 221**	1 718 945	**9 509**	13 156
Equity					
Capital and reserves					
Ordinary share capital and premium	19	**674 369**	647 363	**674 369**	647 363
Reserves	20	**(23 873)**	-	**-**	-
Retained earnings		**601 099**	415 458	**17 659**	14 845
Share capital and reserves attributable to ordinary shareholders		**1 251 595**	1 062 821	**692 028**	662 208
Non-redeemable, non-cumulative, non-participating preference share capital and premium	19	**154 606**	154 606	**154 606**	154 606
Total equity		**1 406 201**	1 217 427	**846 634**	816 814
Total equity and liabilities		**4 969 422**	2 936 372	**856 143**	829 970

Income Statements

Year ended 28 February 2009

	Notes	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
Interest income	21	**1 212 896**	740 063	**-**	-
Interest expense	21	**(269 621)**	(101 449)	**-**	-
Net interest income		**943 275**	638 614	**-**	-
Net fee income		**1 035 709**	653 400	**-**	-
Loan fee income		**897 502**	574 584	**-**	-
Transaction fee income		**281 548**	168 361	**-**	-
Transaction fee expense		**(143 341)**	(89 545)	**-**	-
Dividend income	22	**1 099**	15 392	**108 880**	86 650
Net impairment charge on loans and advances to clients	23	**(467 727)**	(230 879)	**-**	-
Net movement in financial instruments held at fair value through profit or loss	24	**2 197**	7 818	**-**	-
Non-banking gross profit		**18 218**	10 938	**-**	-
Sales		**208 915**	159 122	**-**	-
Cost of sales		**(190 697)**	(148 184)	**-**	-
Other income		**280**	8	**540**	444
Income from operations		**1 533 051**	1 095 291	**109 420**	87 094
Banking operating expenses		**(1 063 672)**	(762 540)	**(541)**	(444)
Non-banking operating expenses		**(12 696)**	(8 405)	**-**	-
Operating profit before tax	25	**456 683**	324 346	**108 879**	86 650
Income tax expense	26	**(137 351)**	(95 281)	**-**	-
Profit for the year		**319 332**	229 065	**108 879**	86 650
Earnings per share attributable to ordinary shareholders (cents)					
Basic	27	**364**	259		
Diluted	27	**357**	250		
Proposed final ordinary dividend per share (cents)	29	**110**	75		
Interim ordinary dividend per share (cents)	29	**30**	25		

Statements of Changes in Shareholders' Equity

Year ended 28 February 2009

	Ordinary share capital and premium	Preference share capital and premium	Shares held by the Group	Reserves	Retained earnings	Total
	R'000	R'000		R'000	R'000	R'000
GROUP						
Balance at 1 March 2007	647 363	154 606	-	2 439	313 049	1 117 457
Net profit for the year	-	17 011	-	-	212 054	229 065
Ordinary dividend	-	-	-	-	(69 639)	(69 639)
Preference dividend	-	(17 011)	-	-	-	(17 011)
Share-based employee costs	-	-	-	-	7 009	7 009
Transfer from statutory provision reserve	-	-	-	(2 439)	2 439	-
Shares acquired for employee share options at cost	-	-	(71 469)	-	-	(71 469)
Realised loss on settlement of employee share options	-	-	71 469	-	(66 886)	4 583
Tax effect on settlement of share options	-	-	-	-	17 432	17 432
Balance at 29 February 2008	647 363	154 606	-	-	415 458	1 217 427
Net profit for the year	**-**	**19 127**	**-**	**-**	**300 205**	**319 332**
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	**-**	**-**	**53 705**	**-**	**(45 108)**	**8 597**
Tax effect on settlement of share options	**-**	**-**	**-**	**-**	**8 490**	**8 490**
Share issue expenses	**(38)**	**-**	**-**	**-**	**-**	**(38)**
Cash flow hedge	**-**	**-**	**-**	**(33 157)**	**-**	**(33 157)**
Tax on cash flow hedge	**-**	**-**	**-**	**9 284**	**-**	**9 284**
Balance at 28 February 2009	**674 369**	**154 606**	**-**	**(23 873)**	**601 099**	**1 406 201**
Notes	19	19		20		

Statements of Change in Shareholders' Equity

Year ended 28 February 2009

	Ordinary share capital and premium	Preference share capital and premium	Retained earnings	Total
	R'000	R'000	R'000	R'000
COMPANY				
Balance at 1 March 2007	647 363	154 606	14 845	816 814
Net profit for the year	-	17 011	69 639	86 650
Ordinary dividend	-	-	(69 639)	(69 639)
Preference dividend	-	(17 011)	-	(17 011)
Balance at 29 February 2008	647 363	154 606	14 845	816 814
Net profit for the year	**-**	**19 127**	**89 752**	**108 879**
Shares issued during the year	**27 044**	**-**	**-**	**27 044**
Share issue expenses	**(38)**	**-**	**-**	**(38)**
Ordinary dividend	**-**	**-**	**(86 938)**	**(86 938)**
Preference dividend	**-**	**(19 127)**	**-**	**(19 127)**
Balance at 28 February 2009	**674 369**	**154 606**	**17 659**	**846 634**
Notes	19	19		

Cash Flow Statements

Year ended 28 February 2009

	Notes	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
Cash flow from operating activities					
Cash flow from operations	33	**1 436 047**	(151 225)	**108 778**	86 584
Tax paid	34	**(150 235)**	(109 647)	**-**	-
		1 285 812	(260 872)	**108 778**	86 584
Cash flow from investing activities					
Investment in property and equipment	11	**(114 723)**	(100 908)	**-**	-
Investment in computer software	12	**(17 869)**	(16 047)	**-**	-
Decrease in investment in subsidiaries		**-**	-	**1 403**	-
Proceeds from disposal of equipment		**101**	884	**-**	-
Increase in loans receivable from Group companies		**-**	-	**(27 495)**	(1 206)
Acquisition of investments at fair value through profit or loss		**(134 555)**	(169 224)	**-**	-
Disposal of investments at fair value through profit or loss		**870**	272 586	**-**	-
		(266 176)	(12 709)	**(26 092)**	(1 206)
Cash flow from financing activities					
Decrease in Group loans payable		**-**	-	**(4 246)**	-
Dividends paid	35	**(105 446)**	(85 378)	**(105 446)**	(85 378)
Shares issued and acquired for options settled	36	**(18 102)**	(66 886)	**27 006**	-
		(123 548)	(152 264)	**(82 686)**	(85 378)
Net increase (decrease) in cash and cash equivalents		**896 088**	(425 845)	**-**	-
Cash and cash equivalents at beginning of the year		**617 901**	1 043 746	**-**	-
Cash and cash equivalents at end of the year	4	**1 513 989**	617 901	**-**	-

Notes to the Annual Financial Statements

Year ended 28 February 2009

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, 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 (refer Note 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 (a) 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; (b) those that the entity upon initial recognition designates as available-for-sale; or (c) 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 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 yield 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.

Notes to the Annual Financial Statements

Year ended 28 February 2009

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.

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 the reserves in equity.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the interest payments that are hedged are expensed). 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 cash flows of hedged items.

Treatment of 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 on immediately on remeasurement.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 43 and 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 measured reliably.

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 client accounts in the portfolio are in arrears and historical loss experience on the eventual losses encountered from similar delinquent portfolios.

These statistics feed into 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 statuses, 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 are handed over for collection and 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 as a reduction in the provision.
- 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.

Notes to the Annual Financial Statements

Year ended 28 February 2009

- 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 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 in each jurisdiction, is recognised as an expense in the period in which profits arise. Secondary tax on companies 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 secondary tax on companies 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 are 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 acquisition 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 licences 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 (property and equipment, computer software)

Equipment and other non-financial assets 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 Provision

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.

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(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% (2008: 10%) 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.

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 rands (rand), which is the Group's functional and presentation currency. The financial statements of all the subsidiaries are also presented in rand.

(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 and 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 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

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns different from those of segments operating in other economic environments.

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.

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

- IFRIC 12 Service Concession Arrangements (effective from January 2008)
- IFRIC 13 Customer Loyalty Programmes (effective from July 2008)
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding
- Requirements and their Interaction (effective from January 2008)

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

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 2008 or later periods but which the Group has not early adopted, as follows:

- IFRS 8 Operating Segments (effective from January 2009)
- IAS 23 Borrowing Costs – Revised (effective from January 2009)
- IAS 1 Presentation of Financial Statements (effective from January 2009)
- IFRS 3 Business Combinations Revised (effective July 2009)
- IAS 27 Consolidated and Separate Financial Statements Revised (effective July 2009)
- Amendment to IAS 32 Financial Instruments: Presentation regarding puttable instruments (effective July 2009)
- Amendment to IFRS 2 Share Based Payments: vesting conditions and cancellations (effective January 2009)

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

Notes to the Annual Financial Statements

Year ended 28 February 2009

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 portfolios 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:

	09	08
Expected default rates	**R'000**	**R'000**
Increase by 5%	13 153	12 687
Decrease by 5%	(13 421)	(12 706)

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. SEGMENTAL REPORTING

Primary reporting format – business segments

During the year the Group conducted operations in two main business areas – banking and wholesale distribution of consumer goods.
– The banking segment incorporates retail banking services, including savings, deposits, debit cards and consumer loans.
– Wholesale distribution incorporates the wholesale distribution of fast-moving consumer goods.
Transactions between the business segments are on normal commercial terms and conditions.

2009 Year ended 28 February 2009	Banking R'000	Wholesale distribution R'000	Adjustment for intra-segment items R'000	Total R'000
Revenues	**2 393 965**	**208 915**	**(640)**	**2 602 240**
Segment earnings before tax	**452 215**	**4 468**	**-**	**456 683**
Segment earnings after tax	**314 864**	**4 468**	**-**	**319 332**
Segment headline earnings	**297 403**	**4 468**	**-**	**301 871**
Segment assets	**4 948 274**	**28 820**	**(7 672)**	**4 969 422**
Segment liabilities	**3 544 295**	**26 598**	**(7 672)**	**3 563 221**
Capital expenditure	**131 729**	**863**	**-**	**132 592**
Depreciation	**68 108**	**239**	**-**	**68 347**
Amortisation	**27 769**	**50**	**-**	**27 819**

2008 Year ended 29 February 2008				
Revenues	1 499 115	159 122	(707)	1 657 530
Segment earnings before tax	322 660	1 686	-	324 346
Segment earnings after tax	227 379	1 686	-	229 065
Segment headline earnings	210 513	1 686	-	212 199
Segment assets	2 918 800	22 844	(5 272)	2 936 372
Segment liabilities	1 699 129	25 088	(5 272)	1 718 945
Capital expenditure	116 569	386	-	116 955
Depreciation	59 163	124	-	59 287
Amortisation	21 032	-	-	21 032

Secondary reporting format

No secondary geographical segment information is disclosed as the Group's business for the years ended 28 February 2009 and 29 February 2008 was all conducted within the Republic of South Africa.

Notes to the Annual Financial Statements
Year ended 28 February 2009

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
4. CASH AND CASH EQUIVALENTS				
Cash on hand	**310 069**	263 607	-	-
Bank balances	**976 791**	215 045	-	-
Central Bank balances				
Debentures	**146 059**	35 440	-	-
Treasury bills	**14 831**	69 309	-	-
Mandatory reserve deposits with central bank	**66 239**	34 500	-	-
	1 513 989	617 901	-	-
Maximum exposure to credit risk	**1 513 989**	617 901	-	-

Mandatory reserve deposits are not available for use in the Group's day-to-day operations. Cash on hand and mandatory reserve deposits are non-interest bearing.

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

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Listed preference shares				
Balance at the beginning of the year	-	96 958	-	-
Amortised cost	-	99 925	-	-
Cumulative fair value adjustment – other market risk	-	(2 967)	-	-
Additions at cost	-	166 124	-	-
Disposals at cost	-	(266 049)	-	-
Fair value adjustment	-	2 967	-	-
Interest rate risk	-	-	-	-
Credit risk	-	-	-	-
Other market risk	-	(8 369)	-	-
Realised on disposals	-	11 336	-	-
Balance at the end of the year	-	-	-	-
Amortised cost	-	-	-	-
Cumulative fair value adjustment – other market risk	-	-	-	-
Unlisted investments at fair value				
Balance at the beginning of the year	**14 424**	-	-	-
Amortised cost	**3 100**	-	-	-
Cumulative fair value adjustment – other market risk	**11 324**	-	-	-
Additions at cost	**35**	3 100	-	-
Fair value adjustment	**245**	11 324	-	-
Interest rate risk	-	-	-	-
Credit risk	-	-	-	-
Exchange rate risk	**4 251**	1 860	-	-
Other market risk	**(3 136)**	12 362	-	-
Realised on disposals	**(870)**	(2 898)	-	-
Balance at the end of the year	**14 704**	14 424	-	-
Amortised cost	**3 135**	3 100	-	-
Cumulative fair value adjustment – other market risk	**11 569**	11 324	-	-

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS continued				
Interest-bearing instruments[1]				
Balance at the beginning of the year	-	14 975	-	-
Amortised cost	-	14 975	-	-
Cumulative fair value adjustment	-	-	-	-
Additions at amortised cost	**134 520**	-	-	-
Disposals at cost	-	(14 975)	-	-
Fair value adjustment	**820**	-	-	-
Interest rate risk	**820**	-	-	-
Credit risk	-	-	-	-
Balance at the end of the year	**135 340**	-	-	-
Amortised cost	**134 520**	-	-	-
Cumulative fair value adjustment	**820**	-	-	-
Total investments at fair value	**150 044**	14 424	-	-
Credit risk for financial assets designated at fair value:				
Maximum exposure to credit risk	**135 340**	-	-	-
Amount by which credit mitigation or derivatives offset credit risk	-	-	-	-
Credit risk exposure after taking into account credit mitigation or derivatives	**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 30.4 and 30.8.

Fair value adjustments are not attributable to changes in credit risk for the year, or cumulatively. The directors' valuation of investments at fair value through profit or loss is equal to the book 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 Executive Management Committee and Board of Directors.

[1] Interest-bearing instruments comprise unlisted instruments with an original maturity greater than three months. This figure comprises government instruments (2008: financial institutions)

Notes to the Annual Financial Statements

Year ended 28 February 2009

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
6. LOANS AND ADVANCES TO CLIENTS				
Maturity analysis of loans and advances				
Demand to one month	**468 048**	374 207	**-**	-
One to three months	**558 553**	395 232	**-**	-
Three months to one year	**1 406 155**	967 597	**-**	-
More than one year	**902 222**	545 632	**-**	-
Maximum exposure to credit risk [(1) (2)]	**3 334 978**	2 282 668	**-**	-
Deferred loan fee income	**(112 474)**	(90 548)	**-**	-
Gross loans and advances	**3 222 504**	2 192 120	**-**	-
Allowance for impaired loans and advances	**(240 819)**	(172 920)	**-**	-
Net amount	**2 981 685**	2 019 200	**-**	-
Credit quality of performing loans and advances[(3)]				
Top two grades of the internal rating system	**1 043 966**	383 694	**-**	-
Percentage of total performing loans	**36**	20%	**-**	-
Bottom two grades of the internal rating system	**12 733**	8 936	**-**	-
Percentage of total performing loans	**0**	0	**-**	-
Carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated[(4)]	**47 754**	3 686	**-**	-
Impairment of loans and advances				
Not past due	**2 809 038**	1 891 105	**-**	-
Gross	**2 896 693**	1 945 582	**-**	-
Impairment	**(87 655)**	(54 477)	**-**	-
Past due	**172 647**	128 095	**-**	-
Gross	**325 811**	246 538	**-**	-
Impairment	**(153 164)**	(118 443)	**-**	-
Net	**2 981 685**	2 019 200	**-**	-
Past due loans and advances are in arrears from one day to three months. There were no past due but unimpaired loans and advances.				
In terms of IFRS 7 effective interest rates are no longer required to be disclosed and have therefore been omitted.				
Movement on provision for impaired advances:				
Opening balance	**172 920**	110 917	**-**	-
Unidentified losses	**54 477**	42 757	**-**	-
Identified losses	**118 443**	68 160	**-**	-
Movement[(5)]	**67 899**	62 003	**-**	-
Unidentified losses	**33 178**	11 720	**-**	-
Identified losses	**34 721**	50 283	**-**	-
Closing balance	**240 819**	172 920	**-**	-
Unidentified losses	**87 655**	54 477	**-**	-
Identified losses	**153 164**	118 443	**-**	-

Included in loans and advances is an investment of R16.7 million (2008: R16.7 million) in cumulative preference shares bearing interest at 80% of the prime interest rate with redemption date 15 February 2014. The remainder of loans and advances comprises unsecured loans to individuals at fixed rates.

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

(2) Included within loans and advances is related accrued interest receivable of R22.2 million (2008: R18.1 million).

(3) We use 21 grades in our internal rating system and qualification per product is governed by grading.

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

(5) Comparative figures have been restated as the impact of interest on impaired financial assets is disclosed in Note 21.

Notes to the Annual Financial Statements

Year ended 28 February 2009

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
7. INVENTORY				
Finished consumer goods	**22 120**	17 741	**-**	-
The cost of obsolete inventories recognised as an expense and included in cost of sales amounted to R0.5 million (2008: R0.3 million).				
8. OTHER RECEIVABLES				
Rental deposits	**1 978**	1 811	**-**	-
Accrued income	**3 588**	8 213	**81**	-
Derivatives (Note 43)	**830**	290	**-**	-
Financial assets at amortised cost	**6 396**	10 314	**81**	-
Prepayments	**13 718**	9 033	**-**	-
	20 114	19 347	**81**	-
Current	**18 052**	17 306	**81**	-
Non-current	**2 062**	2 041	**-**	-
9. GROUP LOANS RECEIVABLE				
Loan to subsidiary	**-**	-	**36 338**	8 843
Current	**-**	-	**36 338**	8 843
Non-current	**-**	-	**-**	-
Loans to subsidiaries are interest-free and have no fixed repayment terms				
10. INVESTMENT IN SUBSIDIARIES				
Unlisted				
Subsidiaries at cost	**-**	-	**819 724**	821 127

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%	Dormant
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 R331.1 million (2008: R205.5 million) and nil (2008: R0.2 million) respectively.

All holdings are in the ordinary share capital of the subsidiary concerned. Finaid Financial Services (Pty) Limited was deregistered in the current financial year.

Notes to the Annual Financial Statements

Year ended 28 February 2009

11. PROPERTY AND EQUIPMENT

2009

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
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 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 end of the year	32 653	74 209	133 272	240 134

2008

Year ended 29 February 2008	Land and buildings[1] R'000	Equipment R'000	Office equipment and vehicles R'000	Total R'000
Opening net book value	1 410	57 500	96 730	155 640
Additions	28	39 526	61 354	100 908
Disposals	-	(195)	(893)	(1 088)
Depreciation charge	(41)	(26 181)	(33 065)	(59 287)
Net book value at end of the year	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)
Net book value at end of the year	1 397	70 650	124 126	196 173

[1] Land and buildings with a book value of R1.2 million are encumbered in terms of a mortgage bond (Note 14).

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
12. INTANGIBLE ASSETS				
Software				
Opening net book value	37 619	42 604	-	-
Additions	17 869	16 047	-	-
Amortisation charge	(27 819)	(21 032)	-	-
Net book value at end of the year	27 669	37 619	-	-
Cost	147 121	129 252	-	-
Accumulated amortisation	(119 452)	(91 633)	-	-
Net book value at end of the year	27 669	37 619	-	-

Computer software substantially consists of the primary banking application system.

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
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% (2008: 28%).[1]				
The movement on the deferred income tax account is as follows:				
At beginning of the year	**13 967**	13 846	-	-
Movement in deferred tax taken to statement of changes in shareholders' equity	**9 284**	-	-	-
Movement in deferred tax taken to income statement	**(9 584)**	121	-	-
Movements due to other temporary differences	**(9 584)**	754	-	-
Secondary tax on company credits utilised	**-**	(134)	-	-
Rate change	**-**	(499)	-	-
At end of the year	**13 667**	13 967	-	-
Deferred tax asset may be analysed as follows:				
Provisions and accruals	**16 003**	15 507	-	-
Capital allowances	**438**	572	-	-
Prepayments	**(2 774)**	(2 112)	-	-
	13 667	13 967	-	-
Current	**2 144**	4 292	-	-
Non-current	**11 523**	9 675	-	-

[1] The deferred tax assets are stated at the rate at which the assets are expected to be realised.

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
14. LOANS AND DEPOSITS AT AMORTISED COST				
By maturity				
Within one month	**1 425 278**	942 758	-	-
One to three months	**186 200**	185 521	-	-
Three months to one year	**454 450**	186 443	-	-
More than one year	**1 232 969**	160 974	-	-
	3 298 897	1 475 696	-	-
By nature				
Retail – Savings	**1 306 367**	842 226	-	-
Retail – Fixed Term Savings Plan	**264 760**	-	-	-
Wholesale[2]	**790 122**	529 336	-	-
Domestic Medium Term Note Programme[1]	**498 281**	-	-	-
Negotiable instruments	**383 426**	50 815	-	-
Reserve Bank settlement balance	**55 941**	53 319	-	-
	3 298 897	1 475 696	-	-
Amounts payable on maturity of the funding	**3 935 481**	1 652 162	-	-

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

In terms of IFRS 7, effective interest rates are no longer required to be disclosed and have therefore been omitted.

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

[2] Wholesale deposits include a mortgage bond of R0.9 million (2008: R1 million) that is secured as stated in Note 11.

The remainder of the deposits are unsecured.

Notes to the Annual Financial Statements

Year ended 28 February 2009

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
15. LOANS AND DEPOSITS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS				
Term deposit due				
Within one month	**8 333**	-	**-**	-
One to three months	**9 583**	4 940	**-**	-
Three months to one year	**-**	30 556	**-**	-
More than one year	**-**	16 667	**-**	-
	17 916	52 163	**-**	-
Fair value adjustment attributable to changes in:				
Credit risk	**-**	-	**-**	-
Interest rate risk	**-**	262	**-**	-
	17 916	52 425	**-**	-
Amount payable on maturity of the term funding	**18 190**	56 565	**-**	-
The difference between amounts payable on maturity and the fair value of the liabilities relate to future finance cost.	**274**	4 140	**-**	-

These deposits are all 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.

The contractual interest rate on the funding is 13.075% (2008: 13.075%) fixed, and the fair value thereof was determined after applying a discount rate of 12.175% (2008: 12.295%). Please refer to Note 30.8 for a description of valuation methods applied.

The credit risk premium remained constant (2008: constant).

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
16. TRADE AND OTHER PAYABLES				
Trade payables	**92 391**	49 983	**-**	20
Preference share dividends payable	**9 508**	8 889	**9 508**	8 889
Accruals	**102 088**	84 496	**-**	-
Derivatives (Note 44)	**25 923**	-	**-**	-
	229 910	143 368	**9 508**	8 909
Current	**183 950**	128 733	**9 508**	8 909
Non-current	**45 960**	14 635	**-**	-

Notes to the Annual Financial Statements

Year ended 28 February 2009

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
17. PROVISIONS				
Provision for bonuses				
Opening balance	-	3 850	-	-
Release	-	(3 850)	-	-
Closing balance	-	-	-	-
18. GROUP LOANS PAYABLE				
Loan from subsidiaries	-	-	1	4 247
Current	-	-	1	4 247
Non-current	-	-	-	-
Loans from subsidiaries are interest free and have no fixed repayment terms.				
19. SHARE CAPITAL AND PREMIUM				
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	674 369	647 363	674 369	647 363
82 797 912 (2008: 81 928 412) shares of R0.01 each at par	828	819	828	819
Share premium	673 541	646 544	673 541	646 544
Non-redeemable, non-cumulative, non-participating preference share capital and premium[1]	154 606	154 606	154 606	154 606
1 684 211 (2008: 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]	828 975	801 969	828 975	801 969

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

[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] 4 096 421 (2008: 8 192 841) of the unissued shares were placed under the control of the directors until the next annual general meeting.

The shares are reflected as a deduction against equity at cost to the Group.

During the year an expense of R45 million (R34 million after tax) (2008: R67 million, R47 million after tax) was realised on settlement of share options as reflected in the statement of changes in shareholders' equity.

Notes to the Annual Financial Statements

Year ended 28 February 2009

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
20. RESERVES				
Cash flow hedge reserve (loss)	(23 873)	-	-	-
General banking risk reserve	-	-	-	-
	(23 873)	-	-	-
Cash flow hedge reserve (loss)[1]	-	-	-	-
At beginning of the year	-	-	-	-
Amount recognised directly in equity during the year	(33 462)	-	-	-
Amount removed from equity during the year and included in the income statement for the year	305	-	-	-
	(33 157)	-	-	-
Deferred tax recognised directly in equity during the year	9 284	-	-	-
At end of the year	(23 873)	-	-	-
General banking risk reserve[2]				
At beginning of the year	-	2 439	-	-
Transfer to retained earnings	-	(2 439)	-	-
At end of the year	-	-	-	-

[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.

[2] This reserve was required in terms of Basel I and is not required in terms of Basel II, implemented in South Africa from 1 January 2008.

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
21. NET INTEREST INCOME				
Interest income				
Loans and advances to clients	1 156 514	709 166	-	-
Interest-bearing instruments[2]	5 727	-	-	-
Cash and cash equivalents[1] [2]	50 655	30 897	-	-
	1 212 896	740 063	-	-
Interest expense				
Retail – Savings	(99 780)	(56 640)	-	-
Retail – Fixed Term Savings Plan	(4 396)	-	-	-
Wholesale	(74 697)	(43 949)	-	-
Domestic Medium Term Note Programme	(57 400)	-	-	-
Negotiable instruments	(33 174)	(815)	-	-
Forward foreign exchange contracts	(174)	(45)	-	-
	(269 621)	(101 449)	-	-
Net interest income	943 275	638 614	-	-

Included in interest income is R19.7 million (2008: R11.6 million) with respect to interest income accrued on impaired financial assets.

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
[1] Cash and cash equivalents comprise	50 655	30 897	-	-
Non-bank money market placements	24	4 314	-	-
Bank balances	38 991	16 623	-	-
Central Bank balances[2]	11 640	9 960	-	-

[2] Comparative figures have been restated to reallocate interest of R3.7 million on government instruments.

Notes to the Annual Financial Statements

Year ended 28 February 2009

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
22. DIVIDEND INCOME				
Subsidiaries	-	-	108 880	86 650
Ordinary dividends	-	-	89 753	69 639
Preference dividends	-	-	19 127	17 011
Investments at fair value through profit or loss	1 099	15 392	-	-
	1 099	15 392	108 880	86 650
23. NET IMPAIRMENT CHARGE ON LOANS AND ADVANCES TO CLIENTS				
Bad debts	445 929	203 391	-	-
Movement in impairment allowance	67 899	62 003	-	-
Bad debts recovered	(46 101)	(34 515)	-	-
Net impairment charge	467 727	230 879	-	-
24. NET MOVEMENT IN FINANCIAL INSTRUMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS				
Financial assets held at fair value through profit or loss	1 935	5 847	-	-
Change in fair value due to changes in credit risk	-	-	-	-
Change in fair value due to other factors	1 935	5 847	-	-
Financial liabilities held at fair value through profit or loss	262	1 971	-	-
Change in fair value due to changes in credit risk	-	-	-	-
Change in fair value due to other factors	262	1 971	-	-
	2 197	7 818	-	-

The methods and assumptions applied to calculate the fair value changes due to credit risk are set out in Note 30.8, and credit risk mitigation techniques are set out in Note 30.1.

Notes to the Annual Financial Statements

Year ended 28 February 2009

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
25. OPERATING PROFIT BEFORE TAX				
The following items have been included in operating profit before tax:				
Loss on disposal of equipment	**2 314**	204	**-**	-
Depreciation on fixed assets				
Depreciation based on original estimates	**68 347**	59 287	**-**	-
Amortisation of computer software	**27 819**	21 032	**-**	-
Foreign exchange losses	**2**	632	**-**	-
(Excludes change in fair value of financial assets through profit or loss as per Note 5)				
Operating lease rentals				
Land and buildings	**79 346**	62 239	**-**	-
Office equipment	**2 335**	2 178	**-**	-
	81 681	64 417	**-**	-
Income from subletting	**(1 373)**	(225)	**-**	-
Auditors' remuneration				
Audit fees	**2 608**	1 552	**-**	-
Other services	**44**	437	**-**	-
	2 652	1 989	**-**	-
Directors' emoluments (included in employee costs below)				
Executive				
Salaries	**7 115**	4 565	**-**	-
Fringe benefits	**497**	402	**-**	-
Bonuses	**754**	2 908	**-**	-
Share appreciation rights	**578**	-	**-**	-
Share options	**2 367**	1 528	**-**	-
Non-executive				
Fees	**1 902**	1 480	**-**	-
Employee costs				
Salaries and wages	**465 275**	329 548	**-**	-
Equity settled share based payment	**8 992**	7 009	**-**	-
Cash settled share appreciation rights	**1 498**	-	**-**	-
Social security cost	**9 528**	7 353	**-**	-
Training cost	**13 680**	12 114	**5**	-
Training refund	**(1 878)**	(1 385)	**-**	-
	497 095	354 639	**5**	-
Consultancy fees relating to non-employees comprise:				
Managerial services	**470**	422	**-**	-
Secretarial services	**259**	936	**229**	385
Technical	**13 959**	2 923	**-**	-
Administrative	**3 303**	2 732	**-**	-
	17 991	7 013	**229**	385

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
26. TAX EXPENSE				
Current tax	**127 767**	95 402	**-**	-
Normal company tax	**117 268**	87 075	**-**	-
Secondary tax on companies	**10 499**	8 327	**-**	-
Deferred tax	**9 584**	(121)	**-**	-
Normal company tax	**9 584**	(255)	**-**	-
Secondary tax on companies	**-**	134	**-**	-
	137 351	95 281	**-**	-
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	**456 683**	324 346	**108 879**	86 650
Tax calculated at a tax rate of 28% (2008: 29%)	**127 871**	94 060	**30 486**	25 128
Secondary tax on companies[1]	**10 499**	8 461	**-**	-
Income not subject to tax	**(308)**	(4 947)	**(30 486)**	(25 128)
Expenses not deductible	**597**	(258)	**-**	-
Unutilised tax loss	**(1 308)**	-	**-**	-
Capital gains tax	**-**	(2 534)	**-**	-
Tax rate change in future value in use of deferred tax asset	**-**	499	**-**	-
Tax charge	**137 351**	95 281	**-**	-
Estimated tax losses at year-end available for utilisation against future taxable income	**15 030**	19 988	**237**	171
Less: Applied in raising a deferred tax asset	**-**	-	**-**	-
Net calculated tax losses carried forward	**15 030**	19 988	**237**	171
Tax relief calculated at current tax rates	**5 729**	7 079	**66**	48

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

[1] Secondary tax on companies at 12.5% to 30 September 2007, 10% from 1 October 2007.

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Year ended 28 February 2009

	Group 09 R'000	Group 08 R'000
27. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		
Basic attributable earnings per share		
Basic attributable 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.		
Net profit after tax	**319 332**	229 065
Preference dividend	**(19 127)**	(17 011)
Net profit after tax attributable to ordinary shareholders	**300 205**	212 054
Weighted average number of ordinary shares in issue (thousands)	**82 584**	81 928
Basic attributable earnings per share (cents)	**364**	259
Diluted attributable earnings per share		
Diluted attributable 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 2009 and 2008 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).		
Net profit used to determine diluted attributable earnings per share	**300 205**	212 054
Weighted average number of ordinary shares in issue (thousands)	**82 584**	81 928
Adjustment for:		
Exercise of share options	**1 472**	2 783
Weighted average number of ordinary shares for diluted attributable earnings per share (thousands)	**84 056**	84 711
Diluted attributable earnings per share (cents)	**357**	250
28. HEADLINE EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		
Basic headline earnings per share		
Net profit attributable to ordinary shareholders	**300 205**	212 054
Non-headline items		
Loss on disposal of equipment	**2 314**	204
Taxation	**(648)**	(59)
Headline earnings	**301 871**	212 199
Headline earnings per share (cents)	**366**	259
Diluted headline earnings per share		
Headline earnings	**301 871**	212 199
Diluted headline earnings per share (cents)	**359**	250

29. DIVIDEND PER SHARE

The directors declared a final dividend in respect of 2009 of 110 cents per share (2008: 75 cents per share) amounting to a total dividend of R91.1 million (2008: R61.4 million) on 31 March 2008.

The secondary tax on companies in respect of this dividend will amount to R9.1 million (2008: R6.1 million).

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 2010, which is in line with recommended accounting practice. An interim dividend of 30 cents per share (2008: 25 cents per share) was declared on 15 September 2008 and paid on 1 December 2008.

30. FINANCIAL RISK MANAGEMENT

The financial instruments carried on the balance sheet are set out in Note 30.8.

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 non-executive directors (two independent). 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 risk
- Assets and Liability Committee (ALCO) – interest rate, market, liquidity, counterparty, currency and capital adequacy risk; and
- Operational Risk Committee – legal, compliance, technology, operational and reputation 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 R50 000. At balance sheet date the number of outstanding loans was 638 616 (2008: 531 450).

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.

Notes to the Annual Financial Statements

Year ended 28 February 2009

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

2009	Notes	A - AAA	BBB	Total carrying amount
		R'000	R'000	R'000
Cash on hand	4	**310 069**	**-**	**310 069**
Bank balances	4	**554 401**	**422 390**	**976 791**
Central bank balances (<3 months)	4	**227 129**	**-**	**227 129**
Central bank balances (>3 months)	5	**135 340**	**-**	**135 340**
		1 226 939	**422 390**	**1 649 329**
2008				
Cash on hand	4	263 607	-	263 607
Bank balances	4	215 045	-	215 045
Central bank balances (<3 months)	4	139 249	-	139 249
		617 901	-	617 901

The bank balances and money market placements were with seven institutions (2008: five), with the maximum exposure to one institution being R205 million (2008: R108 million).

30.2 Geographical concentrations 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:

	09	08
Eastern Cape	**47**	41
Free State	**21**	19
Gauteng	**89**	79
KwaZulu-Natal	**56**	53
Limpopo	**24**	23
Mpumalanga	**39**	36
North West	**24**	23
Northern Cape	**12**	11
Western Cape	**51**	46
	363	331

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. The Group currently has a conservative interest rate profile relative to the general banking industry.

The Group operates a primarily fixed and discretionary interest rate profile for most assets and liabilities. Discretionary rate items are those where the rates are not contractually bound to a market interest rate but rather where management can, at their discretion, increase or decrease the rate as deemed appropriate.

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. Certain fixed-rate wholesale funding instruments have been measured at fair value through profit and loss, which has a limited profit and loss accounting impact (refer Note 24).

The return on surplus cash balances placed in call accounts varies with changes in interbank interest rates, resulting in cash flow interest rate risk. In order to limit cash flow interest rate risk on funding instruments, most variable rate wholesale liabilities are hedged using interest rate swaps. ALCO considers hedging for material variable rate liabilities with original maturities greater than one year. These interest rate swaps mitigate against the changes in cash flows of variable rate instruments 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 reborrowing of current balances that can have a negative impact on the value of the business and annual earnings.

During the year ALCO authorised the entering into of floating-to-fixed interest rate swaps for 100% of the nominal value and for the duration of the Group's variable rate publicly listed domestic medium-term notes. These interest rate swaps have the economic effect of converting borrowing from variable 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 agreed notional values.

The Group has discretion over the rates offered on its demand savings deposits.

Retail advances are only offered on fixed-rate terms. The maturity breakdown of the advances book is set out in Note 6 and Note 30.5.

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 a rate change.

The sensitivity analyses below reflect the impact of 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 demand savings deposits).
- 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			
	09		08		09		08	
200 basis points	Pre-tax	Post-tax	Pre-tax	Post-tax	Pre-tax	Post-tax	Pre-tax	Post-tax
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Sensitivity 1								
Increase	**(1 511)**	**(1 088)**	108	78	**12 893**	**8 728**	(2 972)	(2 694)
Decrease	**1 511**	**1 088**	(123)	(89)	**(16 312)**	**(11 190)**	2 957	2 683
Sensitivity 2								
Increase	**(3 435)**	**(2 473)**	(6 488)	(4 671)	**10 969**	**7 343**	(9 568)	(7 443)
Decrease	**3 434**	**2 473**	6 473	4 661	**(14 388)**	**(9 805)**	9 553	7 433

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.

There is limited currency revenue risk due to US dollar-based unlisted equity investments held in Visa and MasterCard (Refer Note 5).

30.5 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 cash flows are presented on a discounted basis. 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 were 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, were excluded.

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Year ended 28 February 2009

Maturities of financial assets and financial liabilities (discounted cash flows)	Notes	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment[1]	Total
		R'000	R'000	R'000	R'000	R'000	R'000
2009							
Discounted assets							
Loans and advances to clients	6	468 048	558 553	1 406 155	902 222	(112 474)	3 222 504
Loan impairment provision	6	(53 574)	(84 936)	(97 992)	(4 317)	-	(240 819)
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
Other receivables	8	3 504	-	830	2 062	-	6 396
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 and taxation		74 854	107 582	18 137	48 410	-	248 983
Loans and deposits at fair value through profit or loss	15	8 333	9 857	-	-	-	18 190
Undiscounted liabilities		1 511 426	331 688	506 205	1 853 335	-	4 202 654
Adjustments for undiscounted liabilities to depositors		(2 961)	(28 323)	(33 744)	(574 405)	-	(639 433)
Discounted liabilities		1 508 465	303 365	472 461	1 278 930	-	3 563 221
Net liquidity excess (shortfall)		415 872	235 759	928 699	(378 963)	(112 474)	1 088 893
Cumulative liquidity excess		415 872	651 631	1 580 330	1 201 367	1 088 893	1 088 893
2008							
Discounted assets							
Loans and advances to clients	6	374 207	395 232	967 597	545 632	(90 548)	2 192 120
Loan impairment provision[2]	6	(39 964)	(63 299)	(67 579)	(2 078)	-	(172 920)
Cash and cash equivalents	4	568 485	49 416	-	-	-	617 901
Investments at fair value through profit or loss	5	14 424	-	-	-	-	14 424
Other receivables	8	8 128	-	145	2 041	-	10 314
Discounted assets		925 280	381 349	900 163	545 595	(90 548)	2 661 839
Undiscounted liabilities							
Loans and deposits at amortised cost	14	945 822	193 552	212 987	299 801	-	1 652 162
Trade and other payables and taxation		59 631	68 957	47 601	14 635	-	190 824
Loans and deposits at fair value through profit or loss	15	-	5 491	34 106	16 706	262	56 565
Undiscounted liabilities		1 005 453	268 000	294 694	331 142	262	1 899 551
Adjustments for undiscounted liabilities to depositors		(3 064)	(8 582)	(30 094)	(138 866)	-	(180 606)
Discounted liabilities		1 002 389	259 418	264 600	192 276	262	1 718 945
Net liquidity (shortfall) excess		(77 109)	121 931	635 563	353 319	(90 810)	942 894
Cumulative liquidity (shortfall) excess		(77 109)	44 822	680 385	1 033 704	942 894	942 894

[1] Adjustments to loans to clients relate to deferred initiation fee income and other non-cash adjustments.

[2] Comparative figures have been restated to include the loan impairment provision.

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

Notes to the Annual Financial Statements

Year ended 28 February 2009

30.6 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	
	09	08	09	08
	R'000	R'000	R'000	R'000
Primary (Tier 1) capital				
Ordinary share capital	674 369	647 363	1 117 671	1 117 671
Accumulated profit (loss)	601 099	415 458	117 964	(102 324)
Qualifying preference share capital	154 606	154 606	154 606	154 606
Prescribed deductions	(68 848)	(47 599)	(67 854)	(46 564)
	1 361 226	1 169 828	1 322 387	1 123 389
Secondary (Tier 2) capital				
Qualifying unidentified impairments	31 420	20 044	31 420	20 044
Total qualifying regulatory capital	1 392 646	1 189 872	1 353 807	1 143 433
		-		-
Total capital adequacy %	43.1	36.4	42.5	35.1
Primary %	42.1	35.8	41.5	34.5
Secondary %	1.0	0.6	1.0	0.6
Required capital adequacy %	25.0	25.0	25.0	25.0
Required regulatory capital	807 062	817 462	796 098	814 568
Risk-weighted assets				
Credit risk				
On balance sheet	2 514 674	1 600 786	2 512 467	1 602 537
Off balance sheet	-	-	1 148	1 004
	2 514 674	1 600 786	2 513 615	1 603 541
Operational risk	379 631	1 369 761	382 127	1 356 420
Equity risk in the banking book	14 704	14 424	14 704	14 424
Other assets	319 237	284 876	273 945	283 885
Total risk-weighted assets	3 228 246	3 269 847	3 184 391	3 258 270
Total assets based on IFRS	4 969 422	2 936 372	4 959 136	2 937 527
Total risk-weighted assets – adjustments	(1 741 176)	333 475	(1 774 745)	320 743
Total risk-weighted assets – regulatory	3 228 246	3 269 847	3 184 391	3 258 270

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.

Notes to the Annual Financial Statements

Year ended 28 February 2009

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

2009	Note	Held for trading	Designated at fair value	Loans and receivables	Available for sale	Other liabilities	Total
		R'000	R'000	R'000	R'000	R'000	R'000
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
Transaction fee income		-	-	-	-	281 548	281 548
Transaction fee expense		-	-	-	-	(143 341)	(143 341)
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
2008							
Interest income	21	-	-	740 063	-	-	740 063
Interest expense	21	(45)	(6 581)	-	-	(94 823)	(101 449)
Loan fee income		-	-	574 584	-	-	574 584
Transaction fee income		-	-	-	-	168 361	168 361
Transaction fee expense		-	-	-	-	(89 545)	(89 545)
Dividend income	22	-	15 392	-	-	-	15 392
Net impairment on loans and advances	23	-	-	(230 879)	-	-	(230 879)
Net movement in financial instruments held at fair value through profit and loss	24	-	7 818	-	-	-	7 818

30.8 Classification of financial assets and financial liabilities

2009	Notes	Held for trading R'000	Held at fair value R'000	Loans and receivables R'000	Available for sale R'000	Other liabilities R'000	Total R'000	Fair value R'000
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

2008	Notes	Held for trading R'000	Held at fair value R'000	Loans and receivables R'000	Available for sale R'000	Other liabilities R'000	Total R'000	Fair value R'000
Financial assets								
Cash and cash equivalents	4	-	-	617 901	-	-	617 901	617 901
Financial assets at fair value through profit or loss	5	-	14 424*	-	-	-	14 424	14 424
Loans and advances to clients	6	-	-	2 019 200	-	-	2 019 200	2 009 816
Other receivables	8	290	-	10 024	-	-	10 314	9 729
Financial liabilities								
Loans and deposits at amortised cost	14	-	-	-	-	1 475 696	1 475 696	1 467 110
Loans and deposits held at fair value through profit or loss	15	-	52 425*	-	-	-	52 425	52 425
Trade and other payables	16	-	-	-	-	143 368	143 368	143 368

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.

Cash flow hedge
* Designated at fair value through profit or loss

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	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 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 28.	**21 033**	16 035	**-**	-
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 bank has no exposure in respect of any post-retirement benefits payable.				
32. RELATED-PARTY TRANSACTIONS				
Transactions with subsidiaries				
Investments in subsidiaries are disclosed in Note 10.				
Dividend received				
Capitec Bank Limited	**-**	-	**106 065**	86 650
Ordinary dividend	**-**	-	**86 938**	69 639
Preference dividend	**-**	-	**19 127**	17 011
Finaid Financial Services (Pty) Limited				
Ordinary dividend (Deregistration)	**-**	-	**2 815**	-
Management fees received				
Capitec Bank Limited	**-**	-	**540**	435
Loans due from:				
Capitec Bank Limited	**-**	-	**36 338**	8 843
Loans due to:				
Finaid Financial Services (Pty) Limited	**-**	-	**-**	4 246
Keymatrix (Pty) Limited	**-**	-	**1**	1
Guarantees[(1)]				
Key Distributors has received a guarantee from a fellow subsidiary, Capitec Bank Limited. The value guaranteed is R6.6 million (2008: R6.8 million).				
The balances outstanding at year-end that is covered amounted to R2.3 million (2008: R2.5 million). A market-related guarantee fee of R174 000 (2008: R102 000) was paid by Key Distributors (Pty) Limited to Capitec Bank Limited.				
PSG Group and subsidiaries[(2)]				
Brokers' fees	**126**	294	**-**	-
Sponsor fees	**49**	56	**49**	56

32. RELATED-PARTY TRANSACTIONS continued

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
Loans and advances to directors and other key management employees included in loans and advances to clients				
Loans outstanding at beginning of the year	89	134	-	-
Loans advanced during the year	1 916	86	-	-
Interest charged on loans during the year	117	14	-	-
Loan repayments during the year	(891)	(145)	-	-
Loans outstanding at end of the year	1 231	89	-	-
Less: advanced by subsidiaries	(1 231)	(89)	-	-
Retail deposits from directors and other key management employees[3]				
Deposits at beginning of the year	402	549	-	-
Net change in composition of related parties	-	(340)	-	-
Interest earned during the year	264	178	-	-
Deposits made during the year	2 925	15	-	-
Deposits at end of the year	3 591	402	-	-
Key management compensation[4]				
Salaries and other short-term benefits	16 846	12 447	-	-
Post-employment benefits	1 295	1 002	-	-
Share-based payments	2 761	1 260	-	-
	20 902	14 709	-	-
Less: paid by subsidiaries	(20 902)	(14 709)	-	-

(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 on an arm's length basis.
(3) Retail deposits are unsecured, carry variable interest rates and repayment terms and are on terms available to the general public.
(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 reported 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.

Notes to the Annual Financial Statements

Year ended 28 February 2009

	Group 09 R'000	Group 08 R'000	Company 09 R'000	Company 08 R'000
33. CASH FROM OPERATIONS				
Net profit before tax	456 683	324 346	108 879	86 650
Adjusted for non-cash items				
Fair value adjustments on financial assets	(1 935)	(5 853)	-	-
Fair value adjustments on financial liabilities	(262)	(1 971)	-	-
Movement in impairment charge	67 899	62 003	-	-
Depreciation	68 347	59 287	-	-
Amortisation	27 819	21 032	-	-
Movement in provisions	-	(3 850)	-	-
Share-based employee costs	8 992	7 009	-	-
Loss on disposal of equipment	2 314	204	-	-
Movements in current assets and liabilities				
Increase in loans and advances	(1 030 384)	(1 277 943)	-	-
Increase in inventory	(4 379)	(6 813)	-	-
Increase in other receivables	(767)	(9 662)	(81)	-
Increase in deposits	1 788 954	633 538	-	-
Increase (decrease) in trade and other payables	52 766	47 448	(20)	(66)
Cash flows from operations	1 436 047	(151 225)	108 778	86 584
34. TAX PAID				
Outstanding at beginning of the year	47 456	79 133	-	-
Charge to the income statement	137 351	95 281	-	-
Movement in deferred tax	(300)	121	-	-
Tax effect on settlement of share options taken to equity	(8 490)	(17 432)	-	-
Tax effect on cash flow hedge taken to equity	(9 284)	-	-	-
Outstanding at end of the year	(16 498)	(47 456)	-	-
Tax paid	150 235	109 647	-	-
35. DIVIDEND PAID				
Outstanding at beginning of the year	8 889	7 617	8 889	7 617
Dividend declared during the year				
Ordinary dividend	86 938	69 639	86 938	69 639
Preference dividend	19 127	17 011	19 127	17 011
Outstanding at end of the year	(9 508)	(8 889)	(9 508)	(8 889)
	105 446	85 378	105 446	85 378
36. SHARES ISSUED AND ACQUIRED FOR OPTIONS SETTLED				
Fair value of shares utilised to settle share options	53 705	71 469	-	-
869 500 ordinary shares issued	27 044	-	-	-
Shares acquired	26 661	71 469	-	-
Proceeds on issue of shares	(27 044)	-	(27 044)	-
Share issue expenses	38	-	38	-
Proceeds on settlement of options	(8 597)	(4 583)	-	-
	18 102	66 886	(27 006)	-

Notes to the Annual Financial Statements
Year ended 28 February 2009

	Group		Company	
	09	08	09	08
	R'000	R'000	R'000	R'000
37. COMMITMENTS AND CONTINGENT LIABILITIES				
Property operating lease commitments				
Within one year	**79 089**	67 860	-	-
From one to five years	**173 998**	155 259	-	-
After five years	**3 213**	6 665	-	-
	256 300	229 784	-	-
Other operating lease commitments				
Within one year	**1 769**	1 602	-	-
From one to five years	**2 271**	3 230	-	-
	4 040	4 832	-	-
Capital commitments – approved by the board				
Contracted for	**22 810**	43 030	-	-
Not contracted for	**163 031**	132 852	-	-
	185 841	175 882	-	-
Guarantees				
Issued to non-banking institutions	-	7 500	-	-

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

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 of 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 (Capitec). 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 Capitec 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 Capitec are financed by the relevant subsidiary.

The bank allows its employees to purchase shares in Capitec up to a value not exceeding 20% (2008: 20%) of their monthly salary. The purchase price includes a subsidy of 20% (2008: 20%) 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.

Notes to the Annual Financial Statements

Year ended 28 February 2009

39. SHARE INCENTIVE SCHEME continued

	09 Number	08 Number
Options issued to employees of Capitec Bank Limited		
Balance at beginning of the year	**5 159 306**	6 191 494
Options granted	**1 690 248**	773 056
Options cancelled and/or lapsed	**(132 500)**	(35 500)
Options exercised	**(1 004 375)**	(1 769 744)
Balance at end of the year	**5 712 679**	5 159 306

Analysis of outstanding share options by year of maturity

	09 Weighted average strike price (R)	09 Number	08 Weighted average strike price (R)	08 Number
Financial year				
2008/09	**-**	**-**	8.57	1 010 625
2009/10	**13.25**	**1 259 375**	13.44	1 295 625
2010/11	**18.30**	**1 283 326**	18.20	1 308 264
2011/12	**28.04**	**1 268 326**	24.23	880 764
2012/13	**34.11**	**880 826**	32.82	474 514
2013/14	**35.62**	**610 826**	36.00	189 514
2014/15	**35.44**	**410 000**	-	-
	24.87	**5 712 679**	18.15	5 159 306

	09 Number	08 Number
Shares available for settlement of options	**-**	-
Shares purchased during the year	**1 004 375**	1 769 744
Shares used for settlement of options	**(1 004 375)**	(1 769 744)
Options exercised	**(1 004 375)**	(1 769 744)
Settled in cash	**-**	-
Settled in shares	**(1 004 375)**	(1 769 744)

The bank offers share options in Capitec 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	Share price on issue date	Volatility used in valuation	Dividend yield	Year maturing	Risk-free rate	Options outstanding	Fair value on issue/ repricing date ignoring vesting conditions	Expected vesting proportion[1]	Value, taking into account expected vesting proportion
	R	R	%	%		%	Number	R'000	%	R'000
2003/04	2.40	2.52	40	7.4	2009/10	10.0	176 875	127	98.9	125
2004/05	5.73	5.30	28	3.7	2009/10	9.8	412 500	611	98.3	600
					2010/11	9.9	412 500	668	88.5	591
	7.36	8.15	28	3.7	2009/10	8.7	12 500	33	94.5	31
					2010/11	8.9	12 500	35	85.0	30
2005/06	17.64	18.90	35	2.1	2009/10	7.3	18 750	125	95.7	119
					2010/11	7.5	18 750	137	86.1	118
					2011/12	7.6	18 750	148	77.5	114
	14.05	13.90	36	2.1	2009/10	7.8	368 750	1 699	97.7	1 660
					2010/11	8.0	368 750	1 898	87.9	1 669
					2011/12	8.1	368 750	2 065	79.1	1 634
2006/07	30.20	31.00	36	1.4	2009/10	7.2	12 500	116	99.1	115
					2010/11	7.3	12 500	135	89.2	121
					2011/12	7.5	12 500	151	80.3	121
					2012/13	7.6	12 500	165	72.2	119
	30.73	34.00	36	1.3	2009/10	7.2	257 500	2 925	98.8	2 889
					2010/11	7.3	257 500	3 337	88.9	2 966
					2011/12	7.5	257 500	3 688	80.0	2 951
					2012/13	7.6	257 500	3 991	72.0	2 874
2007/08	35.82	38.30	34	1.6	2010/11	8.0	161 750	1 935	88.5	1 714
					2011/12	7.9	161 750	2 199	79.7	1 753
					2012/13	7.8	161 750	2 422	71.7	1 737
					2013/14	7.7	161 750	2 611	64.5	1 685
	36.00	35.60	34	1.7	2010/11	8.1	13 889	138	88.9	123
					2011/12	8.0	13 889	160	80.1	128
					2012/13	7.9	13 889	179	72.0	129
					2013/14	7.8	13 889	194	64.8	126
	36.07	36.00	34	1.7	2010/11	8.2	7 500	77	89.2	69
					2011/12	8.0	7 500	89	80.3	71
					2012/13	7.9	7 500	99	72.2	72
					2013/14	7.9	7 500	108	65.0	70
	41.46	38.00	34	1.7	2010/11	9.1	5 125	51	82.1	42
					2011/12	8.8	5 125	60	73.9	44
					2012/13	8.6	5 125	68	66.5	45
					2013/14	8.5	5 125	74	59.8	44
2008/09	35.82	38.90	34	0.6	2010/11	8.8	12 562	176	87.3	154
					2011/12	8.6	12 562	201	78.6	158
					2012/13	8.4	12 562	223	70.7	157
					2013/14	8.3	12 562	241	63.6	153
	35.54	33.10	34	2.3	2011/12	9.8	403 750	3 476	79.8	2 774
					2012/13	9.6	403 750	4 087	71.8	2 933
					2013/14	9.4	403 750	4 584	64.6	2 960
					2014/15	9.3	403 750	4 998	58.2	2 906
	28.96	29.05	37	3.0	2011/12	8.1	6 250	48	74.1	36
					2012/13	8.1	6 250	55	66.6	37
					2013/14	8.0	6 250	60	60.0	36
					2014/15	8.0	6 250	66	54.0	35
Grand total							5 712 679	50 733	77.0	39 038

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

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Year ended 28 February 2009

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	Options outstanding	Fair value on issue	Portion of term expired	Expected vesting proportion[(2)]	Liability at year-end
	R		%	Number	R'000	%	%	R'000
2008/09	28.96	2011/12	8.1	6 250	51	5	74	2
		2012/13	8.4	6 250	59	3	67	1
		2013/14	8.6	6 250	65	3	60	1
		2014/15	8.7	6 250	70	3	54	1
	35.54	2011/12	7.9	403 750	1 964	28	80	447
		2012/13	8.2	403 750	2 618	21	72	401
		2013/14	8.4	403 750	3 154	17	65	348
		2014/15	8.6	403 750	3 598	14	58	298
Grand total				1 640 000	11 579	19	67	1 499

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

Dividend yield	2.98%
Volatility	37.0%
Ex dividend share price	29.14

(2) Average South African executive employee turnover of 10% p.a. 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 2009, 2 244 (29 February 2008: 2 742) employees qualified for the rights.

Year granted	Year maturing	Risk-free rate	Rights	Value per right	Portion of term expired	Expected vesting proportion	Adjusted value
		%	Number	R	%	%	R'000
2008	2010	7.9	112 200	1.45	50	84	72
2008	2011	7.9	112 200	2.50	34	76	71
2008	2012	8.2	112 200	3.24	25	66	60
2008	2013	8.4	112 200	3.81	20	57	49
Grand total		8.1	448 800	2.75	32	72	252

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

Dividend yield	2.98 %
Volatility	37.0 %
Ex dividend share price	29.14

(2) Average South African executive employee turnover of 10% p.a. 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

	Notional amount	Fair values Assets	Liabilities
Year ended 28 February 2009	**R'000**	**R'000**	**R'000**
Forward foreign exchange contracts			
Notional amounts in ZAR	**2 947**	**830**	**-**
Notional amounts in US$	**296**	**-**	**-**
Year ended 29 February 2008	**R'000**	**R'000**	**R'000**
Forward foreign exchange contracts			
Notional amounts in ZAR	5 946	290	-
Notional amounts in US$	777	-	-

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 R2.9 million (2008: R5.9 million).

44. DERIVATIVE FINANCIAL INSTRUMENTS: CASH FLOW HEDGES

	Notional amount	Fair values Assets	Liabilities
Year ended 28 February 2009	**R'000**	**R'000**	**R'000**
Interest rate swaps	**380 000**	**-**	**25 923**
Year ended 29 February 2008			
Interest rate swaps	-	-	-

	Demand to one month	One to three months	Three months to one year	More than one year	Grand total
Year ended 28 February 2009	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Discounted swap cash flows	**-**	**1 809**	**13 648**	**18 210**	**33 667**
Margin	**-**	**(1 809)**	**(5 935)**	**-**	**(7 744)**
Net	**-**	**-**	**7 713**	**18 210**	**25 923**

Year ended 29 February 2008
There was no cash flow hedge in the prior financial year

Gains and losses recognised in the hedging reserve in equity (Note 20) on interest rate swap contracts as of 28 February 2009 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 2009, 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 2009, 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 2009.

The fair value adjustment removed from the cash flow hedging reserve and transferred to the income statement amounting to a debit of R305 000 (2008: nil), 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 2009 and 2008. There were no transactions for which cash flow hedge accounting had to be discontinued in 2009 and 2008 as a result of highly probable cash flow no longer being expected to occur.

Notes to the Annual Financial Statements

Year ended 28 February 2009

45. SHAREHOLDERS HOLDING MORE THAN 5% OF THE COMPANY'S ORDINARY SHARES

Shareholder	Shares held	Shareholding
Year ended 28 February 2009	**Number**	**%**
PSG Group Limited	28 593 016	34.53
Limietberg Beleggings (Pty) Limited	11 756 608	14.20
Coral Lagoon Investments 194 (Pty) Limited	10 000 000	12.08

46. BLACK ECONOMIC EMPOWERMENT SHAREHOLDING

Shareholder	Shares held	Shareholding
Year ended 28 February 2009	**Number**	**%**
Coral Lagoon Investments 194 (Pty) Limited	10 000 000	12.08
Thembeka Capital Limited	2 936 480	3.54
Merlyn Claude Mehl	106 713	0.13
Nonhlahnla Mjoli-Mncube	100 000	0.12
	13 143 193	15.87

47. SHAREHOLDING BY EXECUTIVE MANAGEMENT[1]

Shareholder	Shares held	Shareholding
Year ended 28 February 2009	**Number**	**%**
CG van Schalkwyk	500 063	0.60
CG Fischer	1 086 614	1.31
A Olivier	334 559	0.40
L Venter	183 551	0.22
C Oosthuizen	12 000	0.01
GR Lee	1 749	0.00
S Kumalo	539	0.00
JE Carstens	-	0.00
GM Fourie	815 895	0.99
	2 934 970	3.54

[1] Executive directors' shareholdings are presented in Note 7.1 of the Directors' Report.

Analysis of shareholders holding ordinary shares

	Number of shareholders	% total	Number of shares	% interest
1 – 1 000	1 489	58.48	639 179	0.77
1 001 – 10 000	796	31.26	2 662 418	3.22
10 001 – 100 000	203	7.97	5 812 405	7.02
100 001 and over	58	2.28	73 683 910	88.99
	2 546	100.00	82 797 912	100.00

Shareholder spread				
Public shareholders	2 525	99.18	26 235 035	31.69
Holding less than 5%	2 525	99.18	26 235 035	31.69
There are no public shareholders with holdings in excess of 5%				
Non-public shareholders excluding directors and their associates	3	0.12	38 593 016	46.61
There are no non-public shareholders (excluding directors and their associates) holding less than 5%				
Holdings in excess of 5%	3	0.12	38 593 016	46.61
Coral Lagoon Investments 194 (Pty) Limited	1	0.04	10 000 000	12.08
PSG Group Limited	2	0.08	28 593 016	34.53
Directors (refer to page 61 for detail)	18	0.71	17 969 861	21.70
Directors of company or any subsidiaries	5	0.20	611 459	0.74
Associates of directors of company or any of its subsidiaries	13	0.51	18 142 741	21.91
Less holding included in Coral Lagoon Investments 194 (Pty) Limited	(1)	(0.04)	(1 592 500)	(1.92)
Trustees of employee share scheme	1	0.04	808 161	0.98
	2 546	100.00	82 797 912	100.00

Analysis of shareholders holding non-redeemable, non-cumulative, non-participating preference shares (preference shares)

	Number of shareholders	% total	Number of shares	% interest
1 - 1 000	170	35.56	98 771	5.86
1 001 - 10 000	281	58.79	731 608	43.44
10 001 - 100 000	25	5.23	611 990	36.34
100 001 and over	2	0.42	241 842	14.36
	478	100.00	1 684 211	100.00

Shareholder spread				
Public shareholders	477	99.79	1 663 211	99.75
Holding less than 5%	474	99.16	1 337 159	79.39
Holdings in excess of 5%	3	0.63	326 052	19.36
Mrs E de la H Meaker	1	0.21	136 842	8.12
Fraters Real Income Fund	1	0.21	105 000	6.23
Business Venture No. 544 (Pty) Limited	1	0.21	84 210	5.00
Non-public shareholders	0	0.00	0	0.00
There are no non-public shareholders other than directors and their associates				
Directors (refer to page 63 for detail)	1	0.21	21 000	1.25
None of the directors hold preference shares				
Associates of directors of company or any of its subsidiaries	1	0.21	21 000	1.25
Trustees of employee share scheme do not hold preference shares				
	478	100.00	1 684 211	100.00

Special Resolution of a Subsidiary

Details of a special resolution passed by a subsidiary of the company during the financial year under review are presented below.

Capitec Bank Limited

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), 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 2009, but not later than 17 October 2009;
- 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 counterparty (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 company's issued shares;
- The bank will not purchase any shares in its holding 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 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.

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 The Venue at Webersburg, Webersburg Wines, Annandale Road, Stellenbosch, on Friday, 29 May 2009, 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 2009 be approved."

2. Ordinary resolution number 2

"Resolved that Mr MS du Pré le Roux, 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 Michiel Scholtz du Pré le Roux: Mr le Roux, aged 59, obtained a BComm LLB from the University of Stellenbosch (1972).

Mr le Roux is the Chairman of Capitec and Capitec Bank. He is the founder of Capitec Bank and was chief executive officer of the bank until 2004. He is also a director of Zeder Investments. He was managing director of Distillers Corporation (SA) from 1979 to 1993 and from 1995 to 1998, managing director of Boland PKS, NBS Boland and BoE Bank.

He is the Chairman of the Directors' Affairs Committee and a member of the Remuneration and Human Resources Committee.

3. Ordinary resolution number 3

"Resolved that Ms NS Mjoli-Mncube, who retires by rotation in terms of article 77.1 of the articles of association of the company and, being eligible, offers herself for re-election, be re-elected as an independent non-executive director of the company."

Summary curriculum vitae of Nonhlanhla Sylvia Mjoli-Mncube: Ms Mjoli-Mncube, aged 50, obtained an MA City and Regional Planning from the University of Cape Town (1985).

Ms Mjoli-Mncube runs her own investment company, Mjoli Development Company. She was formerly the economic advisor to the deputy president of South Africa. She has chaired several companies and has worked in leadership positions in South Africa and the USA. She is a member of the boards of, inter alia, Cadiz Holdings, Wilson Bayly Holmes-Ovcon (WBHO) and Pioneer Foods.

She is a member of the Audit and Directors' Affairs committees.

4. Ordinary resolution number 4

"Resolved that Mr CA Otto, 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 Chris Adriaan Otto: Mr Otto, aged 59, obtained a BComm LLB from the University of Stellenbosch (1972).

Mr Otto has been an executive director of PSG Group since its formation and currently serves as a non-executive director since 16 February 2009. He has been involved in PSG Group's investment in microfinance and 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 and Kaap Agri.

He is a member of the Directors' Affairs and Risk and Capital Management committees and the Chairman of the Remuneration and Human Resources Committee.

5. Ordinary resolution number 5

"Resolved that the directors' remuneration for the financial year ending on 28 February 2010, including payment thereof in accordance with the scale of remuneration as set out below, be authorised:

Chairman of the board*	R895 000
Board membership**	R100 000
Chairman of the Audit and the Risk and Capital Management Committee**	R125 000
Chairman of Remuneration and Human Resources Committee**	R100 000
Committee membership**	R35 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."

Notice of Annual General Meeting

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 directors be authorised to determine the remuneration of the auditors."

8. Ordinary resolution number 8

"Resolved that the payment of a dividend of 110 cents per ordinary share, declared by the board on 31 March 2009 and payable in cash on Monday, 15 June 2009, to the shareholders of the company, recorded in the ordinary share register on Friday, 12 June 2009, be and is hereby authorised. The last day to trade to be eligible to receive a dividend will be Friday, 5 June 2009."

9. Ordinary resolution number 9

"Resolved that 4 139 896 (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% limit 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 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 2010 or 29 August 2010, 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 the public 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 a rights issue (which has been announced, is irrevocable and is fully underwritten), or 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 cast their vote in favour of this resolution."

11. 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 2010 or 29 August 2010, 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;
- The company will only undertake a general repurchase of securities if, after such repurchase, at least 300 public shareholders as defined in the Listings Requirements of the JSE continue to hold at least 20% of the company's issued ordinary shares;
- 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."

12. 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 2010 or 29 August 2010, 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 authority 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;
- The subsidiaries will only undertake an acquisition of the company's securities 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 the company's issued ordinary shares;

Notice of Annual General Meeting

- 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."

13. Special resolution number 3

"Resolved, subject to the provisions of the Companies Act, 1973 (Act 61 of 1973), as amended, the Banks Act, 1990 (Act 94 of 1990), as amended and the Listings Requirements of the JSE Limited, as applicable, that article 107 of the articles of association of the company be deleted in its entirety and replaced by the following new article 107:

"107 The company in general meeting or the directors may from time time declare and pay a dividend."

14. Special resolution number 4

"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 (the Banks Act), and the Listings Requirements of the JSE Limited (JSE), as applicable, that article 31.5 of the articles of association of the company be deleted in its entirety and replaced by the following new article 31.5:

"31.5 Acquisition by the company and/or its subsidiaries of their own shares or shares in their holding companies.

Notwithstanding anything to the contrary contained in these articles of association and subject to the provisions of the Act, the Banks Act, the Listings Requirements of the JSE and of any stock exchange upon which the shares of the company may be quoted or listed and the Rules of the Securities Regulation Panel the company and/or any of its subsidiaries may, from time to time, by special resolution, approve the acquisition by the company and/or any of its subsidiaries of own shares and/or approve the acquisition of shares by the company and/or any of its subsidiaries in their holding companies, either as a general approval or as a specific approval for a particular acquisition."

15. 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 four 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 this annual general meeting;
- The assets of the company and the Group, valued in terms of Generally Accepted Accounting Practice, will exceed the liabilities of the company and the Group for a period of twelve months from the date of this 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 this annual general meeting.

General information in respect of directors and management (page 24 to 27), major shareholders (page 108), directors' interests in securities (page 61 to 63), material changes (page 64) and the share capital of the company (page 87) 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 its 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) (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 this annual general meeting;
- The assets of each of the company, relevant subsidiaries and the Group valued in terms of Generally Accepted Accounting Practice, 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 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 this annual general meeting.

General information in respect of directors and management (pages 24 to 27), major shareholders (page 108), directors' interests in securities (page 61 to 63), material changes (page 64) and the share capital of the company (page 87) 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 28 May 2008.

Notice of Annual General Meeting

Special resolution number 3 – Amendment of articles of association

The reason for this special resolution is that the company seeks authority to empower the directors of the company to declare and, in addition, authorise the payment of dividends.

The articles of association of the company currently authorise the directors to declare a final dividend, however, not to pay such dividend. To date, the directors have included the declaration of the final dividend in the results announcement published more or less one month after the year-end. Payment thereof is in terms of the articles of association of the company subject to authorisation by the shareholders, normally obtained at the annual general meeting.

The effect of this special resolution, if approved, is that the directors of the company will be mandated to declare and authorise the payment of the final dividend without shareholder approval.

Special resolution number 4 – Amendment of articles of association

Article 31.5 of the articles of association of the company currently requires the prior written approval of the Registrar of Banks (the Registrar) when the banking subsidiary acquires shares in the ordinary share capital of the company (shares) for delivery to the trustees of the Capitec Bank Holdings Share Trust (the trustees), a share incentive scheme approved by shareholders at a general meeting held on 7 February 2002. Such approval is required in terms of the Regulations promulgated under the Banks Act, 1990 (Act 94 of 1990) only in the case of share capital reduction. Capitec Bank Limited acquires shares in the market from time to time for delivery to the trustees to enable the latter to deliver shares to eligible participants in the share incentive scheme when they exercise options to subscribe for shares in Capitec.

The reason for this special resolution is thus to amend the articles of association of the company in line with legislative requirements.

The effect of this special resolution, if approved, is that the articles of association of the company, which require that the prior written approval of the Registrar be obtained to effect repurchases, will be in line with legislative requirements.

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 certificated or dematerialised shareholder with own name registration 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 Wednesday, 27 May 2009.

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 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.

By order of the board
CG van Schalkwyk
Company Secretary
6 May 2009

FORM OF PROXY

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 Venue at Webersburg, Webersburg Wines, Annandale Road, Stellenbosch, on Friday, 29 May 2009, 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 29 May 2009 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 MS du P le Roux as a director			
3. Re-elect Ms NS Mjoli-Mncube as a director			
4. Re-elect Mr CA Otto as a director			
5. Approve the directors' remuneration for the financial year ending on 28 February 2010 including payment thereof			
6. Reappoint auditors			
7. Authorise the directors to determine the auditors' remuneration			
8. Authorise payment of a cash dividend of 110c per share			
9. Approval to place 4 139 896 of the unissued ordinary shares in the authorised ordinary share capital of the company, save to the extent that a rights offer is undertaken, in which case this 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 under the control of the directors			
10. General approval to allot and issue ordinary shares for cash			
Special resolutions			
1. General approval to the company to repurchase shares issued by the company			
2. General approval to any subsidiary of the company to acquire shares issued by such subsidiary and/or by the company			
3. Amendment of article 107 of the articles of association of the company to allow the directors to declare and pay a dividend			
4. Amendment of article 31.5 of the articles of association of the company to allow the banking subsidiary of the company to acquire shares in the company without prior written approval of the Registrar of Banks			

(Indicate instruction to proxy by way of a cross in the space provided above)

Signed at____________________on this____________________day of____________________2009.

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.

Notice of Annual General Meeting

NOTES TO 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, 27 May 2009.

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 2009
Profit announcement	: 1 April 2009
Annual report	: May 2009
Annual general meeting	: 29 May 2009
Interim report	: September 2009

Ordinary Dividend

Last date to trade to be considered for the dividend payment	: Friday, 5 June 2009
Record date in respect of the dividend payment	: Friday, 12 June 2009
Payment date	: Monday, 15 June 2009
Share certificates may not be dematerialised or rematerialised, both days inclusive	: 8 to 12 June 2009
JSE code ISIN	: CPI : ZAE 000035861

Administration and Addresses

Capitec Bank Holdings Limited	
Registration number	: 1999/025903/06
Auditors	: PricewaterhouseCoopers Inc
Directors	: AP du Plessis KA Hedderwick (resigned 24 November 2008) MS du P le Roux (chairman) TD Mahloele MC Mehl (Prof) NS Mjoli-Mncube (Ms) PJ Mouton CA Otto JG Solms R Stassen JP van der Merwe
Secretary	: CG van Schalkwyk
Registered address	: 10 Quantum Street Techno Park Stellenbosch 7600
Postal address	: PO Box 12451 Die Boord Stellenbosch 7613

CAPITEC Bank

www.capitecbank.co.za