12 TWENTY

Contents

10.5%
Limietberg Beleggings
MS du P le Roux

8.2%
Other director holdings

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Board of directors

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Executive management committee
3.5%

PSG Group
32.6%

Black ownership

10.1% Coral Lagoon

20% Batho-Batho Trust
5% Capitec Bank Group Employee Empowerment Trust
31.9% Keabetsoe Holdings (Pty) Ltd
3.5% Koma Trust
5% Lemoshanang Trust
4.7% Mdumo Trust
5% Nozala Investment (Pty) Ltd
18% Regiments Capital (Pty) Ltd
3% Rorisang Badasi Investment Holdings (Pty) Ltd
Others holding **less than 3% each**

3.5% Thembeka

49% Paladin Capital Financial Services (Pty) Ltd
11% PSG Group BEE Employee Trust
5.9% Steinhoff BEE Management Trust
8.4% Tokara BEE Trust
7.2% TSIBA Investment Corporation (Pty) Ltd
5.9% URC Cape Empowerment Trust
3.2% ZL Combi
Others holding **less than 3% each**

Capitec Bank Holdings Limited

1999/025903/06
(RSA incorporated)
(Registered bank controlling company)
Listed on the JSE Limited
in the Banks sector
Summary of governance structure
page 74

100%
Capitec Bank Limited

1980/003695/06 RSA incorporated (Retail bank)
1 Quantum Street, Techno Park, Stellenbosch 7600
www.capitecbank.co.za

75%
Key Distributors (Pty) Ltd

2001/000964/07 RSA incorporated (FMCG wholesaler)
101 Samuel Evens Drive, Aeroton, Johannesburg 2190

	Capitec Bank Limited	Key Distributors (Pty) Ltd
Products	**Global One** *Aimed at individuals who insist on simplified, affordable bank products* **Money transfer** *in conjunction with various retailers* ***Affordable employee salary transfer facility*** **Mobile banking** *bringing Capitec Bank to the workplace*	*Fast-moving customer goods distributor*
Awards received	*Ask Africa Orange Award* *Best service provider overall and Best service provider – banks* *Selected as one of the Royal Companies of 2012* *The leading growth companies listed on the JSE* *Selected as one of South Africa's Top 100 Companies of 2012* *2012 Gold Quill of merit*	
Employees	*7 086*	*108*
Revenue	*R7.4bn*	*R217.1m*
Total capitalisation		
Equity	*R4.8bn*	*R4.4m*
Debt	*R18.8bn*	*R23.0m*
Total assets	*R23.6bn*	*R27.4m*
Branches/warehouses	*507*	*4*
Increase in branches/warehouses	*52*	*–*
Contribution to group earnings after tax	*R1.1bn*	*R1.7m*

100%
Capitec Properties (Pty) Ltd

1998/007658/07 RSA incorporated
(Property holding company)

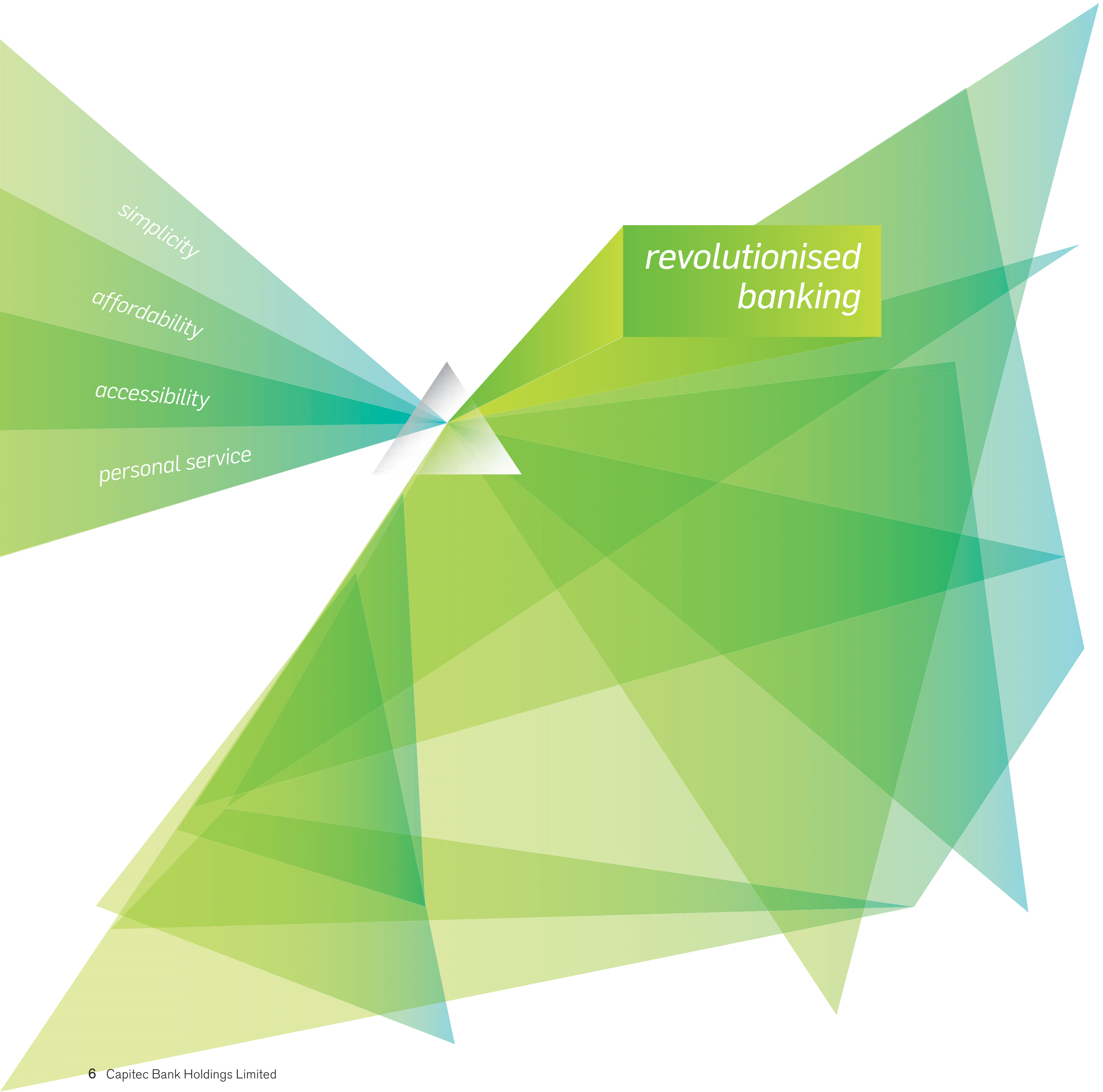
100%
Keymatrix (Pty) Ltd

1999/010617/07 RSA incorporated (Dormant)

100%
Keynes Rational Corporate Services (Pty) Ltd

1999/014817/07 RSA incorporated (Dormant)

02 Scope and boundary of the 2012 integrated report



The Capitec integrated report for the financial year ended 29 February 2012 details the performance of the Capitec group. Capitec is an investment holding and bank controlling company. Its business operation is concentrated in Capitec Bank, its wholly owned banking subsidiary. Capitec Bank is a registered South African bank focusing on serving the smart individual who wants cost-effective, simplified day-to-day money management ability. Capitec Properties holds one property in Techno Park, Stellenbosch, on which a new head office may be constructed in future. Key Distributors is a fast-moving consumer goods wholesale distributor. Its contribution to the Capitec group business is immaterial and as such the main focus of the narrative in the integrated report is on the activities and management processes in Capitec Bank.

This report follows on the 2011 integrated annual report. The 2012 report uses the Global Reporting Initiative (GRI3) reporting guidelines as part of the journey to develop a comprehensive yet simplified report addressing issues considered to be material to stakeholders in the Capitec group. The report describes the financial, social and environmental context in which the company operates, taking into account related sustainability considerations.

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PO Box 12451, Die Boord, Stellenbosch, 7600. Tel: +27(0)21 809 5900

Understanding the operating context

The European sovereign debt crisis continued to impact on investor sentiment throughout the past financial year. Consumers continued to show the effects of the 2008 financial crisis and the economic growth outlook has been muted; however, there was a slight increase in consumer confidence towards the fourth quarter of 2011. Inflation continued to increase above the South African Reserve Bank's target ceiling in the face of rising food and fuel prices. There has been much talk in the financial media about a potential credit bubble developing in the unsecured market; however, this is due to lack of understanding of what has been driving the growth in unsecured credit. Competition in the unsecured credit market has, however, increased dramatically and has forced Capitec Bank to focus its attention on exceptional service delivery and other differentiating concepts.

Our business objective

Increase market share through

- A technology-driven banking offer based on simplicity and outstanding service
- A single facility through which the individual can service all his/her every-day money management needs, i.e. save, have access to credit and transact
- Increased client numbers by facilitating increased accessibility to our banking offer to all South Africans
- A transparent, affordable price offer

Increase shareholder value by setting in place the infrastructure and building blocks required to ensure continued long-term, real growth in assets and profitability. Quality book growth and cautious bad debt management are the main building blocks in the design of a healthy bank.

The strategy

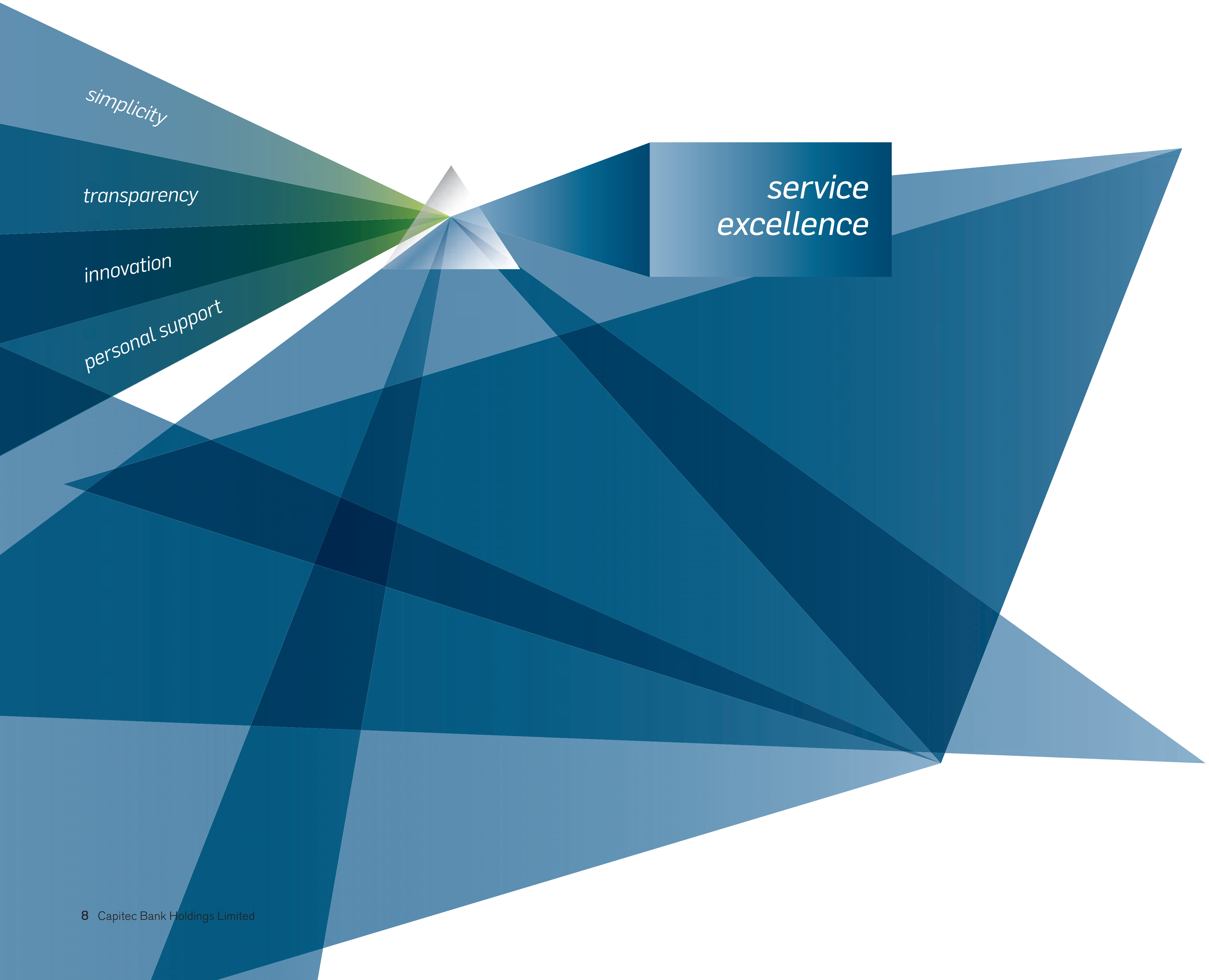
Keep to the original building blocks

- Affordability
- Accessibility
- Personal service
- Simplicity

Differentiate Capitec Bank by ensuring a unique experience through

- Price
- Positioning
- Service
- Product

Chairman's letter 03



It is all about clients

Acquiring new clients and encouraging existing clients to use more of our products and services is what we do. We've acquired 877 000 new active clients for the year.

As the bank has grown to a sizeable business with over 7 000 employees and 507 branches, we retain the focus and discipline of a small organisation. Every new employee, from the most experienced to the person in their first job, must participate in the same client orientation training course. During the year 2 694 employees (including replacements) were appointed and 1 863 jobs were created.

Capitec Bank has changed banking in South Africa. We focus on effective system-driven solutions and centralised control. We minimise administration and costs for our clients. We innovate and keep banking simple. This approach is attracting more and more high income clients that recognise that what we offer is all they need.

Capital and liquidity

In January 2011, when capital was needed to meet the requirements for the 2012 financial year, there was uncertainty surrounding the Basel III criteria for subordinated debt to qualify as capital. For this reason a rights issue, which raised R1.1 billion in ordinary share capital, was undertaken.

A private placement of ordinary share capital took place in November 2011. A total of R787 million in ordinary share capital was raised from domestic and international institutional shareholders at R172.00 per share. The price was at a discount of 7.6% to the volume weighted share price of the previous 30 days. This increased the number of ordinary shares in issue by 4.91%. We consider this placement a success. The sharply higher taxes on dividends and capital gains will increase the cost of capital.

The return on ordinary shareholders' equity was 29% (2011: 34%) despite the increase in ordinary share capital in January and November 2011.

During the course of the 2012 financial year, as the uncertainty surrounding subordinated debt diminished, we issued R619 million in subordinated debt to fund operational requirements. All the subordinated debt issued by Capitec qualifies for the phase-out in terms of Basel III criteria.

Retail deposits (the total of savings accounts and fixed deposits) have grown to R10 billion, increasing by 66% compared to a year ago. At Capitec savings attract interest from the first cent. The average retail call savings balance grew by 12% to over R1 800 during the year. Competitive fixed deposit rates have seen fixed deposits grow by 73% during the last year to R4 billion.

Unsecured credit

The unsecured credit market is showing continued growth. Unsecured credit (excluding credit card facilities) granted during the year to September 2011 grew by 56% according to the statistics published by the National Credit Regulator ("NCR"). The loan sales reported to the NCR by Capitec for the same period grew by 71%. The NCR reports loans disbursed as the total of all new credit, even if such loans are used to repay previous loans. In this report Capitec reports loan sales net of repayments. In other words, when a new loan is used to settle a current loan, we report only the additional money advanced. On this basis loans advanced grew by 35% for the full 2012 financial year to total R19.4 billion.

The term of credit granted has also continued to lengthen. During the 2012 year loans with terms longer than three years advanced by Capitec grew to R8.9 billion and totalled 46% of all loans advanced (2011: 25%).

There is a perception that a credit bubble is developing in the unsecured credit market as a result of continuing growth in the term and value of credit granted. We believe that growth will continue and that there is not a significant threat to the market as long as affordability and client behaviour are considered when granting credit.

When the credit market in South Africa was governed by the Usury Act, credit was only available to prime clients who could provide security. Interest rates were capped and credit providers sold credit insurance in order to increase their returns. It was difficult for the ordinary South African to get credit. Subsequently, the exemption to the Usury Act for loans under R10 000 with terms shorter than three years, opened the market to microlenders and interest rates increased dramatically.

When Capitec entered the market, our aim was to reduce the cost of credit to the client and make unsecured credit available to a wider market.

The implementation of the National Credit Act in June 2007 capped interest rates and fees but did not restrict the term or the amount of credit that could be granted. This spurred growth in the market.

The impact of the resulting lengthening loan terms and increasing loan values to clients can be measured best by comparing loan instalments to the disposable income of clients.

An analysis of our credit granting for the last quarter of the 2012 financial year compared to the last quarter of the 2009 financial year indicates that average compounded growth in credit granted was 97% while the compounded growth in the average loan instalment was only 9.8%. Disposable income grew by 9.2% per year during the same period, slightly more than wage inflation.

The percentage of loan instalments on loans with terms longer than 12 months to disposable income in 2012 is 40% compared to 39% in 2009. The client's disposable income has not been significantly impacted by the changes taking place in the market and according to our analysis our clients are not over-indebted.

The granting of longer-term, higher-value loans did not have a negative impact on the quality of Capitec's loan book. The gross loan book grew by R7.5 billion during the 2012 financial year to R18.4 billion. Arrears grew by R306 million and arrears to loans and advances was 5.1% compared to 5.7% in 2011 (2010: 6.2%). This is because longer-term loans are granted to our better rated clients with lower credit risk.

The gross loan impairment expense (before recoveries) increased by R692 million (64%). This increase is a result of the growth in the size of our loan book and not as a result of higher risk in the loan book.

Reducing margins, increasing profit

Loan revenue grew by 49% to R5.7 billion, but loan revenue to average gross loans and advances decreased to 39% from 46% in 2011. Interest rates on all loan products declined during the year as we continued to make lending more affordable for our clients. The lengthening term of the loan book also contributed to decreasing yields but increased the annuity income from loans and decreased the loan impairment expense.

Despite the fact that Capitec did not increase its fees in 2011, transaction fee income grew by 57% to R836 million. The number of clients as well as the number of monthly transactions per client increased during the past year because a growing number of clients are using Capitec for stop orders, debit orders and transfers. We have already announced our new fees for this year, which included no increase on our monthly fee and that the cost of internet and mobile payments (irrespective of the amount involved) will be reduced from R2.75 to R1.50 each.

Board of directors

The core management team has been with the bank since its inception. They are supported by an informed board. During the year we had to say goodbye to Johnnie Solms who was a director of Capitec Bank since its inception. He made a solid and entrepreneurial contribution, for which we thank him. We are pleased that Jackie Huntley, a lawyer, could join us as a board member. From 1 March 2012 our board will also benefit from the presence of Jock McKenzie, who has been chairman and CEO of Caltex Petroleum Corporation.

Dividends

The directors declared a final dividend of 300 cents per ordinary share for the year ended 29 February 2012 on 1 March 2012, bringing the total dividends for the year to 425 cents per share. The final dividend was paid on 26 March 2012.

The future

The focus remains on clients, from systems that provide convenience and ease of access, to the support clients require to make decisions in their own best interest.

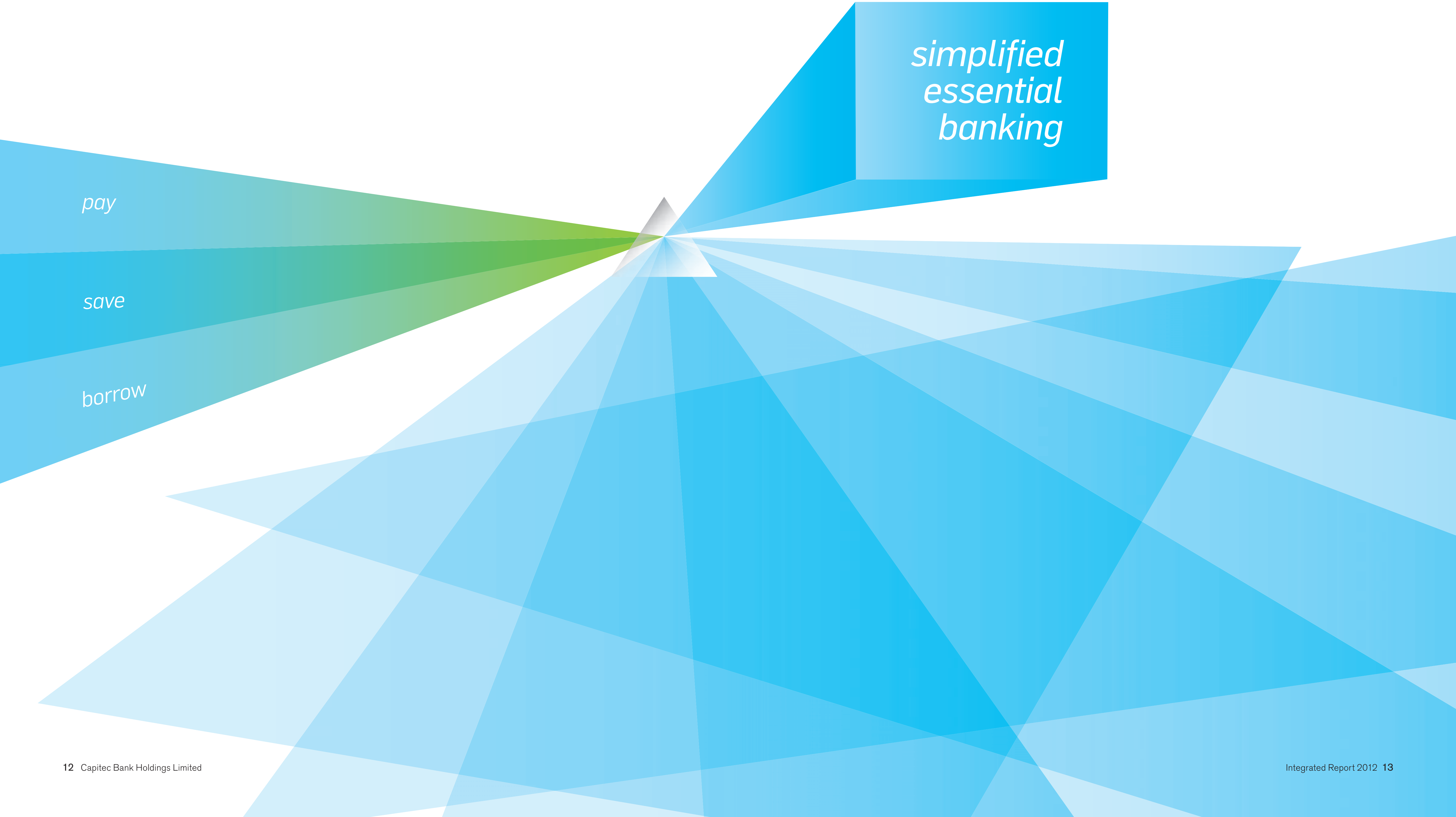
We shall continue to build our bank platform to deliver this support. New card services, loan products and mobile banking functions are planned for the coming year, as well as less visible improvements to our infrastructure. All of these will make banking easier and more cost-effective for our clients.

We are confident that this and the 55 new branches planned for the current year will continue to grow our client base as in the past.

On behalf of the board

Michiel le Roux
Chairman

Performance 04



Highlights

Headline earnings per share up

49%

Final dividend per share

300 cents

Return on equity

29%

Clients

3.7 million

Earnings up

68%

Statement of economic value added

For the year ended 29 February 2012

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

	2012 R'000	2011 R'000
Direct economic value generated		
Interest income	4 346 902	2 808 543
Loan fee income	1 657 018	1 273 574
Transaction fee income	1 360 308	883 040
Dividend income	1 532	571
Net movement in financial instruments held at fair value through profit or loss	12 070	(210)
Non-banking sales	217 145	219 298
Other income	679	251
Net impairment charge on loans and advances to clients	(1 604 190)	(988 177)
	5 991 464	4 196 890
Economic value distributed		
To suppliers in payment of operating expenses	1 708 113	1 236 114
To employees	1 267 326	931 811
Ordinary dividends	317 939	201 882
Preference dividends	19 419	15 754
Interest paid to providers of wholesale funding	555 896	435 487
Interest paid to savings clients	466 478	315 873
To providers of funds	1 359 732	968 996
Normal tax	615 889	297 044
Value added tax	241 777	196 490
Secondary tax on companies	33 584	21 763
Unemployment insurance	6 838	5 012
Skills development levies	12 341	8 662
Property rates and taxes	96	28
To government	910 525	528 999
To the community	1 209	416
	5 246 905	3 666 336
Economic value retained for expansion and growth		
Retained income	756 982	438 388
Depreciation and amortisation	173 518	126 697
Deferred tax	(185 941)	(34 531)
	744 559	530 554

Key performance indicators

		2012	2011	Change %	2010	2009
Profitability						
Income from banking operations	Rm	**5 646**	3 741	51	2 556	1 983
Net loan impairment expense	Rm	**(1 604)**	(988)	62	(548)	(468)
Banking operating expenses	Rm	**(2 486)**	(1 813)	37	(1 368)	(1 065)
Non-banking operations	Rm	**3**	-		2	6
Tax	Rm	**(464)**	(284)	63	(193)	(137)
Preference dividend	Rm	**(19)**	(16)	19	(14)	(19)
Earnings attributable to ordinary shareholders						
• Basic	Rm	**1 075**	640	68	435	300
• Headline	Rm	**1 078**	640	68	437	302
Cost-to-income ratio banking activities	%	**44**	48		54	54
Return on ordinary shareholders' equity	%	**29**	34		32	27
Earnings per share						
• Attributable	cents	**1 122**	757	48	525	364
• Headline	cents	**1 125**	757	49	527	366
• Diluted attributable	cents	**1 096**	730	50	509	357
• Diluted headline	cents	**1 099**	730	50	511	359
Dividends per share						
• Interim	cents	**125**	85	47	55	30
• Final	cents	**300**	205	46	155	110
• Total	cents	**425**	290	47	210	140
Dividend cover	x	**2.6**	2.6		2.5	2.6
Assets						
Net loans and advances	R'm	**16 863**	10 071	67	5 225	2 982
Cash and cash equivalents	R'm	**4 551**	2 842	60	2 567	1 514
Investments	R'm	**1 199**	989	21	1 306	150
Other	R'm	**1 009**	538	88	390	323
Total assets	R'm	**23 622**	14 440	64	9 488	4 969
Liabilities						
Deposits	R'm	**17 692**	10 450	69	7 360	3 317
Other	R'm	**744**	539	38	400	246
Total liabilities	R'm	**18 436**	10 989	68	7 760	3 563
Equity						
Shareholders' funds	R'm	**5 185**	3 451	50	1 728	1 406
Capital adequacy ratio	%	**39**	41		37	43
Net asset value per ordinary share	cents	**4 962**	3 418	45	1 896	1 512
Share price	cents	**18 500**	15 901	16	8 200	3 001
Market capitalisation	R'm	**18 367**	14 850	24	6 805	2 485
Number of shares in issue	'000	**99 282**	93 388	6	82 983	82 798

		2012	2011	Change %	2010	2009
Equity *(continued)*						
Share options						
• Number outstanding	'000	**3 087**	4 222	(27)	5 322	5 713
• Number outstanding to shares in issue	%	**3**	5	(40)	6	7
• Average strike price	cents	**4 358**	3 510	24	2 888	2 487
• Average time to maturity	months	**16**	20	(20)	24	25
Operations						
Branches		**507**	455	11	401	363
Employees		**7 194**	5 331	35	4 154	3 414
Active clients	'000	**3 706**	2 829	31	2 122	1 545
ATMs						
Own		**550**	479	15	417	368
Partnership		**1 526**	1 182	29	821	571
Capital expenditure	R'm	**381**	235	62	149	133
Sales						
Loans						
Value of loans advanced	Rm	**19 393**	14 318	35	8 645	6 273
Number of loans advanced	'000	**4 648**	3 907	19	2 899	2 717
Average loan amount	R	**4 172**	3 665	14	2 982	2 309
Repayments	Rm	**16 173**	12 117	33	8 288	6 744
Gross loans and advances	Rm	**18 408**	10 916	69	5 607	3 238
Loans past due (arrears)	Rm	**932**	626	49	350	326
Arrears to gross loans and advances	%	**5.1**	5.7		6.2	10.1
Provision for doubtful debts	Rm	**1 545**	845	83	382	256
Provision for doubtful debts to gross loans and advances	%	**8.4**	7.7		6.8	7.9
Arrears coverage ratio	%	**166**	135		109	79
Loan revenue	Rm	**5 660**	3 800	49	2 603	2 032
Loan revenue to average gross loans and advances	%	**38.6**	46.0		58.9	74.8
Gross loan impairment expense	Rm	**1 780**	1 088	64	620	514
Recoveries	Rm	**176**	100	76	72	46
Net loan impairment expense	Rm	**1 604**	988	62	548	468
Net impairment expense to loan revenue	%	**28.3**	26.0		21.1	23.0
Net impairment to average gross loans and advances	%	**10.9**	12.0		12.4	17.2
Deposits						
Wholesale deposits	Rm	**7 162**	3 954	81	3 669	1 690
Retail call savings	Rm	**6 348**	3 933	61	2 346	1 306
Retail fixed savings	Rm	**4 015**	2 316	73	1 148	265
Net transaction fee income	Rm	**836**	532	57	295	160

Financial director's report

Results in brief

Active clients grew by 31% and Capitec Bank now provides easy money management solutions to 3.7 million clients. The branch network expanded by 52 branches to 507 branches and clients are serviced by 2 076 ATMs.

Capitec's attractiveness to the funding market continued to grow and funding from a number of sources was available to fund the growth in the loan book and expand the branch network. Total wholesale deposits at the end of February 2012 amounted to R7.2 billion representing growth of 81% since February 2011. Retail call savings grew by 61% to R6.3 billion and the retail fixed savings balance grew by 73% to R4.0 billion. The average maturity of retail fixed savings as at 29 February 2012 was 15 months compared to 13 months at the end of February 2011.

During the year 4.6 million loans were advanced (2011: 3.9 million), increasing the value of loans advanced by 35% to R19.4 billion. Loans advanced are reflected net of internal loan consolidations. Loans with terms of 12 months and longer contributed 71% of total loan sales. Sales of 60-month loans totalled R6.2 billion and contributed to a 69% increase in the gross loan book to R18.4 billion.

Net loan revenue grew by 49% to R5.7 billion. The growth in loan revenue exceeded growth in loan sales as the annuity income from the lengthening of the term of the loan book during the last number of years continued to have an impact.

The net loan impairment expense as a percentage of average loans and advances was 10.9% compared to 12.0% for 2011. The net loan impairment expense of R1.6 billion grew by 62% compared to 2011. The gross loan impairment expense increased by R692 million. The growth in the loan book contributed R731 million to this increase and the improvement in default rates from 5.7% as at February 2011 to 5.1% decreased the charge by R12 million.

Net transaction fee income (non-lending) grew by 57% to R836 million, reflecting the growth in client numbers and transaction volumes. This income covered 34% of banking operating expenses compared to 29% in 2011. The target is for this income to cover 40% of operating expenses.

The cost-to-income ratio of banking activities improved from 48% for the 2011 financial year to 44% for the 2012 financial year. Income from banking increased by 51%, while operating expenses increased by 37%, mainly due to growth in the number of branches and employees. Employment costs, including training, comprise 53% of operating expenses compared to 54% for the 2011 financial year.

Headline earnings attributable to ordinary shareholders increased by 68% to R1.1 billion.

The return on ordinary shareholders' equity decreased from 34% to 29% due to the increase in ordinary share capital of R1.1 billion from the rights issue that took place in January 2011 and R787 million from the private placement in November 2011.

Loans advanced

Loans advanced increased by 35% and amounted to R19.4 billion

Loans with terms of 12 months and longer contributed 71% of total loans advanced (2011: 67%) and increased by 45% to R13.8 billion. Sales of loans with terms shorter than 12 months increased by 16% and totalled R5.6 billion.

The maximum loan value increased to R150 000 from R120 000 in the previous financial year and the maximum loan term remained 60 months.

Loans advanced are reflected net of internal loan consolidations. The National Credit Regulator reflects credit granted gross of internal and external loan consolidations in its statistics. Credit granted by the market is therefore inflated.

The 60-month loan product, launched during the 2011 financial year, contributed R6.2 billion in sales and totalled 32% of sales. Amendments to credit granting criteria during the 2012 financial year enabled a larger number of clients to qualify for 60-month loans and contributed to the increase in sales of the product. Credit criteria were adjusted, taking the bank's risk appetite into consideration and ensuring that the indebtedness of clients measured against disposable income remained in line.

The lower pricing of loans as dictated by market forces further contributed to the increase in longer-term loan sales as affordability for clients improved.

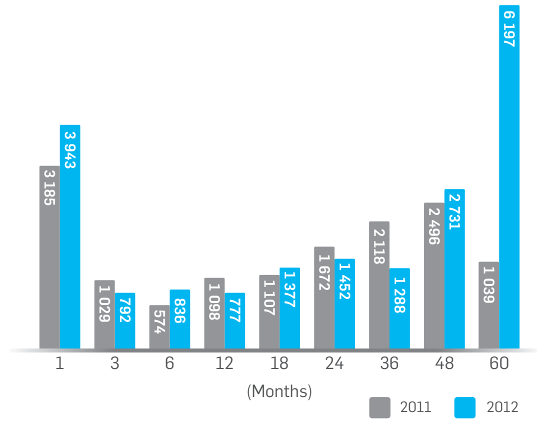
The increase in the granting of 60-month loans led to a decrease in sales of the 24- to 48-month loan products as clients qualified for loans with a longer term without increasing instalments.

The one-month loan was the second highest contributor to loan sales amounting to R3.9 billion and 20% of sales.

The ease of access to these loans via cellphone and the ATM network continued to contribute to the increase in sales.

The definition of the number of loans advanced as reflected in the key performance indicators was amended to count one multiloan per month and not each draw-down on a multiloan as a loan advanced. Statistics for comparative years were restated.

VALUE OF LOANS ADVANCED BY PRODUCT R'm



Loan revenue

Net loan revenue increased 49% to R5.7 billion

Net loan revenue consists of interest, origination fees and monthly administration fees net of insurance.

The loan pricing structure was amended during the year to include price differentiation according to the risk profile of clients. This differentiation will be expanded and refined during the 2013 financial year.

Loans advanced are priced in compliance with the National Credit Act (NCA) which prescribes ceiling interest rates. Loans are advanced at fixed interest rates and clients are therefore not exposed to interest rate fluctuations. Interest on all loan products remains fixed regardless of whether the prescribed ceiling rates increase or decrease after the loan is granted. The uncertainty that existed around this treatment at the end of the 2011 financial year has been settled and the Capitec Bank treatment was confirmed as correct.

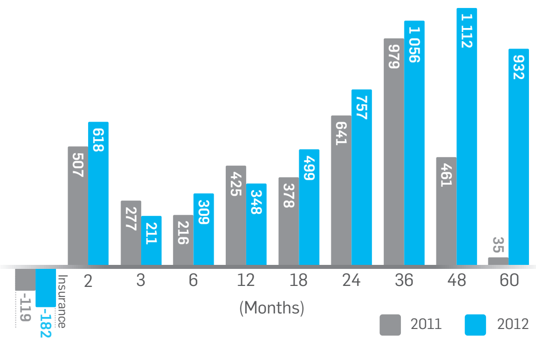
Clients do not pay extra for the credit life and retrenchment insurance which is provided on the loan products with terms of six months and longer. The cost of credit life and retrenchment insurance is carried by the bank while competitors add these charges to their loan pricing. The insurance expense amounted to R182 million (2011: R119 million).

Growth in net loan revenue exceeded growth in loan sales as the annuity income from the lengthening of the term of the loan book during the last number of years continued to have an impact. Interest received on loans increased by 58% to R4.2 billion.

As loan sales increasingly include longer-term, higher-value loans the lower yields on these products do, however, continue to affect loan revenue. Yields on all loan products declined during 2012, as our efforts to make lending more affordable to our clients continued. However, the rate of decline in yields was lower than during the 2011 financial year due to the fact that the last cut in repo rates by the South African Reserve Bank took place in November 2010.

Loan initiation and monthly administration fee income grew by 30% to R1.7 billion.

LOAN REVENUE BY PRODUCT R'm



Loan book, arrears and provision for doubtful debts

Gross loan book grew by 69% to R18.4 billion
Arrears as a percentage of gross loans and advances improved to 5.1%

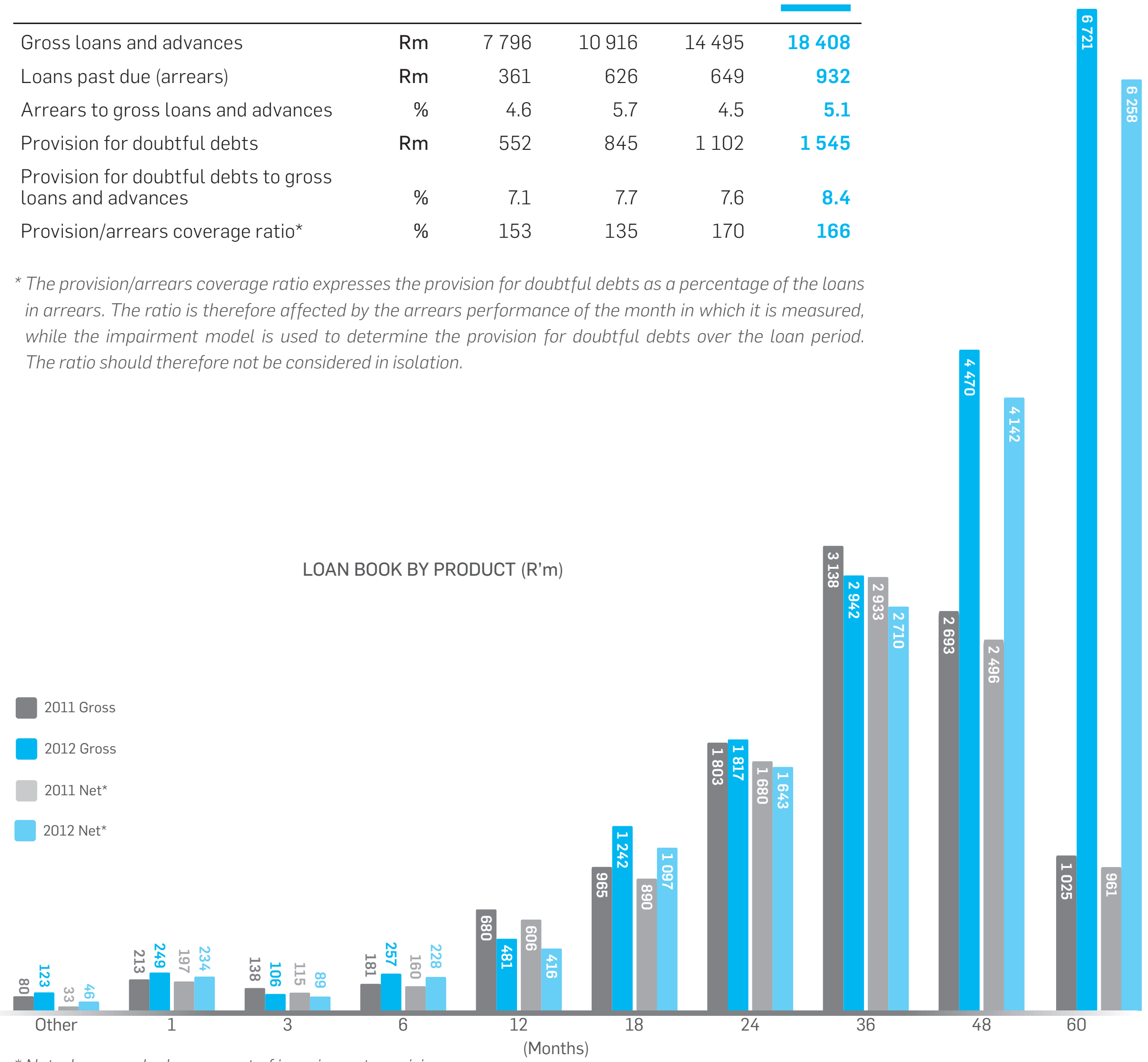
Gross loans and advances with terms of 12 months and longer totalled R17.7 billion at financial year-end compared to R10.3 billion at the end of February 2011. These loans comprise 96% of the loan book compared to 94% in 2011.

The 60-month loan product contributed R6.7 billion, or 37%, to the gross loan book due to the increase in sales of the product since it was launched in December 2010.

		Aug 2010	Feb 2011	Aug 2011	Feb 2012
Gross loans and advances	Rm	7 796	10 916	14 495	**18 408**
Loans past due (arrears)	Rm	361	626	649	**932**
Arrears to gross loans and advances	%	4.6	5.7	4.5	**5.1**
Provision for doubtful debts	Rm	552	845	1 102	**1 545**
Provision for doubtful debts to gross loans and advances	%	7.1	7.7	7.6	**8.4**
Provision/arrears coverage ratio*	%	153	135	170	**166**

** The provision/arrears coverage ratio expresses the provision for doubtful debts as a percentage of the loans in arrears. The ratio is therefore affected by the arrears performance of the month in which it is measured, while the impairment model is used to determine the provision for doubtful debts over the loan period. The ratio should therefore not be considered in isolation.*

LOAN BOOK BY PRODUCT (R'm)



** Net – loans and advances net of impairment provisions*

It should be noted that the above chart is not a maturity analysis. 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 in note 6 to the annual financial statements.

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

The gross loan book grew by R7.5 billion compared to February 2011. In contrast arrears grew by R306 million.

Loans and advances more than three months in arrears which were written off amounted to R1.079 billion compared to R625 million in 2011. The increase in the amount written off is a function of loan book growth and does not necessarily result from deterioration in the quality of the loan book for the year.

The quality of the loan book is reflected in the arrears percentage to gross loans and advances, which has improved from 5.7% at the end of February 2011 to 5.1% at February 2012 despite deterioration in the percentage from 4.5% in August 2011. The arrears percentage reflects the seasonal trend of higher default rates following the traditional vacation months of December and January. The non-payment of government contract employees in certain departments influenced the arrears and impairment charge as government employees comprise 56% of the loan book.

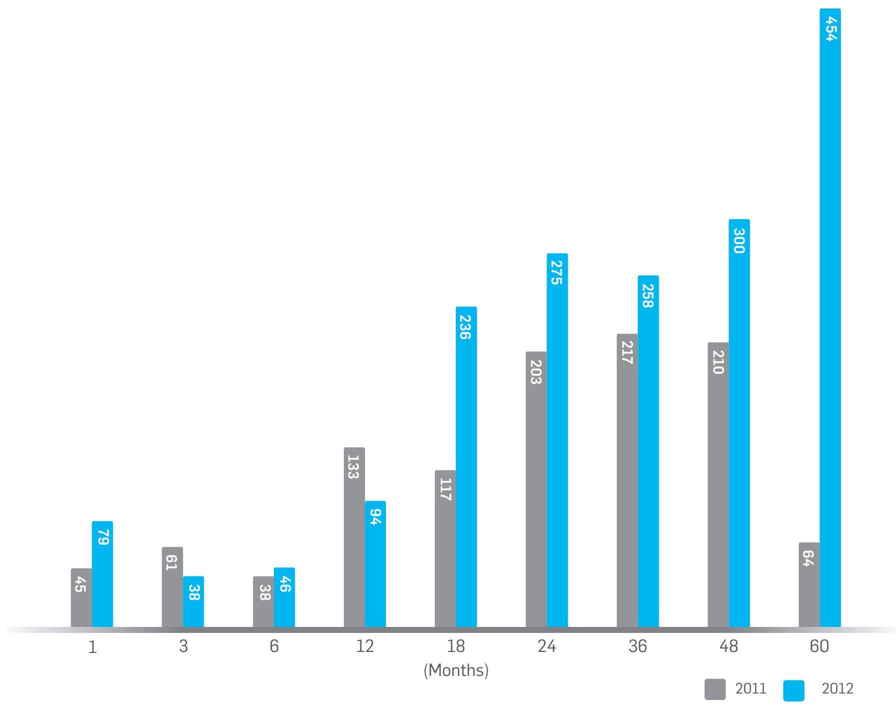
The provision for doubtful debts as a percentage of gross loans and advances increased from 7.6% at the end of August 2011 to 8.4%. This can partly be attributed to the fluctuation in arrears because the impairment provision model is very sensitive to even slight increases in default rates.

The growth in the less mature, longer-term books during the last six months of the financial year also influenced the provision. The provision calculated by the impairment model is based on historical data and the provision on newer, longer-term loan books like the 48- and 60-month loan books is calculated by stretching the historical information that is available on the shorter, more mature 36-month loan book. The fact that the past does not always reflect current economic circumstances also needs to be taken into consideration where the total loan book is growing rapidly and increasingly consists of newer, less mature loan products. Uncertainty surrounding the performance of longer-term loan books is also greater at the beginning of the term of the loans. These factors are addressed by increasing the IAS 39 provision on the loan books with terms of 12 months and longer. The additional provision is high at the beginning of the term of the loan and decreases as the loan matures. Effectively this steepens the provisioning curve in the beginning of the product's lifespan.

The breakdown of the loan book between current loans, loans in arrears, as well as the movement in the loan provision account is set out in note 6 to the financial statements.

The weighted average outstanding term of the 12 month and longer loan books as at February 2012 is 45 months (2011: 31 months), while the outstanding term of the loan books with terms shorter than 12 months is 3.5 months (2011: 2 months). The weighted average outstanding term of the total book is 45 months. This compares to 29 months at the end of 2011 and reflects the impact of the 60-month loan product.

GROSS LOAN IMPAIRMENT EXPENSE (BEFORE RECOVERIES) R'm



THE TABLE BELOW COMPARES THE INCREASE IN THE EXPENSE FOR EACH PERIOD TO THE IMMEDIATELY PRECEDING PERIOD.

	6 months to Aug* 2011	6 months to Feb** 2012	12 months to Feb*** 2012
Loan book growth	190	195	731
Default rates	(55)	70	(12)
Expected future cash flows on handed over loans	(21)	5	(27)
	114	270	692

* *Six months ended August 2011 compared to the six months ended February 2011*
** *Six months ended February 2012 compared to the six months ended August 2011*
*** *12 months ended February 2012 compared to the 12 months ended February 2011*

Loan impairment expense

Net loan impairment expense to average gross loans and advances at 10.9%

The net loan impairment expense of R1.6 billion for the year increased by R616 million compared to last year and represents 10.9% of average gross loans and advances compared to 12.0% in 2011.

Loan impairments are calculated at an account level based on historical data, and the recent patterns and events are given appropriate consideration. Improvements in default rates are achieved through strict monitoring of credit granting criteria, operational efficiencies and a focus on collections.

Recoveries increased by R76 million to R176 million. Recoveries increased by 76% compared to the 2011 year. An improvement in the efficiency of the debt review process contributed to the improvement in recoveries but recovery periods continue to lengthen as longer-term, higher-value loans are handed over.

The gross loan impairment expense (before recoveries) increased by R692 million. This includes an increase of R731 million due to loan book growth. The gross loan impairment expense before book growth decreased by R12 million due to an improvement in default rates and by R27 million due to an increase in the expected future cash flow from handed over loans.

The gross loan impairment expense in the second half of the financial year increased by R270 million compared to the first half of the year. The net increase consisted of an increase of R195 million due to loan book growth, an increase of R70 million due to the deterioration in default rates and an increase of R5 million due to a decrease in the expected future cash flows on handed over loans.

The net impairment expense includes higher provisioning on the newer and growing loan books of the 48- and 60-month loan products. Although these products are only extended to lower-risk clients and the performance on these books is better than the more mature 36-month loan product, prudent provisioning assumptions are applied. This is because the impact of a missed instalment on a longer-term, higher-value loan is more severe at the beginning of the repayment period, as the full loan amount may be at risk.

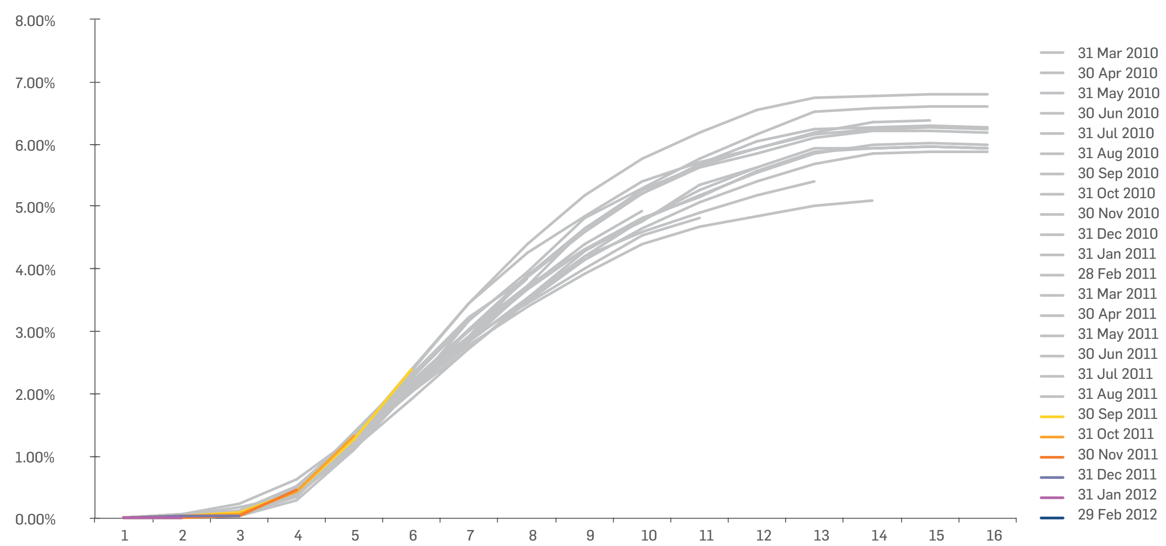
The net loan impairment expense as a percentage of loan revenue has increased to 28% from 26% for the 2011 financial year due to the impact of the higher impairment provision on the 48- and 60-month loan books as explained above and interest margins. The rate of provisioning on these products exceeds the rate at which income is recognised at the beginning of the term of the loans, which we consider prudent and conservative.

Vintage graph – loan tranches March 2010 to February 2012

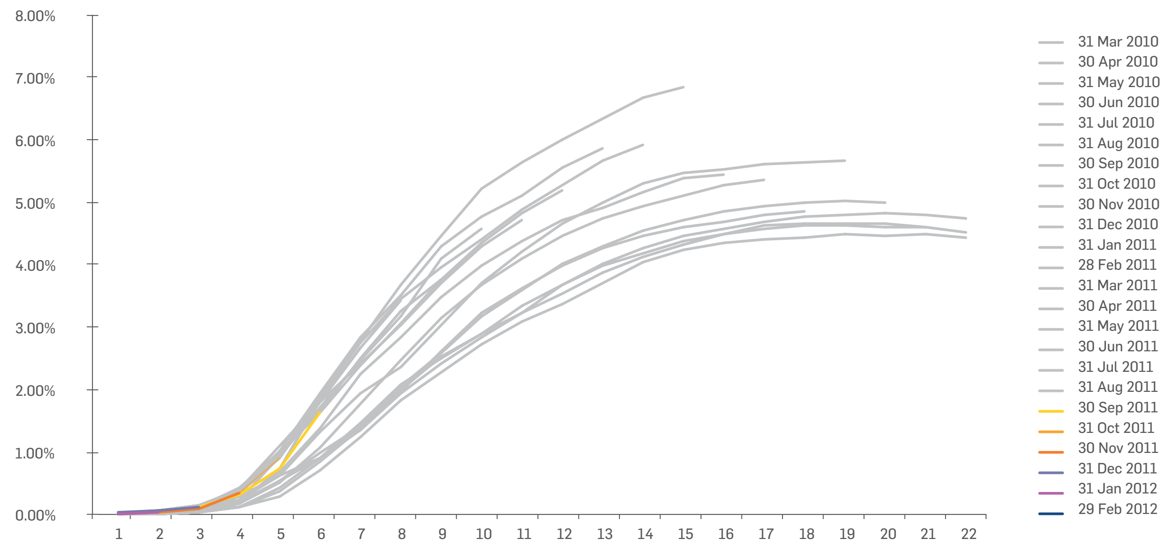
The vintage graphs for the 18- to 48-month loan products reflect the impact of the increase in the 60-month product and the adjustment to credit granting criteria which enabled clients to qualify for longer-term loans.

As some clients were offered more choices they migrated to better priced, longer-term products. The clients that did not qualify for these longer loans and therefore remain in the shorter-term loan books are higher-risk and therefore the quality of these books is diluted.

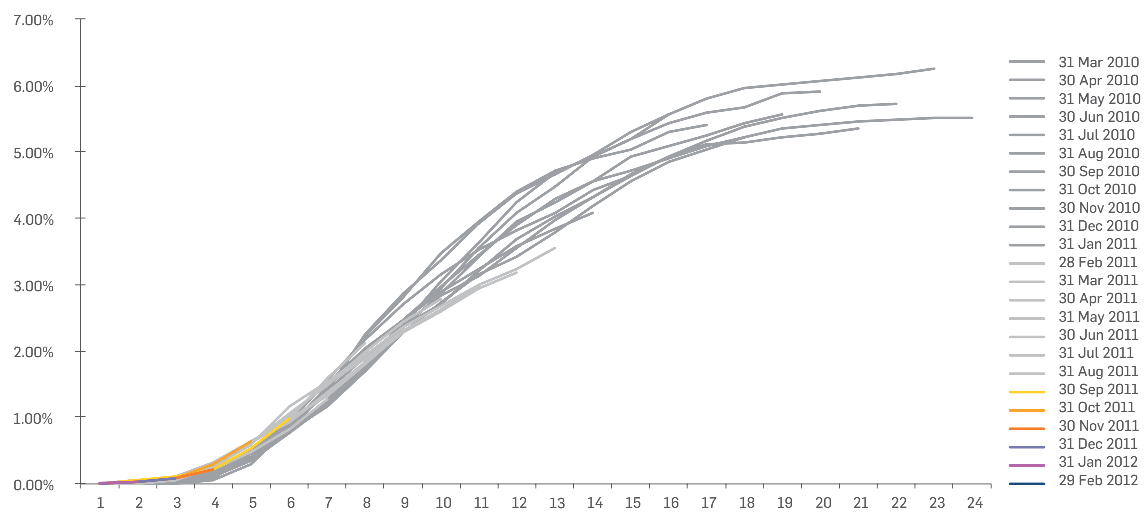
12-MONTH LOAN



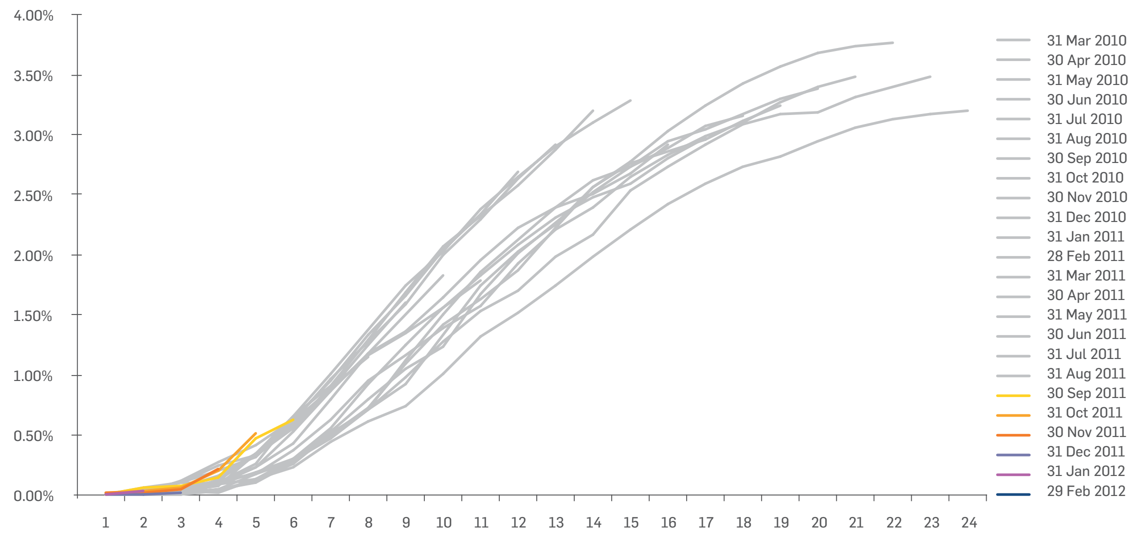
18-MONTH LOAN



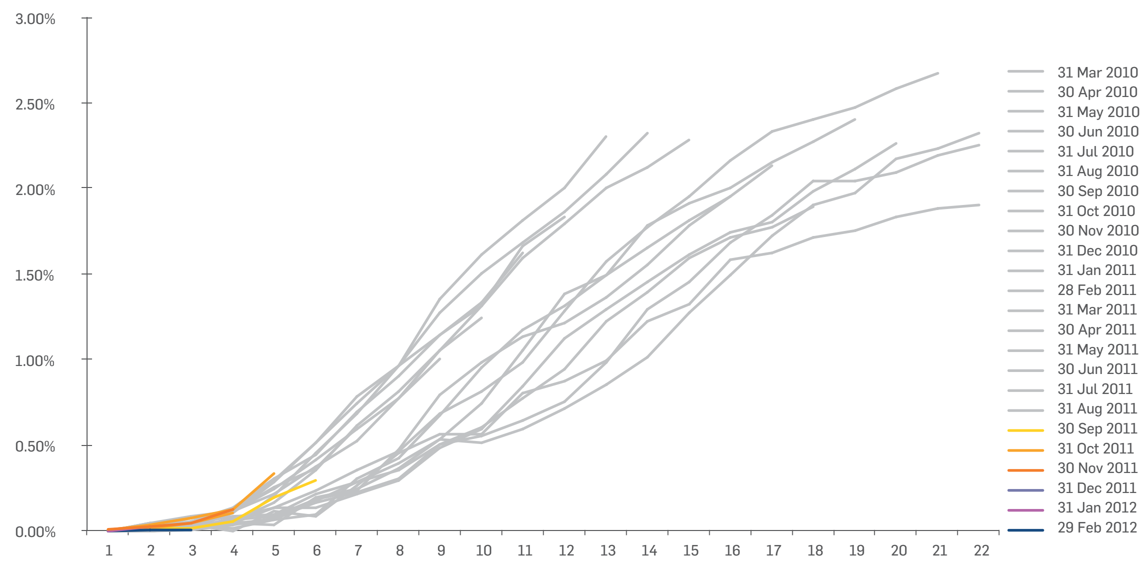
24-MONTH LOAN



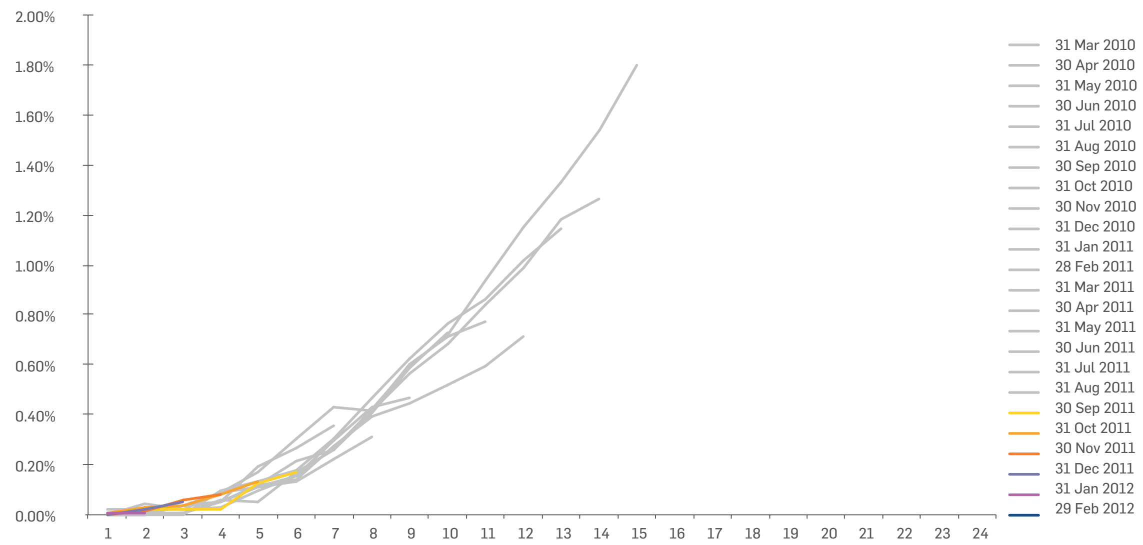
36-MONTH LOAN



48-MONTH LOAN



60-MONTH LOAN



Transacting services

Net transaction fee income grew by 57% to R836 million

Gross transaction fee income grew by 54% to R1.4 billion. Growth in fee income exceeded growth in client numbers despite the fact that Capitec Bank did not increase its fee structure during the 2012 financial year.

The number of clients using stop orders, debit orders and transfers increased and gross fees from these transactions grew by 67% compared to February 2011. The fee income per client utilising these transactions also increased.

Gross acquiring income increased in excess of 100% as the number of PoS (point-of-sale) terminals in operation more than doubled.

Transaction fee expenses grew by 49% to R524 million.

Net transaction fee income covered 34% of banking operating expenses compared to 29% in 2011, making progress towards the target of 40%.

Funding

Total funding grew to R17.5 billion

Retail call savings deposits grew by 61% to R6.3 billion. The increase is largely due to a 49% increase in the number of non-lending, transaction fee clients since February 2011.

Retail fixed savings products, with a maturity of up to 60 months, grew by 73% to R4.0 billion at the end of February 2012. The number of clients with fixed deposit accounts grew by 41% compared to February 2011, while the average balance per client grew by 23%. As at 29 February 2012 retail fixed savings comprised 36% (2011: 37%) of term funding. It remains management's goal to maintain this percentage at about 40% as fixed term retail funding remains attractive due to the lower pricing and lower concentration and refinancing risk. The average maturity of retail fixed savings as at February 2012 was 15 months compared to 13 months at the end of February 2011.

Two bonds totalling R1.3 billion were issued under the Domestic Medium Term note ("DMTN") programme in May 2011 and bonds in the amount of R490 million that matured were repaid. Subordinated debt funding in the amount of R619 million was procured of which R575 million is listed under the DMTN programme.

Funding instruments with more varied maturities were issued as Capitec's profile became more established in the market and the cost of credit decreased. Funding with terms of 12 months or less in issue increased to R2.5 billion from R842 million in February 2011. The term of funding is matched to the term of the loan book. Total wholesale deposits at the end of February 2012 amounted to R7.2 billion representing growth of 81% since February 2011.

A capital repayment amounting to R90 million in terms of a foreign bilateral funding agreement takes place in March 2012. Bonds totalling R322 million issued in terms of the DMTN programme mature in May 2012. Further amounts will be issued in terms of the registered bond programme at that stage.

Liquidity

Liquidity management remains conservative

Management's liquidity philosophy remains cautious and conservative. The management of liquidity continues to take preference over the optimisation of profits.

Despite difficult economic conditions the bank has not experienced volatility in its retail funding base and Capitec complies with the two new Basel III liquidity ratios: the liquidity coverage ratio and the net stable funding ratio.

Funding that is surplus to operational requirements is managed in terms of the liquidity philosophy to ensure that obligations can be met as they become due.

Surplus funding is invested in interest-bearing instruments and instruments are selected to minimise the net carrying cost of surplus funds.

Instruments with maturities greater than three months from the date of acquisition are included in investments and comprise treasury bills issued by the South African National Treasury.

The liquidity position as at 29 February 2012 is set out in note 27.6 to the annual financial statements.

Capital

Successful private placement raised R787 million in ordinary share capital

In order to optimise the group's capital base, R787 million in ordinary share capital was raised in November 2011 by means of a private placement. This capital, together with the subordinated debt procured during the year, enabled the group to maintain a risk-weighted capital adequacy ratio of 39% (2011: 41%) while continuing to grow the loan book and expand the branch network.

The capital adequacy calculations incorporate a calculation change in line with standard Basel practice. The risk-weighted asset equivalent for operational risk included in the divisor is now determined as per the alternative standardised approach (ASA) calculation for retail banking. The comparative has been restated.

The return on ordinary shareholders' equity was 29% (2011: 34%) despite the increase in ordinary share capital of R1.1 billion from the rights issue that took place in January 2011 and the increase of R787 million from the private placement mentioned above. The strong return was achieved by growing earnings by 68% to R1.1 billion. The return remained comfortably above the target of 25%.

Credit rating

Outlook is positive

The long-term and short-term national scale credit ratings for Capitec Bank Limited determined by Moody's Investors Service remain unchanged at A2.za and P-1.za respectively, but the outlook for these ratings was amended to positive.

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.

Cost structure

Cost-to-income ratio of banking activities improved from 48% to 44%

Capitec's branch network expanded from 455 branches at the end of February 2011 to 507 branches at the end of February 2012 and the ATM network has grown to 2 076 from 1 661 at February 2011.

Capital expenditure for the year grew to R381 million compared to R235 million in 2011 and is expected to increase in line with plans for expansion of the branch network by 55 branches during 2013. Capital expenditure planned for the 2013 financial year totals R673 million.

Banking operating expenses grew by 37% to R2.5 billion mainly due to growth in the branch network and corresponding growth in the number of employees. This represents an increase of R673 million.

The group currently employs 7 194 people, an increase of 35% on 2011. The growth in the number of employees exceeded the growth in the number of branches due to the continued implementation of a centralised collections function and the expansion of information technology support structures. Employment costs, including training and incentives, comprise 53% of operating expenses and contributed R352 million to the increase in operating expenses.

An incentive for all Capitec Bank employees, in terms of schemes based on growth in headline earnings per share, is included in employment costs. Senior management (excluding strategic management) qualify for a cash-settled performance bonus scheme. This scheme rewards managers based on the growth in headline earnings per share, and to foster a long-term approach by management the amount is paid out over a three-year period. Strategic management are incentivised by means of share options which are equity-settled and share appreciation rights which are cash-settled.

The remuneration report contains an analysis of these bonus schemes.

Training costs increased by 46% to R40 million and comprise 13% of employment costs. Training costs include in-house training of all new employees that are deployed into the branch network and support structures as well as various in-house leadership and other training programmes. Investment in the training of employees is considered crucial to the success of the bank.

The business focuses on cost analysis and management and this approach reflects in the cost-to-income ratio which decreased to 44% from 48%.

Taxation

The total tax contributions paid over to government for the year amounted to R1.2 billion compared to R698 million in 2011. This includes normal tax, value added tax, secondary tax on companies, unemployment insurance, skills development levies, property rates and taxes as well as employees' tax. The tax contribution as a percentage of profit available for distribution to ordinary shareholders is 59% (2011: 60%). For further detail refer to the statement of economic value added.

The group's business model, as well as the products and services offered are not complex, and complex tax structuring does not form part of the philosophy of Capitec Bank.

Dividends

The board of directors considers the capital and funding requirements of the business before declaring dividends. The dividend cover for the past four years ranged from 2.6 to 2.5. The dividend of 300 cents per share declared on 1 March 2012 equates to a dividend cover of 2.6 and is the last dividend to be declared in terms of the secondary tax on companies rules.

André du Plessis
Financial director

Clients

For clients
- Access to simplified money management:
  - The Global One card facilitates easy, low-cost transactions
  - Rewarding interest on savings
  - Access to cost-efficient credit

For Capitec
- Continued growth of the Capitec Bank footprint
- Growth in revenue from R5.0 billion to R7.4 billion

Employees

For employees
- Employment
- Personal development through education
- Association with a respected brand
- Mutual respect, loyalty and trust

For Capitec
- Strengthening the aspiration value of the Capitec Bank brand in every South African household
- Unique service experience

Shareholders

For shareholders
- Return on capital
- Capital gain

For Capitec
- Integrity as a safe investment opportunity
- Source of funding
- Demand for and resulting growth in share price

Funders

For funders
- Good return on and safe investments

For Capitec
- Funding to finance growth

Regulators

For regulators and for Capitec
- Capitec's status as an approved bank controlling company and Capitec Bank's status as a licensed South African bank
- Healthy banking environment in South Africa
- Appropriate payment services to all participants in the payments environment and specifically for our clients
- Vigorous credit environment in South Africa in general and Capitec Bank's integrity as a law-abiding credit provider
- Capitec's integrity and status as a healthy investment opportunity

Society

For society
- Employment opportunities
- Access to affordable and responsibly granted credit
- Access to a wide range of transparently priced banking products
- Simplified money management
- An ancillary education support model for the higher-potential, but most needy students

For Capitec
- Clients with robust financial circumstances that allow them to save with and repay loans obtained from Capitec Bank
- Employable, educated individuals

Suppliers

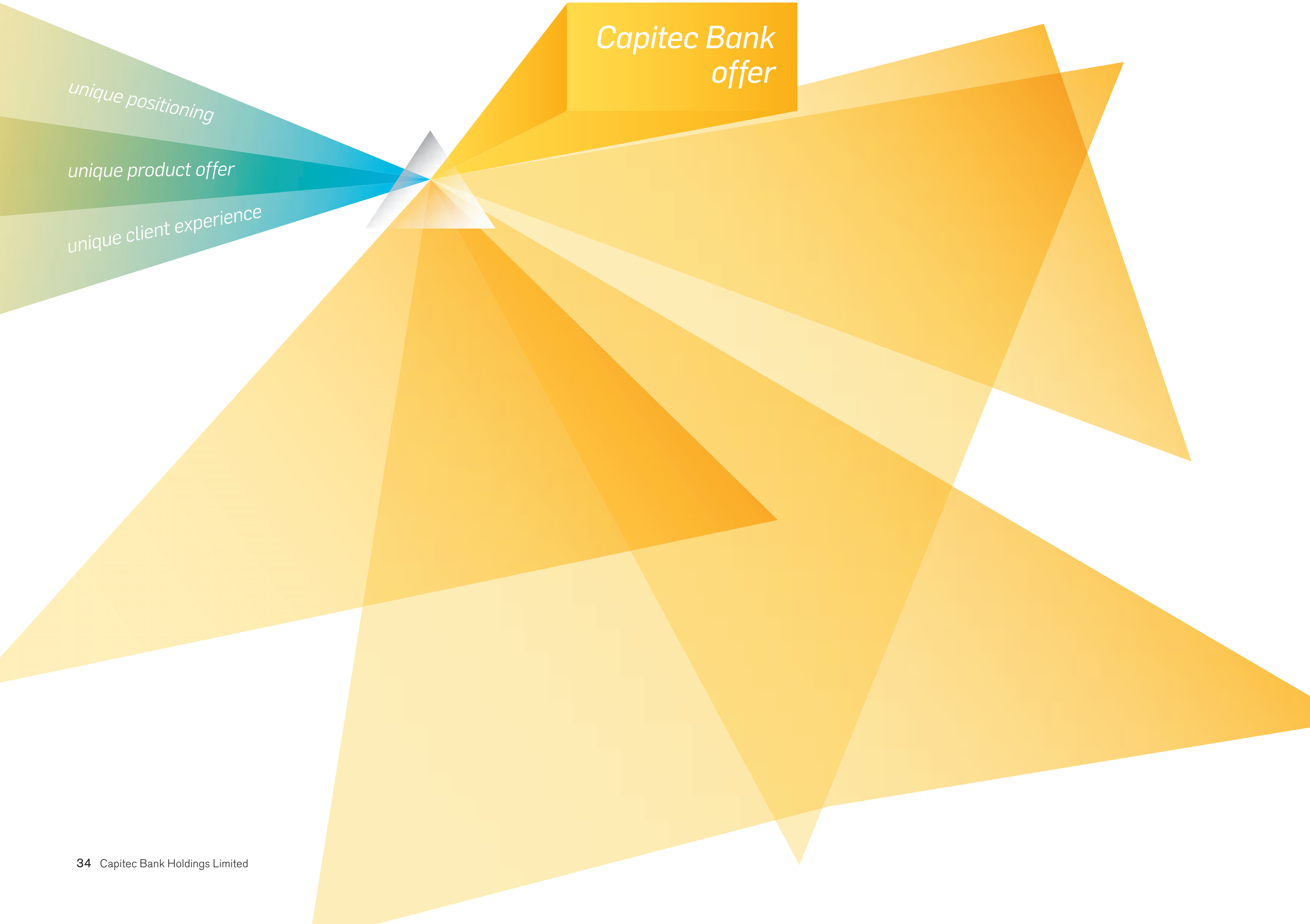
For suppliers
- Continuously growing business opportunities

For Capitec
- Timeous delivery of orders to support employees in their day-to-day functions and ultimately facilitate continued client satisfaction

Government
- For the 2012 financial year the Capitec group created 1 863 jobs and paid taxes in the amount of R1.2 billion

Evolve

Clients 06



Growing a client base

The success of Capitec Bank is primarily driven by the number of clients that choose to use the bank. The number of transactions each client performs and the extent of credit taken from the bank by clients, determine the income stream that the bank can earn.

The number of transactions that clients perform on the bank system is dependent on whether these clients use the bank as their primary bank. Many clients have bank accounts at more than one bank, but choose one as the primary account into which their salary is deposited and from which all payments are made. This preference is also an indication of the bank:

- which clients trust,
- get the best value from, and
- have the best relationship with.

Capitec Bank regards these clients as the most important to acquire.

The reported client numbers at Capitec Bank are based on a minimum activity level defined for active clients over the past three months. This definition reflects client growth of 31% over the past year to 3.7 million clients as at the end of February 2012.

The proportion of the adult population in South Africa that is banked has not changed significantly over the past year and has increased marginally from 62.5% to 62.8% of the total population. This number is estimated at 21.2 million at the end of 2011.

Material issues

- Sustainability of the bank
- Banking costs

Percentage of adult South Africans who use formal banking

	2008	2009	2010	2011
Do	63	60	63	63
Don't	37	40	37	37

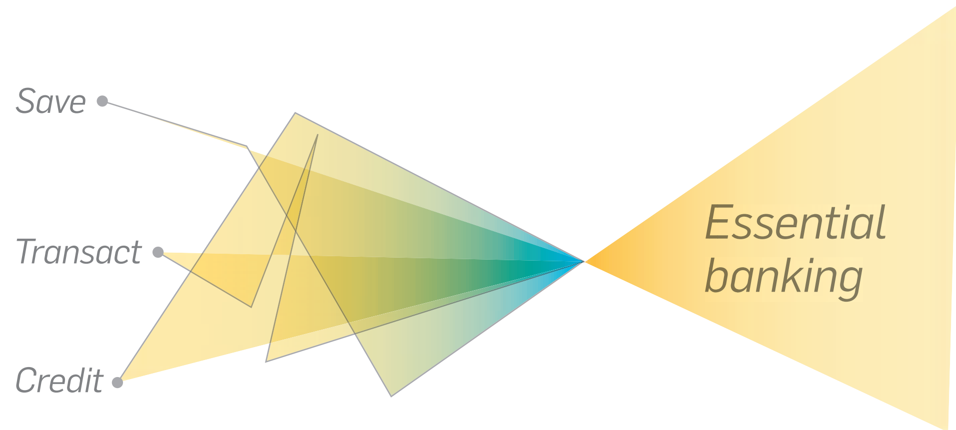
Total number of bank clients

	2010	2011
Banked	20 956 844	21 184 871
Formal non-banked	1 667 456	1 605 519
Informally served only	3 000 903	1 852 518
Non-served	7 816 691	9 096 492
Total	33 441 893	33 739 399

Source: Finmark Trust

Capitec Bank does not use demographic segmentation to identify its core client or target market and, contrary to common practice in the industry, the bank does not segment the market on income. The focus is on providing essential banking to all clients regardless of income level. Essential banking can be defined as the key transacting, saving and credit needs that clients have to run their everyday lives. While Finscope* indicates that 97% of all bank clients have transacting products at banks (e.g. a card), only 14% have formal credit and 11% formal savings products from banks.

**Finmark Trust*



Based on the above definition the total population of 49 million in South Africa could potentially be Capitec Bank clients. The presently banked adult population of 21.2 million should, however, be regarded as the total present adult target market for Capitec Bank. The active clients using Capitec Bank therefore represent 7.6% of the total population and 17.5% of the adult banked market in South Africa. Consideration must, however, be given to the fact that, as previously stated, many clients have more than one bank account and that many of these clients have a primary bank account with another bank. Much opportunity therefore exists to expand the bank's market share in the formally banked market.

Bank clients

Percentage of consumers using:	
Transaction products	97
Insurance products	16
Credit from banks	14
Savings from banks	11
Electronic payments	11

Source: Finmark Trust

Capitec bank has addressed the essential banking needs defined above by providing innovative, technology-driven solutions that are affordable, accessible, simplified and ensure personal support. An open-ended savings and credit platform gives clients options, features and benefits that they can choose and structure as they require, with "information support" on their accounts that puts clients in control.

The extent to which Capitec Bank can differentiate its offer on this basis and deliver a simplified, transparent solution which clients trust, will determine the rate of acquisition of new "salary deposit" clients.

Research carried out on an annual basis via Nielsen SA, indicates that Capitec Bank is on the right track. It is regarded by consumers as significantly different in the banking industry. It is the bank to which existing bank clients would most likely switch. The percentage of clients who consider Capitec Bank as the best alternative to change to is higher than for all other industry competitors.

Some challenges in acquiring new clients

Confusing bank offers

All the traditional banks provide a version of their products and services in a packaged form, at a fixed monthly price. These offers are accompanied by restrictive terms and conditions which include penalties and additional fees if certain transaction volumes are exceeded.

Alternatively they offer prices on individual transactions in the form of sliding scales or as a percentage of transaction value. This creates confusion for clients and makes comparison of the various solutions difficult to the extent that even price comparisons conducted by auditing firms have been questioned as to their accuracy.

Research conducted in the market confirms that a small percentage of clients know what their monthly bank charges are. This makes it challenging to differentiate the Capitec Bank offer on the basis of cost.

Financial skills

Financial literacy levels are not high in the broader South African market. A general understanding of the time value of money is lacking. Clients therefore do not always understand the differences in the features and cost benefits of alternative banking products. This is further complicated by banks who quote transaction fees as a percentage of transaction value.

Confusing pricing

In the case of credit, certain fees and charges are often not reflected by credit providers as a credit cost, but as insurance cover or product insurance, which can mislead clients. Research conducted by Capitec Bank has indicated that a significant percentage of clients choose credit from a specific supplier, even though the offer is not the best in the market. The key features of the credit offer that often determine the choice exercised by clients are the total amount of credit provided and the length of the credit term which influences the monthly payment. A sound understanding of the implications of the credit agreement is therefore often lacking.

Capitec Bank highlights the essence of the contract and emphasises important information that clients need to take note of on the first page of its credit agreements. Specific credit communication material is also provided in-branch to clients who request a loan quote. This material enables easy price comparison between credit providers, as a decision support mechanism in the interest of the client.

Resistance to switch

The general perception of clients who want to switch banks is that the administrative process is too cumbersome. There is therefore resistance by clients to go through this process. As a result of this, brand differentiation needs to be even stronger to influence the willingness of clients to switch banks.

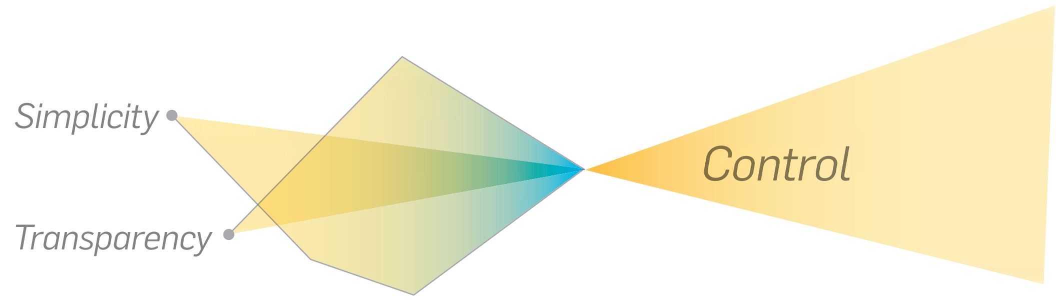
Simplicity and transparency

The approach

Capitec Bank has applied "simplicity and transparency" as key elements of its market strategies to ensure that a long-term trust relationship is built with clients. The Global One single solution to money management has therefore been simplified to ensure no confusion can exist regarding its features and benefits. Clear and simplified communication in all the consulting steps is applied by the bank to minimise the possibility that clients experience an expectation gap.

The service system

New service flow processes have been developed to enhance transparency. Consultants and clients sit side by side so that clients can be informed simply and clearly of their options and the implications of each step. A step-by-step road map of the administrative process is also incorporated in the service flow to inform clients of the process to be followed.



The product

The Global One solution with all its accounts carries a single monthly admin fee of R4.50 which also includes access to the card, mobile and internet transaction channels.

All transaction prices on the various channels are quoted in the form of a fixed price per transaction, with only a few price variants.

Monthly communication is sent to clients confirming the monthly bank costs they have incurred. Tips on their transactional behaviour are added to this, to assist clients to reduce bank fees through the use of alternative transactions.

Communication

In-branch communication material includes tables for cost comparison with other service providers, to ensure clients can make informed choices.

Advertising campaigns are designed to deliver messaging which conveys simplified, clear benefits and supports the principle of "know what you get, know what you pay."

A team of consultants who specialise in switching client bank accounts from their existing accounts to Capitec Bank assists clients and informs them when and how best to implement these changes.

Relationships and staying in contact

Ongoing contact with clients is essential to monitor the acceptance of our services and consumer preferences regarding our product features. Every form of feedback from the various channels of contact is an opportunity to review our ability to differentiate our offer and to evaluate the quality of service as experienced by clients. The bank has applied the following interactive platforms to ensure adequate feedback over the past year:

- Client surveys
- SMS communication
- Internet communication
- Call centre complaint evaluation and review
- Formal market research
- Blog site monitoring and conversation

Management applies the approach of continuous "service point" evaluation. This includes extensive visits to branches and service points by senior executives to meet with clients and experience the relationship with clients. Branch managers are placed in the front of branches to act as the custodians of client relationships. This ensures a focus on and the ownership of service and client support by the branch manager.

The essence of our unique offer

The best value, essential banking solution which provides:

- A single simplified solution called Global One which contains the essential accounts required for everyday money management. This includes a transaction account, four savings plans and credit plans.
- Easy access to card, cell and internet transacting at no subscription fee.
- Paperless in-branch transacting which is quick and convenient.
- All needs addressed in real time.

- The lowest, most transparent transaction fees.
- Personalised support that is in the best interest of clients.

How will we continue growing?

Unique service experience

The bank has not only entrenched simplicity and transparency in its service steps, but structured unique managerial processes to drive these attributes, including personal support and service, in branches. Administrative processes are minimised in the branches and are controlled from a central backoffice. This enables the consulting process to be focused on service interaction and addressing needs efficiently.

Personal referrals by existing clients are ever-increasing and are testimony to the supportive service experienced by these clients and the value of our unique service processes.

Unique positioning

Simplicity and transparency have also been built into advertising communication to entrench this differentiation in the minds of potential clients. This approach continues to build trust and respect in the brand, as clients value the authenticity and sincerity of the offer. Capitec Bank has become known as a straightforward, supportive bank which delivers in the best interests of its clients.

Unique product offer

The bank continues to drive its product differentiation in the market through its key benefits to clients. These include:

- Global One – simplified single solution to money management
- High interest earned on the transaction account as well as on fixed-term savings plans
- Low transparent prices on transactions
- Excellent prices on mobile and internet transactions
- Easy, immediate access to low-priced credit

Market expansion

Market expansion has also occurred naturally as higher income clients in both the older and younger age group segments have been exposed to our simplified low-cost offer. Many clients find the Global One solution adequate for their needs and obtain longer-term traditional credit such as bonds or asset finance from independent providers other than banks.

The expansion of our branch footprint by over 50 branches per year has not only contributed to improved market penetration and the resultant client growth, but has also assisted in the acquisition of a different profile of client. Shopping mall branches have attracted clients from higher income groups who were clients of the four traditional banks in South Africa. The increase in branch numbers per year will continue at the same rate as in the past and will continue driving client acquisition for the next three to five years.

Opportunity exists to expand our offer in the credit market in the form of a credit card. This will expand the overall market for Capitec Bank, as it will address the needs of higher income clients who presently don't use the bank. The unsecured credit offer can also be expanded to larger value loans, to address a greater portion of the asset finance market, which the bank presently does not address. All these actions have and will continue to result in new client growth occurring at an increasing rate on a year-on-year basis.

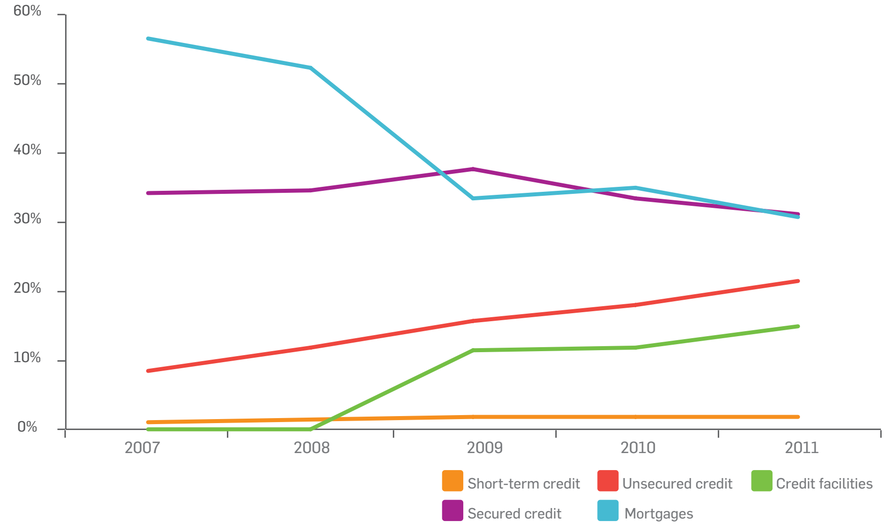
Credit in a growing unsecured market

Since the introduction of the National Credit Act, 34 of 2005, the nature of the unsecured credit market in South Africa has changed significantly. The international credit crisis in 2008 resulted in the decline of secured lending and in particular of the mortgage market. This, the formalisation of the unsecured market and the expansion of the formal housing market, which includes electrification of homes, has fuelled significant growth in the unsecured market.

The lending criteria in the secured market were significantly tightened in 2009 and are largely still more stringent than the period leading up to 2008. This has added to the growth of the unsecured market as many clients in need of credit have chosen the unsecured option rather than the asset finance option to address their needs.

The total credit advances grew by 31.6% on a year-on-year basis to R98.9 billion for the quarter to September 2011. The mortgage market grew by 15% over the same period to R30.3 billion and the rest of the secured market by 22% to R30.8 billion. Unsecured credit grew by 58% to R21.2 billion and credit facilities grew by 69% to R14.8 billion. Capitec Bank remains at 5% market share of the total market and 20% market share of the unsecured market.

TREND IN CREDIT CATEGORIES AS A PERCENTAGE OF TOTAL CREDIT GRANTED OVER THE PAST FIVE YEARS



Prices have reduced in the unsecured market and will continue to do so in the foreseeable future. This has further increased the loan amount granted as clients can afford more total credit with the same monthly repayment.

Capitec Bank has followed a cautious approach to extending loan terms and total loan amounts, as many consumers are inexperienced in the use of long-term credit. A particularly responsible approach has been followed to ensure client affordability levels are sound over a longer period of time. Quality and stability of employer income streams are also evaluated to determine employee income stability.

CREDIT GRANTED – PER QUARTER

Agreement by type	R'm 2007 – Q4	R'm 2008 – Q3	R'm 2009 – Q3	R'm 2010 – Q3	R'm 2011 – Q3	Trend 2011/2010	Trend 2011/2009	Trend 2011/2008	Trend 2011/2007
Mortgages	53 140	33 766	17 817	26 340	30 278	115%	170%	90%	57%
Secured credit	32 014	22 284	20 174	25 199	30 780	122%	153%	138%	96%
Credit facilities	0	0	6 227	8 813	14 882	169%	239%	0%	0%
Unsecured credit	7 938	7 656	8 374	13 385	21 214	158%	253%	277%	267%
Short-term	883	1 013	990	1 398	1 745	125%	176%	172%	198%
Total credit granted	93 975	64 719	53 582	75 135	98 899	132%	185%	153%	105%

Source: NCR

Capitec Bank wants to acquire and retain good clients. Credit risk is the likelihood that a client would default on the loan contract payment plan, which we term the "expected default". Good clients would be those that will not default on their contractual repayment plan. We aim to allocate the appropriate loan term (expressed in months) within the assessed expected default of the applicant and charge the corresponding interest rate.

The credit life cycle starts at the point that we grant the loan, followed by the collection on pay date and repeat sales to the client, or in the case of arrears, follow-up on the arrears. If a state of rehabilitation (pay as per contracted payment plan) is not achieved, the loan is handed over for legal action. The last mentioned is of course not desired from a client or bank perspective. During the entire process, including the last stage, Capitec Bank ensures that it is compliant with all relevant legislation and acts in a socially responsible way.

When applying for a loan at Capitec Bank the following checks are done to protect the bank and the client:

- *Authentication through*
  - Identity book verification
  - Photo identification
  - Account holder card swiped
  - Biometric recognition

- *Enquiries are performed at two fraud prevention bureaus*

- *Documents applied in the lending decision are verified*
  - Payslips and employment
  - Bank statements
  - Proof of settlement

- *Client information is updated for contractual and future contact purposes*

  Our responsible lending decision is based on the BAS principle – the applicant's:
- Behaviour (willingness to pay)
- Affordability (ability to pay)
- Source of payment (when, who and how)

Credit is granted in accordance with a credit policy that is adjusted continuously to accommodate market and economic changes. The policy is approved by the credit committee which reports to the risk and capital management committee of the bank.

Capitec mainly utilises the regulated non-authenticated early debit order (NAEDO) system to collect instalments on the pay dates of clients who do not deposit their salaries with the bank.

Follow-up on clients in arrears is mostly performed centrally from our internal call centre. The objective remains to minimise the arrears by staying in contact and reminding clients to pay. The bank does not charge penalty interest if clients are late, but affords clients a reasonable opportunity to get back on track to the contracted payment plan. A section 129 notice is sent 50 working days before hand-over for legal action. This informs clients in breach of contract that they should contact the bank to make arrangements to repay. Restructuring options are available. Clients can also approach a debt counsellor to structure their debt settlement. Capitec Bank is a member of the National Debt Mediation Association (NDMA) in order to cooperate as much as possible with clients opting for the debt review route. Debt review applications received from an NDMA-accredited debt counsellor are accepted immediately.

Legal collections are outsourced to various external debt collectors/attorneys. These collectors are contractually managed in terms of mandates and their performance is reviewed monthly. Ad hoc audits and visits are performed on collectors to ensure costs are charged as per our mandates. The mandates and costs are put in place to provide the handed over client the best possible opportunity to rehabilitate. Our agents make use of the emolument attachment order approach, resulting in a payroll deduction instead of the alternatives like attachment of assets.

When more clients default on their loans than anticipated we provide for these loan impairments through our income statement and acknowledge recoveries after write-off through our income statement.

Alternative dispute resolution

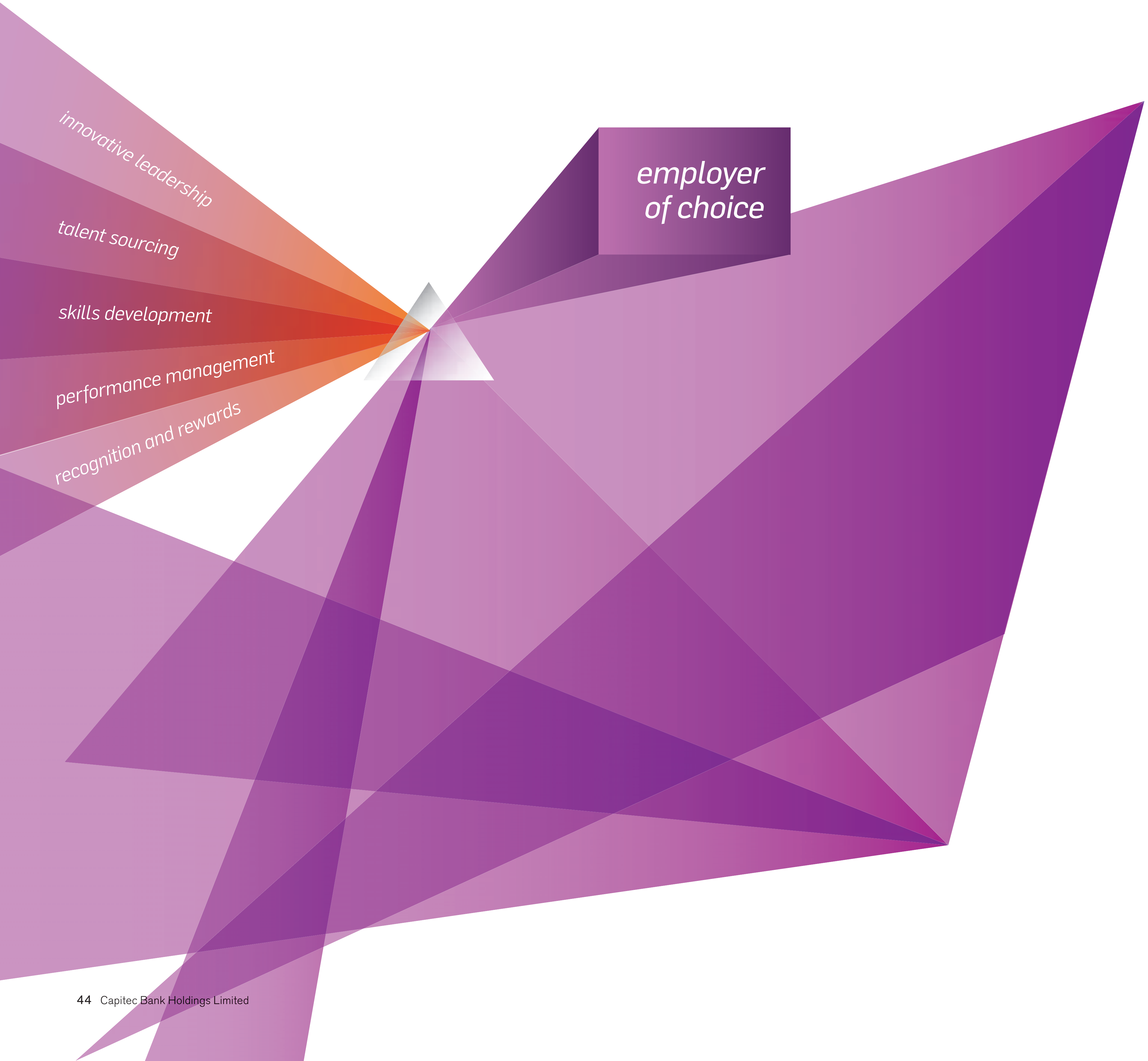
Capitec Bank subscribes to the Code of Good Banking Practice ("the Code") and in terms of the Code, the bank falls under the jurisdiction of the Ombudsman of Banking Services.

In terms of the Code, all client complaints or disputes that cannot be resolved by Capitec Bank can be referred to the Ombudsman. The Ombudsman's jurisdiction is limited to amounts of R5 million and is only available to natural persons, which form the basis of Capitec Bank's clientele. Capitec Bank aims to provide each and every client with an excellent client service experience. In line with this principle a dispute resolution process, in terms of which clients can lodge complaints directly with Client Care, has been established. A process was introduced during December 2010 in terms of which unresolved complaints are escalated. The escalated enquiries are dealt with by the team who deals with resolution of matters that fall within the Ombudsman for Banking Services' scope.

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

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

Employees 07



Employees represent the face of Capitec Bank and facilitate the service experience that is so unique to the bank. Capitec Bank in turn empowers its employees through association with its brand that is more and more embedded in the mind of society as a financial service provider of choice.

To enhance the service experience, it is imperative to the company that an active two-way communication channel be maintained with employees. Management values employee input to create and maintain a healthy environment where employees feel empowered to contribute to the wellbeing of all stakeholders.

Employees are empowered to raise their concerns through the following platforms:

The employment equity forum had two meetings in the past year. The forum is attended by employees as representatives of the workforce to discuss matters of concern to employees.

C.Connect is a facebook-styled in-house blog platform that allows employees the opportunity to communicate freely regarding in-house matters. The aim is to encourage a culture of sharing information, ideas, concerns and asking of questions amongst employees. Concerns raised are addressed by designated employees.

A helpdesk facility at the Business Support Centre (BSC) provides real-time assistance to branch employees who have queries or difficulties while servicing a client.

Tip-Offs Anonymous, a hotline where suspicious actions by fellow employees can be reported anonymously in any of the 11 official languages of South Africa.

Line management – employees are invited to discuss matters of concern with their managers.

A remuneration helpdesk was established to give employees a platform where they can obtain clarity about their remuneration concerns.

Employees have the opportunity, through a user-input invitation process, to make enquiries about, and submit comments on, company policies and procedures. A dedicated e-mail address has been established to facilitate that procedure.

Managers from the operations department as well as Riaan Stassen, the chief executive officer, Gerrie Fourie, the operations executive, and Nathan Motjuwadi, the human resources executive, regularly visit branches to interact with branch employees. During these visits they invite employees to discuss matters of concern with them.

Employees are kept abreast of company-related issues through the following communication tools:

C.Facts – an electronic communicator that deals with facts and newsworthy information.

C.Alert – an electronic communicator that deals with operational issues relevant to branches.

C.Inside – a full-colour magazine covering the company's development, products and services and other contemporary issues of interest to employees.

Ecobuzz – an electronic newsletter is used to educate and inform employees on environmental issues.

Other platforms for two-way communication include biannual results presentations by the chief executive officer and financial director to employees at the main and regional offices. At these events employees have opportunities to raise issues and discuss concerns with management either on a one-on-one basis or during the presentation.

Material issues	How material matters are addressed	Page
Brand confidence and trust in the market	Reliable and trustworthy service Stability Increased access through expanded retail footprint Affordability, simplicity and transparency of product offer	40 – 42, 60
Fraud	In-depth investigations by the forensic audit department Prevention is facilitated through training, monitoring and eradication where fraud occurs	104
Employment equity	Zero tolerance to any form of discrimination	47
Growth	Conservative management of liquidity and quality of the loan book Continued training and career development of employees to facilitate exceptional service experience and thus client acquisition	18, 20, 29, 49
Remuneration	Pre-determined and board-approved remuneration policy	50

Empowering employees

Empowerment of employees creates an environment where individuals take ownership of their work. Various approaches are thus employed to ensure that employees are given the opportunity to develop to their full potential. When people with appropriate skills and capabilities are employed in the correct positions and are engaged and focused on appropriate activities, targeted business results can be achieved. Strategies are therefore being developed to facilitate the management of the entire employee life cycle to realise maximum empowerment of employees.

As the number of branches increase, the bank continues to appoint people to support its unique service offer. The number of bank employees increased to 7 086 at year-end (2011: 5 233). On average, 221 employees were employed per month. Average employee turnover per month amounted to 1% which compares favourably to the average turnover of 13.7% (Deloitte Salary Movements, Premium and Labour Trends 2011/2012 report). Absenteeism was low and amounted to 1.2% of the workforce per month. No workdays were lost due to strikes.

CAPITEC BANK WORKFORCE

	Male				Female				Foreign nationals		
	African	Coloured	Indian	White	African	Coloured	Indian	White	Male	Female	
Top management	1	1	0	12	0	0	0	1	0	0	**15**
Senior management	3	7	3	81	3	1	0	11	2	0	**111**
Middle management	54	25	10	143	27	16	7	66	3	0	**351**
Junior management	252	147	31	151	337	184	42	183	0	1	**1 328**
Semi-skilled	911	298	54	97	2 189	642	85	135	2	4	**4 417**
Unskilled	58	0	1	0	80	6	0	0	0	0	**145**
Total permanent	1 279	478	99	484	2 636	849	134	396	7	5	**6 367**
Temporary employees	0	3	0	5	1	9	1	8	1	0	**28**
	1 279	**481**	**99**	**489**	**2 637**	**858**	**135**	**404**	**8**	**5**	**6 395**

The table above details the Capitec Bank workforce per occupational level according to gender and race as at 31 August 2011 as required in terms of section 22 of the Employment Equity Act, 1998 (Act 55 of 1998).

Employees have access to a variety of benefits:

	Permanent employees	Temporary employees
Retirement fund	√	
Medical aid	√	
Group life	√	√
Disability	√	√
Leave (including parental)	√	√
Share ownership schemes	√	

Employment equity

Capitec policy enforces equal employment opportunities regardless of race, gender or belief. Ability and performance are the only criteria for appointment and promotion. Unfair discrimination in whatever form is not tolerated and is dealt with through the disciplinary processes to facilitate an environment of equal opportunity and fair treatment in the workplace.

The company's core values are therefore reflected in its drive for employment equity:

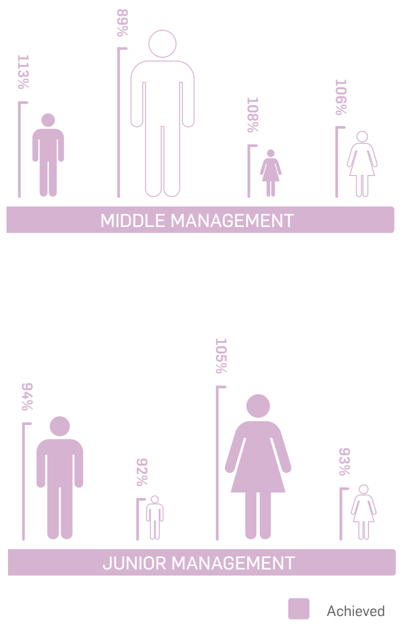
- Respect for the individual and regard for individual dignity
- Absence of discrimination
- High-quality standards in all aspects of the business.
- Performance improvement through empowerment and team work
- Obsession with client care

Capitec Bank has contributed significantly to the employment of women and other previously disadvantaged individuals:

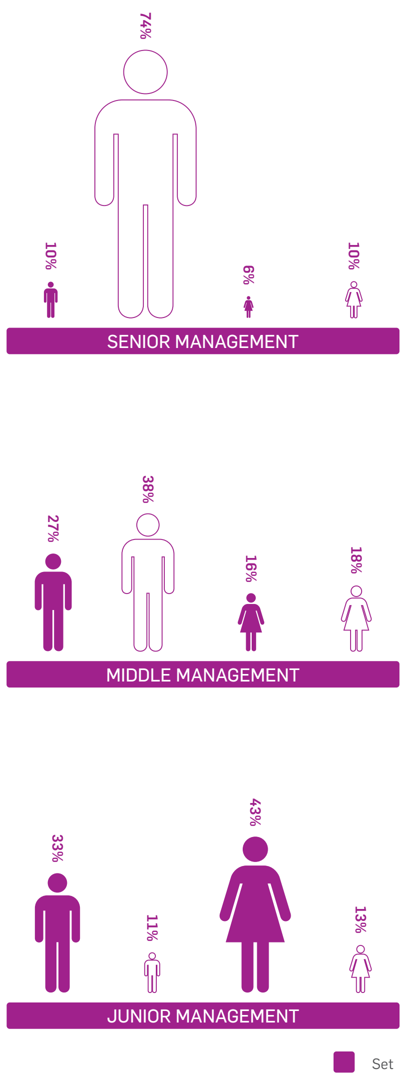
Total women	63%
Previously disadvantaged women	57%
Previously disadvantaged men	29%

Targets have been established in support of transformation and equal employment.

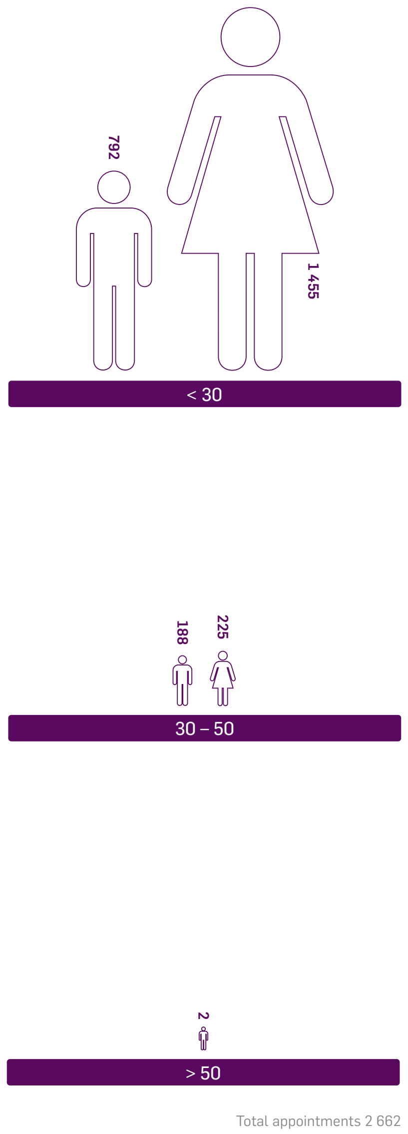
In the 2011 integrated annual report, we reported on the targets set for 31 August 2011 as reported to the Department of Labour for junior and middle management appointments and the extent achieved by 28 February 2011. The extent to which targets have been achieved by 31 August 2011 is as follows:



Targets set for employment equity at managerial level by December 2012 are detailed below:



Appointments during 2011 categorised according to gender and age:



Management and control

The drive continues to empower employees through leadership training and further professional development. Strategies have been put in place to accelerate leadership development to ensure that transfer of learning takes place with effective coaching to support performance, growth and succession. During the period under review, 654 employees (9.2% of workforce) received leadership training. Performance of all employees is evaluated at least annually consisting of an interim and final assessment. The primary objectives of performance management are to:

- align efforts with the business plan and goals;
- facilitate regular performance feedback and continuous coaching to improve performance and motivate employees;
- identify training and development needs to promote knowledge, skills and attitude; and
- provide a basis for rewarding employees based on contribution, including both performance-related pay and recognition of achievement.

During the year under review, 665 employees were promoted (457: 2011). Fifteen percent was promoted to management level.

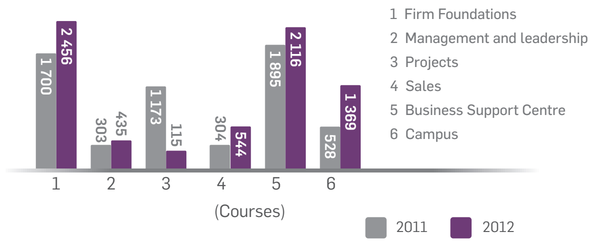
In 2008 a development programme was introduced in terms of which two employees are appointed to the executive management committee on an annual rotation basis. At least one of these employees is a previously disadvantaged individual. All the individuals that have been appointed in this position have confirmed that the experience was educational and valuable.

Learning and development

All employees have access to development opportunities via the various learning and development initiatives established in the bank. The learning and development initiatives are based on three major concepts:

- *Faster learning:* Performance-based learning which combines traditional learning methods with computer-assisted learning, online performance support and coaching.
- *Smarter technology:* Technology that integrates learning and knowledge management and includes performance support technology and quick reference guides which enable people to master content and behaviour in the shortest possible time.
- *Better results:* Rapid and sustainable assimilation of product knowledge, adoption of processes and technology and embedding new behaviours. The outcome is significant improvement in business results and customer satisfaction.

NUMBER OF EMPLOYEES THAT ATTENDED LEARNING AND DEVELOPMENT OPPORTUNITIES



Learning and development create pride in and loyalty to the brand which in turn strongly influences the employee's enthusiasm towards client service.

During the year under review a total of 574 learning and development workshops were offered, attended by 7 035 employees. Firm Foundations is the main training platform where new employees are schooled in the Capitec Bank way; during the period under review 29 Firm Foundation workshops were held and 2 456 employees received specialised training at this facility. Total learning and development spend for 2012 was R35 million (R25 million: 2011).

The bank has also continued with its drive to enhance its distance learning capability. During the past year, up to 50 learning modules and quizzes have been made available on our e-village system, which enabled the bank to reach more than 5 518 learners.

The bank's Study Assistance Programme supports employees who wish to obtain tertiary qualifications. During the year under review, 166 bursaries were approved for further studies. Bursary spend amounted to R1.3 million (R1.3 million: 2011).

Health and safety

An employee assistance programme has been established to support employees in personal health management. Regular communication via internal communication channels is aimed at educating employees on risks relating to serious diseases, prevention measures and how to deal with such illnesses.

A comprehensive health and safety policy is in place. In the branch network, procedures are driven by a best practice online management programme, customised to company specifications.

Remuneration report

Remuneration risk is prevalent when remuneration policies do not take into account:

- the extent to which a transaction, concluded by an employee, exposes the company to risk of loss; and
- the time period over which losses can emerge. For example, misalignment exists, if an employee is fully rewarded for a transaction that continues to expose the company to the risk of losses in subsequent periods.

Capitec policies and procedures ensure alignment and do not incentivise risk-taking.

The human resources and remuneration committee ("remco")

Remco consists of three non-executive directors. The chairman is Chris Otto, an experienced businessman with in-depth understanding of the nature and complexity of the business of the group. Despite not being independent as defined in King III, the board considers Mr Otto to be the correct person to hold the position. The primary purpose of the committee is to ensure that remuneration policies are established that attract and retain individuals able to create lasting value for shareholders, while at the same time they address remuneration risks inherent in the banking environment. In addition, it is the responsibility of remco to ensure that these policies are adhered to. The remuneration policy covers all divisions of Capitec Bank.

The committee's mandate

Remco's mandate is detailed in an annually reviewed board-approved charter. In support of its authority, the members of the committee have unrestricted access to all the activities, records, property and employees of the group. In addition, the committee may access external legal or other independent professional advice to execute its responsibilities as detailed in the charter.

The charter was updated during the year to incorporate Basel best practice and now requires the committee to consider, on an annual basis, whether the remuneration structures continue to effectively align risk-taking with remuneration.

The ambit of the committee

Remco is responsible for:

- Determining, reviewing and approving the company's:
  - general policy on remuneration,
  - general annual increase,
  - policy for determining executive management remuneration, and
  - remuneration packages of the executive management team, chief executive officer and financial director, including bonuses, incentive schemes and increases;
- reviewing the remuneration of non-executive directors including its committees and recommending proposals to the full board in this respect for approval by shareholders in general meeting; and
- fulfilling delegated responsibilities in respect of the Capitec Bank Holdings Share Incentive Trust.

The philosophy applied by remco in respect of executive and employee remuneration is one of sustainability, i.e. a substantial salary with no or a modest short-term bonus. The emphasis remains on creating long-term value. This is also reflected in the way share incentives are structured. Remuneration consists of:

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

GRAPHICAL REPRESENTATION OF THE SHORT-TERM INCENTIVES AND LONG-TERM INCENTIVES BY EMPLOYEE CATEGORY:

	Share-based plans	Deferred bonus plan	Standard bonus plan	Variable team awards	Variable sales incentive
Executives[1]	■		■		
Senior management[2]		■			
Middle management			■		
Support staff			■		
Employer sales staff			■		■
Operations staff			■	■	

[1] *The definition of "executive" in this table includes permanent members of the executive committee and a limited numbr of senior managers whose delivery on strategic targets is regarded as critical to achieving annual objectives.*

[2] *Prior to May 2008 senior managers were granted options in terms of the share-based plans. All such options will have been exercised or will have lapsed by November 2014.*

Use of external consultants in the remuneration process

A number of external benchmarking actions occur during the year to assess the effectiveness of remuneration policies.

Annual assessment of salaries for executive directors

This is an in-house benchmarking conducted by the management accounting department. Market trends in remuneration paid to executive directors are researched based on information available in the public domain such as annual reports. The report and its recommendations are submitted to remco for consideration.

Staff remuneration

The remuneration department conducts a number of benchmarking exercises during the year using PwC REMchannel surveys. (This is a real-time continuously updated electronic benchmarking interface.) These exercises include:

- A benchmarking of operations employees. This report assesses the relative salary bands set for the major categories of client-facing operations employees, within the context of the Capitec strategy and budget. The report and its recommendations are submitted to remco for consideration and approval as part of the supporting documentation to the annual salary budget.
- A benchmarking of all existing employees. Employees identified as outliers are flagged for the attention of the departmental executives.

Director and executive emoluments

Fees paid to non-executive directors

Non-executive board remuneration is based on a fixed fee structure not related to attendance of meetings.

Fees paid to the non-executive directors in the 2012 financial year are detailed in paragraph 7.4 of the directors' report in the annual financial statements.

The fees proposed for the 2013 financial year will be approved by the shareholders at the annual general meeting scheduled for 1 June 2012:

Chairman of the board*	R1 040 000
Board membership**	R200 000
Chairman of a board committee**	R146 000
Committee membership**	R41 000

* The chairman of the board is paid a retainer and receives no further payment for membership of committees.

**Non-executive directors receive a retainer for membership of the board and for each of the board committees. No fee is paid in respect of the directors' affairs committee.

Remuneration paid to executive directors

Remuneration paid to executive directors is detailed in paragraph 7.4 of the directors' report in the annual financial statements.

Remuneration paid to executive officers

The members of the executive management committee (excluding development members) which includes the chief executive officer and the financial director, are the key decision-makers in the bank and as such they fall within the category of prescribed officer as defined in the South African Companies Act. Refer to pages 83 and 84 of this report for the composition of the executive management committee and further information on the members. Decisions regarding risk, including the taking of risk and the management thereof, are centralised within the executive management committee as:

- Capitec Bank has a flat management structure relative to large organisations which typically have various layers of management with associated levels of delegated responsibility;
- the bank operates a centralised credit management, backoffice and other support functions. The branch network is focused on client service delivery rather than risk-taking; and
- there is limited delegation of critical decision-making to senior management, who are focused more on delivery and monitoring the implementation of executive decisions.

Key features and objectives of the remuneration policy

The primary objective of remuneration policy and practices is to attract and retain individuals able to create enduring value for shareholders. Implicit in creating lasting value is the need to appropriately balance risk-taking, including aligning the possible negative or positive consequences of risk-taking as these emerge over time, with remuneration.

The main component of remuneration is the guaranteed remuneration package. All variable compensation components are performance based and based on the successful achievement of individual, team and company targets. No guaranteed variable remuneration is included in employment contracts.

Remuneration levels and structures for risk and compliance employees are determined as part of the annual budget process and are subject to oversight by remco. This happens independently of the relevant risk departments.

The structure of the remuneration plans described below has not materially changed during the past financial year.

Guaranteed remuneration package

All Capitec Bank employees receive a guaranteed remuneration package that is continuously benchmarked against competitors and the market.

The main advantage of guaranteed remuneration packages is that they contain and define the total guaranteed cost of employment. Costs are clearly defined and well controlled. The structure does not entertain open-ended risks and/or liabilities. There are therefore no hidden extras.

Employees have access to the following benefits:

- Leave
- Retirement funding
- Healthcare
- Disability cover
- Death cover
- Financial wellness programme
- Employee assistance programme
- Education assistance programme

Executive share-based plans

The intention of the share-based plans is to retain key employees and incentivise performance aligned with the interest of all stakeholders of the company. This strategy ensures that all parties strive towards a common goal, increasing the value of the business.

The share-based plans comprise share options and share appreciation rights ("SARs"). Both options and SARs are granted annually on an equal basis (50% options, 50% SARs) to members of the executive management team and a limited number of senior managers whose delivery on strategic targets is regarded as critical to achieving annual objectives. Remco reviews and approves the list of eligible participants and quantum of options and SARs to be issued to participants.

Share options

Eligible employees are granted options to subscribe for ordinary shares in Capitec at an option price equal to the market value of the share, being the 30-day weighted average value per Capitec share on the JSE stock exchange immediately preceding the day on which the options are granted. The employees are entitled but not obliged to subscribe for the Capitec shares at the predetermined exercise price.

Share appreciation rights (SARs)

SARs are granted to eligible employees in equal proportion to the share options. SARs are cash-based, but linked to equity performance. Dilution of issued share capital is thus limited as no shares are transferred to the participants. The strike price of the SARs is determined in accordance with that of share options.

The options and SARs mature after three years in tranches of 25% per year. Participants have a six-month period after the date on which the options and SARs mature during which they can be exercised. Unless remco resolves otherwise, options and SARs are forfeited if the participant leaves the employ of the company before they have matured and been exercised.

The executive share-based plans have 64 participants that are eligible to exercise 3 086 893 options and 2 430 241 SARs up to 2017. In the 2012 financial year 1 253 326 options and 405 000 SARs were exercised.

As the performance of the share options and SARs is dependent on the market price of Capitec listed shares there is an inherent clawback mechanism in these reward instruments. Should the company not perform as expected, it is likely that the market discipline would result in a decline in the share price and a lower remuneration, or possibly zero remuneration if the instruments are out of the money, for holders.

Senior management cash-settled performance bonus plan (deferred bonus plan)

The performance of Capitec Bank has been driven by a combination of innovative thinking and dedicated delivery on our objectives. To support the performance-driven culture in the bank a senior management bonus plan has been established that is directly linked to company profit performance. Participation is limited to senior managers and a limited number of other employees who are seen to be in leadership roles critical to the current and future success of the business. This bonus plan had 69 participants at 29 February 2012.

The bonus plan is linked to the group's year-on-year growth in headline earnings per share. Standard reward percentages are applied to a participant's guaranteed remuneration in line with earnings targets communicated at the beginning of the financial year.

The payment of the bonus occurs over three years. Deferred balances are forfeited in the event that the employee leaves the company. In the event of a decrease in company profit on a year-on-year basis, the cumulative deferred bonus balance will decrease with the same percentage.

Cash-settled performance bonus plan for other employees and executive management

The performance bonus plan is open to all employees in all divisions (excluding participants in the senior management bonus plans but including those on the executive share-based plans).

This bonus plan is linked to the group's year-on-year growth in headline earnings per share. Common reward percentages (i.e. set percentages common to all employees on this plan) are applied to a participant's guaranteed remuneration in line with earnings targets communicated at the beginning of the financial year.

The performance bonus plan was established to fulfil a number of key business objectives such as:

- improving business performance; and
- supporting stakeholder ideals by allowing employees to share in the success of the business.

REMUNERATION ANALYSIS – BANK

Employee classification		Executive management	Senior management	Other employees	Total	Financial statement reference
Employees	Number	10	81	6 995	7 086	
Remuneration awards	R'000					
Fixed	R'000	34 001	74 917	863 364	972 282	
Cash remuneration[1][3]	R'000	34 001	74 917	863 364	972 282	note 22, note 29
Variable	R'000	207 365	131 838	108 898	448 101	
Cash staff performance bonus [1][3]	R'000	4 917	2 553	108 898	116 368	note 22
Cash bonus bank [1]	R'000	–	29 557	–	29 557	note 22
Share options [2]	R'000	114 480	64 083	–	178 563	note 22, note 29
Share appreciation rights [2]	R'000	87 968	35 645	–	123 613	note 22, note 29
Variable remuneration						
Employees receiving awards	Number	10	81	6 995	7 086	
Non-deferred	R'000	4 917	12 405	108 898	126 220	
Deferred	R'000	202 448	119 433	–	321 881	
Ouststanding deferred remuneration	R'000	357 010	190 750	–	547 760	
Cash bonus bank	R'000	–	24 998	–	24 998	note 15
Share options	R'000	200 999	104 401	–	305 400	note 37
Share appreciation rights	R'000	156 011	61 351	–	217 362	note 38
Deferred remuneration paid out	R'000	147 067	103 072	–	250 139	
Cash bonus bank	R'000	–	3 419	–	3 419	
Share options	R'000	105 425	80 691	–	186 116	
Share appreciation rights	R'000	41 642	18 962	–	60 604	
Employees' exposure to adjustments	R'000	357 010	190 750	–	547 760	
Implicit adjustments [4]	R'000	357 010	165 752	–	522 762	
Post explicit adjustments [5]	R'000	–	24 998	–	24 998	
Total remuneration exposed to adjustments	R'000	357 010	190 750	–	547 760	
Implicit adjustments [4]	R'000	357 010	165 752	–	522 762	
Post explicit adjustments [5]	R'000	–	24 998	–	24 998	
Reductions due to post explicit adjustments	R'000	–	–	–	–	

[1] The aggregate of the totals for these items equals the value disclosed as salaries and wages in note 22.
[2] The aggregate of these items for executive management equals the value disclosed as share-based payments in note 29.
[3] The aggregate of these items, for executive management, equals the value disclosed as salaries and other short-term benefits in note 29.
[4] Implicit adjustments refer to the employees' exposure to movements in the value of share options and share appreciation rights.
[5] Explicit adjustments refer to the possibility that the deferred bonus could in the future be adjusted downward based on a decrease in profit on a year-on-year basis.
[6] No sign-on awards, guaranteed bonuses or severance payments were made during the financial year.

All bonuses are awarded in two tranches. The first in December based on the interim results and the second in April after the finalisation of the year-end results.

Variable sales incentive plan
Sales division employees excluding senior sales managers participate in a variable sales incentive plan based on the achievement of predetermined sales targets. Rewards are calculated on the actual sales achieved by the employees.

Qualifying conditions include:
- on-standard performance for the period under review;
- clear disciplinary records/conduct during the period under review;
- timeous completion of scheduled learning sessions; and
- regular work attendance during the period under review.

The quantum of the variable awards relative to the general bonus plan and senior management plan is not material.

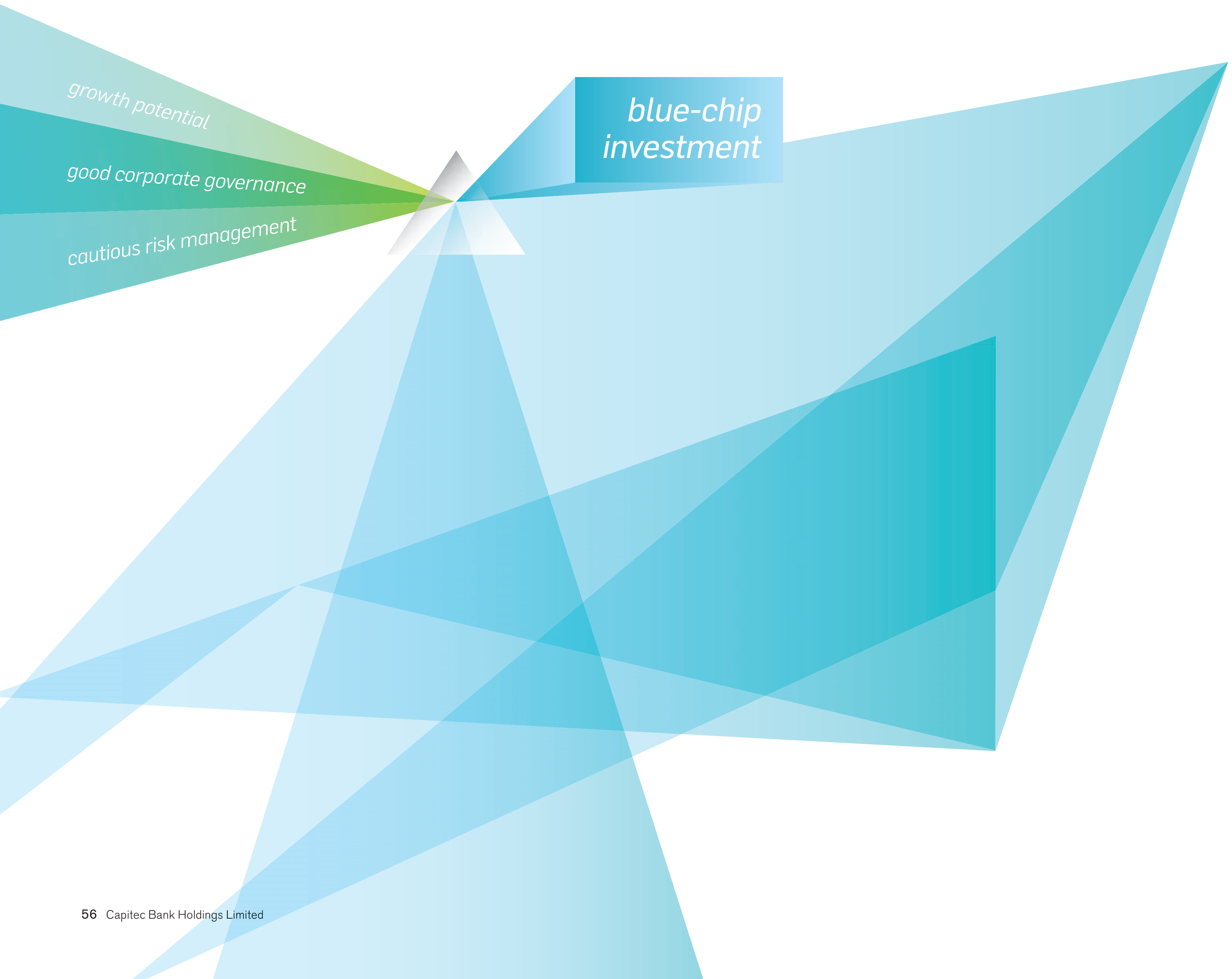
Alignment of risk and reward

In assessing the appropriateness of the risk/reward relationship in remuneration structures of the bank, the remco is guided by the following:
- The inherent risks in the business model
- The risk-taking and delegation structure in place within the bank
- The status of the risk barometer as an indicator of the existence and management of risk

The chairman of remco is also a member of the risk and capital management committee and is therefore fully appraised on risk matters. The Capitec business model is a mono-line retail banking model with strong centralised control. It is not complex as it does not have a variety of business units with different risk profiles. From a risk perspective the terms of both retail advances and savings are relatively short, with a maximum duration of five years, although in each case the weighted average maturity on a business as usual basis is much less. Furthermore, the products sold are simple retail banking products unlike a complex structured product that may be offered by an investment bank to a corporate client. Therefore, remco considers variable incentive plans based on a measurable end result such as growth in headline earnings per share to be appropriate. This is because they reasonably capture the broad range of risks the business is exposed to and which management must manage. This includes risks such as, inter alia, business, credit, liquidity and operational risk. The annual headline earnings per share result will reasonably reflect impacts, negative and positive, of these risks during the year. Deferring variable compensation over a number of years (as with the senior management bonus plan) will reasonably capture the results of risk taken over a number of financial years. Furthermore, the current method is transparent and subject to annual audit, and easy to understand and communicate.

The executive schemes are based on share price. Similar to growth in headline earnings per share, the share price is regarded as a reasonable metric to capture the range of risks in the business. In particular it is especially sensitive to reputational risk. Unlike headline earnings per share it also offers a greater potential upside and downside for executives. This is especially true for the executive committee who, in addition to holding options and SARs, hold an existing portfolio of Capitec shares, the value of which is subject to any share price volatility.

Investors 08



Investors in the Capitec group comprise a mixture of retail depositors, equity holders, bond holders and other funders who, through their investments in the group, facilitate the maintenance of a healthy capital adequacy position for continued growth of the group. In turn, through a balance of conservative risk management and innovative business drive these investors earn a lucrative return on their investments.

Investors are kept informed of the group's progress through prompt announcement of the interim and year-end results and the quarterly publication of the group's capital adequacy status. To enhance transparency, trading updates were announced on SENS during the year when the board had reasonable certainty that earnings per share would exceed the comparative previous period by more than 20%. Once this information is in the market, analysts, asset managers and other market leaders are engaged in groups as well as on a one-on-one basis to facilitate understanding of the business, its growth and the results achieved.

Minority shareholders are personally invited to attend the annual general meeting of Capitec that is usually held towards the beginning of June every year. At this meeting the financial results are explained and shareholders are invited to raise their concerns. The 2011 annual general meeting was attended by 166 shareholders. During the year, shareholder queries are dealt with one-on-one by the secretarial department. Queries can be lodged via enquiries@capitecbank.co.za.

The following material issues of concern to investors are discussed in this chapter:

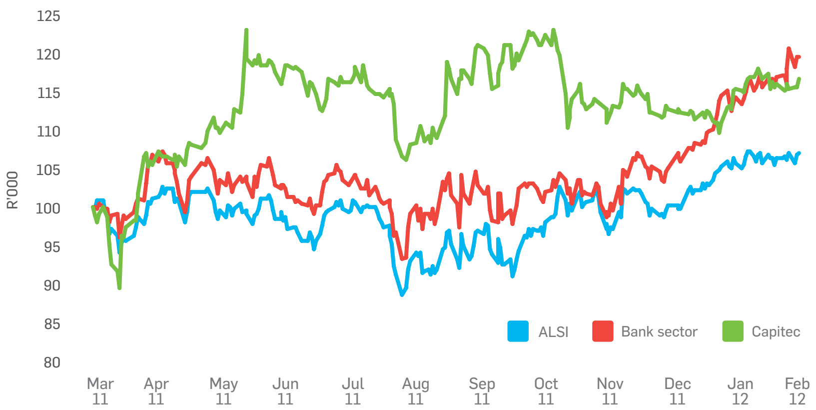
- Brand confidence and trust in the market
- Sustainability of growth
- Competition
- Credit bubble

Capitec was listed in February 2002. The first targeted annual earnings was R30 million in 2003. This has increased steadily by a compounded growth of 49% to R1.07 billion in 2012.

The market capitalisation of Capitec increased by 23.7% during the year from R14.9 billion at 28 February 2011 to R18.4 billion at 29 February 2012. Shareholder value continued to grow during the year and the return on investment (excluding dividend reinvestment) calculated from 28 February 2011 until 29 February 2012 amounts to 18.3%. In the ten years since listing on the JSE Limited Capitec's share price has grown from R1.17 (28 February 2002) to R185.00.

The liquidity in the Capitec ordinary share trading on the JSE Limited has increased since November 2011 when Capitec issued 4.2 million ordinary shares to a number of local and international investors. The dip in trading in December may be attributed to the December summer holidays.

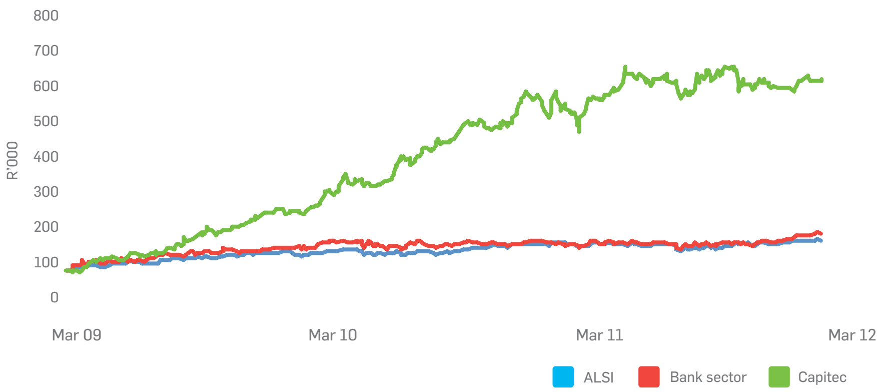
1-YEAR ALSI VS BANK SECTOR VS CAPITEC



Performance on the JSE of the Capitec ordinary shares relative to the Banks Index and the All Share Index over the past year based on an investment of R100 000 on 1 March 2011 (excluding dividend).

Data extracted from McGregor BFA

3-YEAR ALSI VS BANK SECTOR VS CAPITEC



Performance on the JSE of the Capitec ordinary shares relative to the Banks Index and the All Share Index over the past three years based on an investment of R100 000 on 1 March 2009 (excluding dividend).

Data extracted from McGregor BFA

Transformation

Ownership

Black shareholding in Capitec amounts to 13.7%. Refer to page 4 to identify the major shareholders.

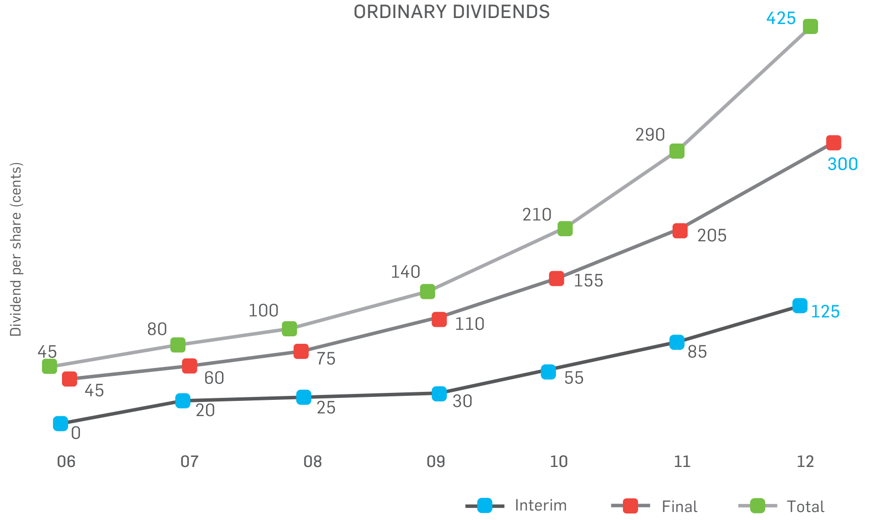
Coral Lagoon and Public Investment Corporation ("PIC")

In 2007 Capitec issued 10 million shares in its ordinary share capital at R300 million to a consortium of black companies, trusts and individuals who hold their interest in Capitec through Coral Lagoon ("the BEE consortium"). In February 2012, the BEE consortium reached an agreement with the PIC in terms of which 5.2 million shares were sold to the PIC ("the sold shares") as part of a restructure of the financing of the BEE consortium's interest in Capitec emanating from an early redemption of the consortium's loan commitments to its original financier. The sold shares remain restricted, i.e. they can only be sold to black people as defined in the BBBEE Act. The balance of the BEE consortium's shares valued at R872 million at year-end are unencumbered subject thereto that they may only be disposed of to black people. The PIC transferred the sold shares to a BEE-accredited fund. The BEE consortium intends to negotiate a new financing agreement to re-acquire the sold shares.

Thembeka

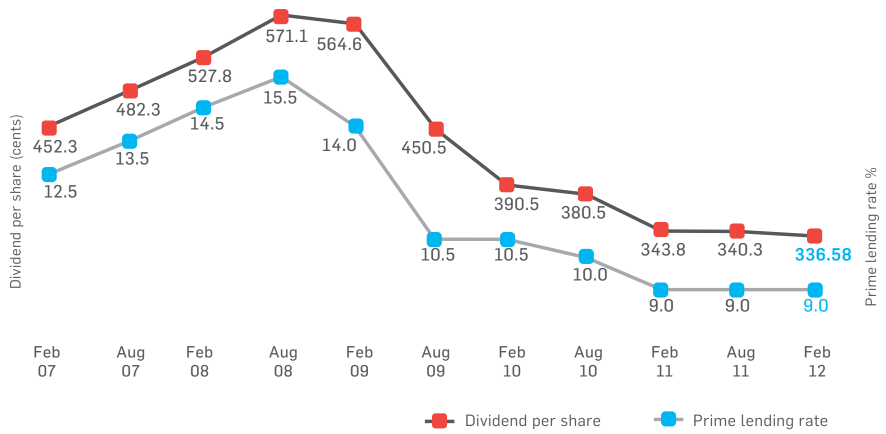
Capitec issued 1.4 million shares in its ordinary share capital to Thembeka (previously Arch Equity) at R6.56 per share. At year-end, this investment was worth R267 million.

ORDINARY DIVIDENDS



The graph above shows the steady growth in dividends paid on Capitec ordinary shares over the past seven years. The board considers the capital and funding requirements of the bank before declaring dividends. The dividend cover over the past five years has ranged from 2.5 to 2.6.

PREFERENCE DIVIDENDS



The Capitec preference share is non-redeemable, non-cumulative and non-participating. The preference share dividends are paid at the earliest date possible in terms of the JSE Listings Requirements, normally in March and September of each year. The dividend calculation is based on 75% of the prime interest rate. Shareholders' approval will be obtained at a special meeting of the preference shareholders scheduled for 1 June 2012 to allow the board to increase the rate paid on the shares to 83.33% of the prime interest rate.

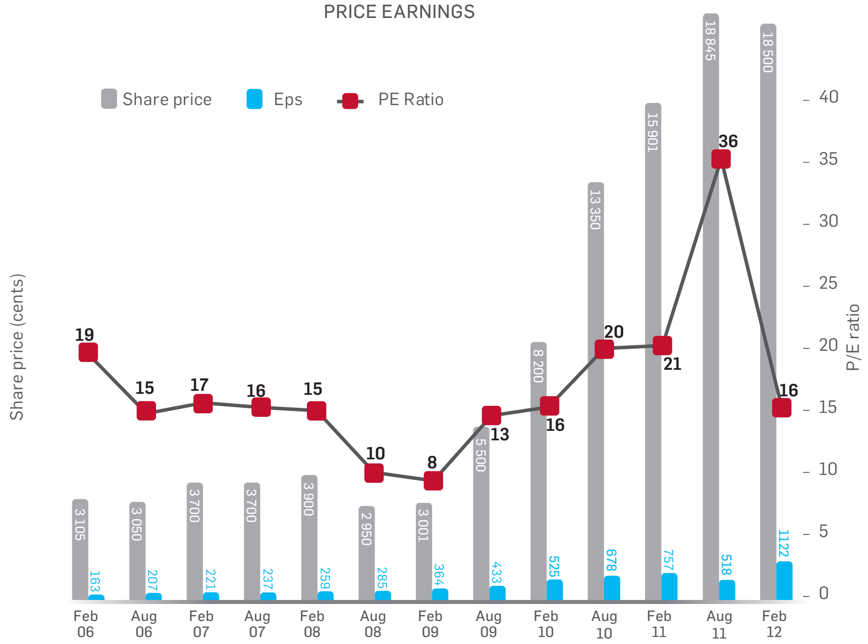
Material issues

Brand confidence and trust in the market

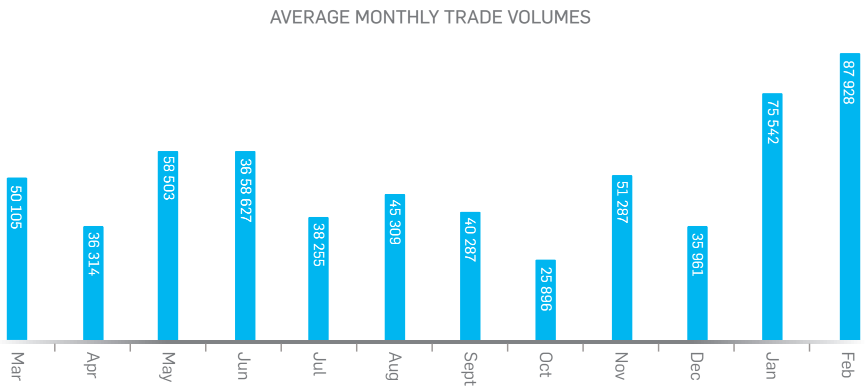
In 2011 the Ask Africa Orange Index awarded Capitec Bank the best service company in the banking industry as well as the best overall service company in South Africa. The index uses top independent research to measure service in South Africa. Clients rate factors such as staff friendliness, listening skills, empathy, degree of individual attention and response times.

The index is measured across a number of industries including financial, pharmaceutical and retail. More than 10 000 interviews were done on 93 brands between February and July 2011, making this a true reflection of the state of brands from the consumer's perspective. Capitec Bank won the usually even-scoring banking category by a margin of 6%.

Brand confidence and trust in the market is entrenched through the unique personal service that Capitec Bank offers. Continued opening of additional branches throughout South Africa will heighten Capitec Bank's presence in the mind of the consumer. Simplicity of the products offered, aggressive and transparent pricing based on the philosophy of "what you see is what you get" truly differentiate the Capitec Bank brand.



The graph above shows the trend in the Capitec price/earnings ratio (P/E ratio per 12-month period) for the period February 2006 to February 2012.



The graph above shows the increase in the average number of Capitec ordinary shares traded per month since the issue of 4.2 million ordinary shares in November 2011.

Sustainability of growth

Capitec Bank continues to differentiate itself by ensuring a unique experience through positioning, product, price and service.

Growth of the business is facilitated by setting in place the infrastructure and building blocks required to ensure continued long-term, real growth in assets and profitability.

Growth of the business is carefully managed through continued opening of branches in areas with dynamic consumer activity and a continuous increase in transactional access points which in turn accelerates client acquisition. Market research, together with personal interaction with clients by senior management, ensures that the bank stays in touch with client needs and expectations. This facilitates development of innovative but simplified products that address clients' needs for daily easy money management. Client expectation is further satisfied by the transparent affordable price offer of all bank products.

Application of innovative technology and ongoing specialised training of branch employees enhances clients' unique service experience which further accelerates client acquisition.

Both quality book growth and cautious bad debt management are the main building blocks in the design of a healthy bank.

Competition

Competition has increased dramatically over the past 12 months. Brands and products based on Capitec Bank principles are being launched. In most instances, however, the offer fails to deliver the full suite of products packaged in Capitec Bank's single money management product. Capitec Bank's low and transparent pricing remains unique.

Capitec Bank's unique service offer sets it apart from competitors. Emphasis on service excellence enhances the unique experience when doing business with Capitec Bank. It creates word of mouth advertising and continues to ensure referral of new clients. The transparent low-cost product offer enhances the differentiation and is facilitated through development of innovative products and a low-cost banking model.

Credit bubble

Refer to the discussions on page 10 in the chairman's letter and page 40 in the client report.

Compliance officer's report 09

The Capitec group and especially the bank have a good and trusting relationship with its regulators, which include the bank supervision department of the South African Reserve Bank, the National Credit Regulator, the JSE Limited, and to a lesser extent, the Financial Intelligence Centre. These relationships are important because they create transparency between us as a banking institution and the individuals and entities with whom we conduct business. We regard the interconnectedness of the banking industry and the reliance that the economy and citizens of the country place on the bank as one of the most important drivers in our relationships with stakeholders.

Material issues

- Law-abiding citizenship
- Transparent management processes from a regulatory perspective

The Banks Act, Companies Act, Security Services Act, National Credit Act, National Payment System Act, Consumer Protection Act and Financial Intelligence Centre Act have all been identified as key and important pieces of legislation that are the main focus of the independent compliance function and management system activities of the bank. This approach and focus achieve a healthy balance of proper and sufficient compliance and efficient interaction with stakeholders and business relative to the bank's business activities. The material compliance challenges facing the bank in the near future include coming to grips with the amended Financial Action Task Force recommendations to facilitate a smooth process of financial inclusion and developing a risk-based approach together with acceptable levels of compliance with international best practice and local legislation in the fight against money laundering and financing of terrorism; dealing with the imminent protection of personal information legislation; exchange control regulation and, lastly, continued and high levels of compliance with credit legislation to create a responsible and compliant credit environment.

The compliance officer reports to the audit committee at every meeting of this committee, and submits compliance reports to the directors' affairs committee as required by the Banks Act. All material events of non-compliance are reported to the audit and directors' affairs committees and the board of directors where necessary. For the period under review the compliance officer submitted a report which indicated a good level of compliance by the bank to statutory and regulatory requirements, and the events of non-compliance listed were all non-material and either rectified or are in the process of being addressed through system and process changes. The bank supervision department of the South African Reserve Bank are provided with copies of these reports after every meeting of the abovementioned committees. The compliance officer has annual prudential meetings with the bank supervision department of the South African Reserve Bank and responds to general and ad hoc requests for information and discussion when required.

There were no material regulatory sanctions against or penalties imposed on the bank as a result of non-compliance during the period under review.

The bank has a good and professional relationship with regulators and, where possible, tries to influence the direction of policy and principles of regulation to the extent where it is beneficial to the banking industry as a whole while still maintaining high levels of compliance with the spirit and letter of the law. In this regard the bank is involved on industry level with initiatives such as the new banking code of conduct, the payment industry and Basel III developments. To ensure involvement in the national payments system, Capitec Bank is a member of the Payments Association of South Africa (PASA) and is represented on multiple payments forums within the association. Capitec Bank was nominated by the low-volume banks in South Africa to represent them on the PASA council. The bank has also nominated a councillor to the PASA council.

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

A compliance management system is in place and functioning well. The bank uses management software which contains a core selection of legislation that is considered the most relevant for the bank. The software is utilised to assist with the identification of compliance objectives and assessment of compliance risks, the capturing and documenting of key controls and monitoring activities. The compliance function performs independent compliance monitoring on a continuous basis through independent compliance monitoring officers, in accordance with an annual board approved compliance monitoring coverage plan. The coming year will also see an increase in the headcount of the compliance function to deal with the ever-increasing compliance and regulatory challenges facing the bank.

Jan-Hendrik de Beer
Head: Compliance

Society 10

The consumer needs easy access to simplified and cost-effective banking products, including easy everyday money management. Capitec Bank addresses this need through its four foundation pillars, i.e. accessibility, affordability, simplicity and personal service.

Society is engaged through clients, as explained on page 35, and through partnership with specialist education support institutions and ongoing relationships with targeted schools as disclosed below.

The following material issues are discussed below:

- Simplified money management
- Access to a wide range of transparently priced bank products
- Access to affordable and responsibly granted credit
- Employment opportunities
- Numerical and language literacy

Simplified money management

It is inconceivable that in modern society, individuals are forced to go about their daily business without a bank account through which to transact, save and obtain credit. Yet, as little as 10 years ago, the majority of South Africans' access to credit was limited to very expensive short-term loans. Access to banks in general was restricted to corporates and individuals that were able to travel with private transport to bank branches of choice and do so during the limited hours that they were open. The majority of working South Africans, however, were unable to access banks due to the limited trading hours and time and cost required to travel to the branches. The cost of transacting on bank accounts and the complex nature of bank products further pushed use of bank accounts out of reach for a significant number of South Africans.

Capitec revolutionised banking by opening branches in areas where other banks did not operate and where a large number of consumers work and shop. Today, Capitec Bank branches are distributed to ensure easy access by the full spectrum of existing and potential clientele in the market. The bank also provides, through innovative technology, an increasing number of access points for convenient transacting. In addition, business hours were extended and Capitec Bank branches are generally open from 08:00 to 17:00. By listening to what the consumer really needs Capitec Bank has developed simplified and low-cost bank products that facilitate easy money management. Pricing is transparent and what the consumer sees is what he gets. In addition, real savings are possible and people throughout society are empowered to save. The acceptance of the Capitec Bank offer is evident in the increase in client numbers (refer to page 17) over the past years.

Enhanced personal development and status in society

Access to personal loans at affordable prices enables consumers to enhance their personal development and status in society. Access to competitively priced credit, granted in a responsible manner, facilitates investment in longer-term assets such as furniture, vehicles, housing improvements and education. Responsibly granted short-term credit enables clients to manage emergencies and short-term shortfalls in an efficient and cost-effective manner. Conservative credit risk management (refer to page 99) aims to protect the creditworthiness of Capitec Bank clients and facilitates robustness in their financial health status.

Employment opportunities

The continued growth in the Capitec footprint ensures continued growth in employment opportunities. Over the past 11 years Capitec has contributed 7 194 permanent jobs to the South African economy, and in the 2012 financial year, 1 863. Remuneration paid to employees in the 2012 financial year amounted to R1.3 billion (2011: R930 million). Strategy strongly promotes that branch employees be recruited from the communities in surrounding areas that the branches serve to ensure that employees are fluent in the language spoken in the communities that they serve. Remuneration earned can thus be ploughed back into the communities where clients and employees of Capitec Bank live.

Social development through educational support

Capitec Bank's corporate social investment (CSI) programme focuses on three main areas of support: high school education, financial literacy and ad hoc donations.

High school education

Literacy continues to be a serious constraint in the employability of a large portion of South Africans. Extensive investigation into the shortcomings in the South African education system has shown that arm's length donations to institutions are not necessarily in the best interest of the targeted recipients. Strategy was therefore reconsidered and adjusted towards sponsoring an ancillary education support model for higher-potential, most needy students. The model entails an ongoing relationship with targeted schools, selective bursaries and sponsorship packages for learners and ancillary schooling and skills transfer via extramural structures. A partnership has been formed with Ikamva Youth, a specialist education support institution. Successful learners will eventually be offered employment opportunities at Capitec Bank.

A trial programme was set up during 2011 in the Western Cape with Ikamva Youth, UCT and Western Cape schools. The objective is to manage this model in the Western Cape for the first two years to address all the administrative challenges before extending it to other regions.

Donations

Ad hoc donations are made in accordance with Capitec Bank policy as disclosed in previous annual reports. The focus remains on education and youth development. In line with policy, no donations were made to political parties.

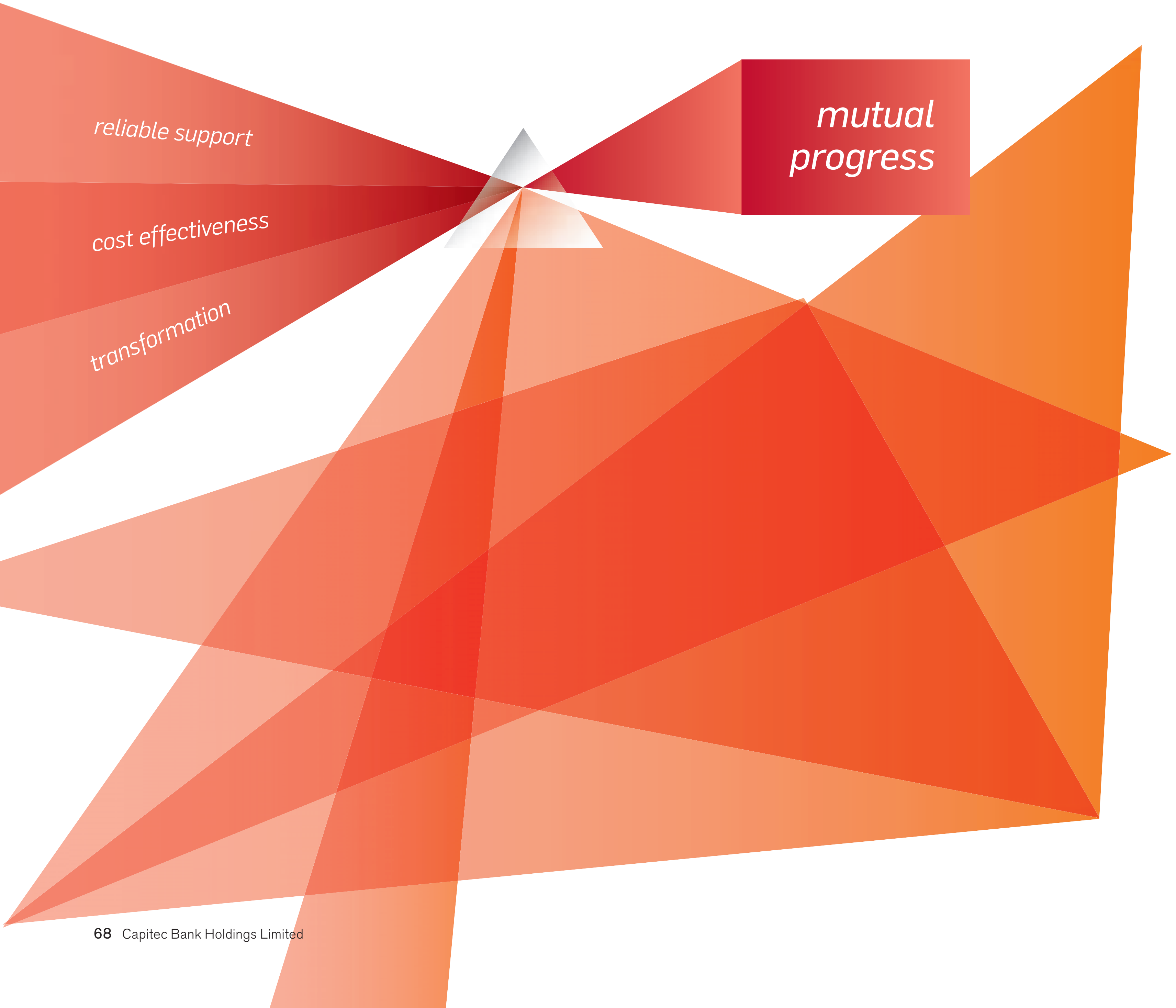
Consumer education

Financial literacy is essential to manage personal finances. A financial skills programme was developed to educate employees at their place of work. The programme is free of charge and in line with the Financial Sector Charter. Capitec Bank collaborates with two financial literacy training organisations who present the financial skills programme at the employers on behalf of Capitec Bank.

Live Free project

Capitec Bank's Live Free project was a national initiative that encouraged South Africans to get back to basics, rediscover the simple things in life and have fun at no or low cost. It consisted of a series of free, interactive events across the country in celebration of simple, everyday pleasures. The project kicked off in December 2010 with two sandcastle construction events in Cape Town and Durban, encouraging beach goers to rediscover the joy of building a sandcastle – free! Then, in February 2011, the project launched the pop-up Le Budget Café just before the National Budget Speech. It encouraged corporate Capetonians to be saving-savvy by packing their own lunch to work, instead of buying it at deli prices. The project culminated in the Swapping Mall project in Gauteng during National Savings month in July 2011, tapping into the activity consumers enjoy so much – "shopping". The event was held at the trendy Atlas Studios in Braamfontein Johannesburg and consisted of a receiving depot at the entrance area and categorised shopping isles to display the merchandise. Swappers arrived with gently or hardly used items and swapped them for "tokens" at the receiving depot. They were then able to swap their tokens for the used/hardly used items of others. This transaction did not cost the shopper a cent and free coffee was provided to round off the swapping experience and have participants discussing the experience with their friends and other swappers. The swapping mall project was awarded a public relations award, the 2012 Gold Quill of merit. These events illustrate that Capitec Bank thinks differently about life and money, highlighting that wealth is not necessarily experienced in quantity, but rather in attitude to life.

Suppliers 11



The Capitec group is dependent on suppliers to ensure timeous delivery of orders to support employees in their day-to-day functions and ultimately facilitate continued client satisfaction. For suppliers, Capitec represents ever growing business opportunities. Capitec Bank's total supplier spend increased by 5% during the period under review and qualifying BEE spend amounted to 73% of total supplier spend.

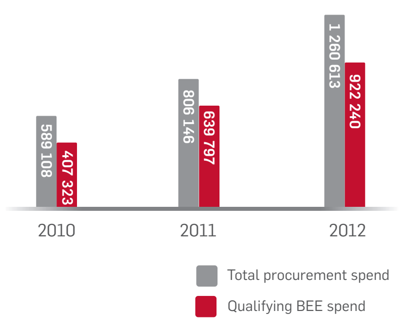
Suppliers are generally engaged on a one-on-one basis and any potential issues are addressed immediately.

The Capitec group subscribes to the Codes of Good Practice issued under the Broad-Based Black Economic Empowerment Act (Act 53 of 2003) (BBBEE Act). Capitec Bank is a level 5 contributor and received a BEE preferential procurement recognition of 80%. The BEE certificate is available on the Capitec Bank website at www.capitecbank.co.za.

Alternative dispute resolution

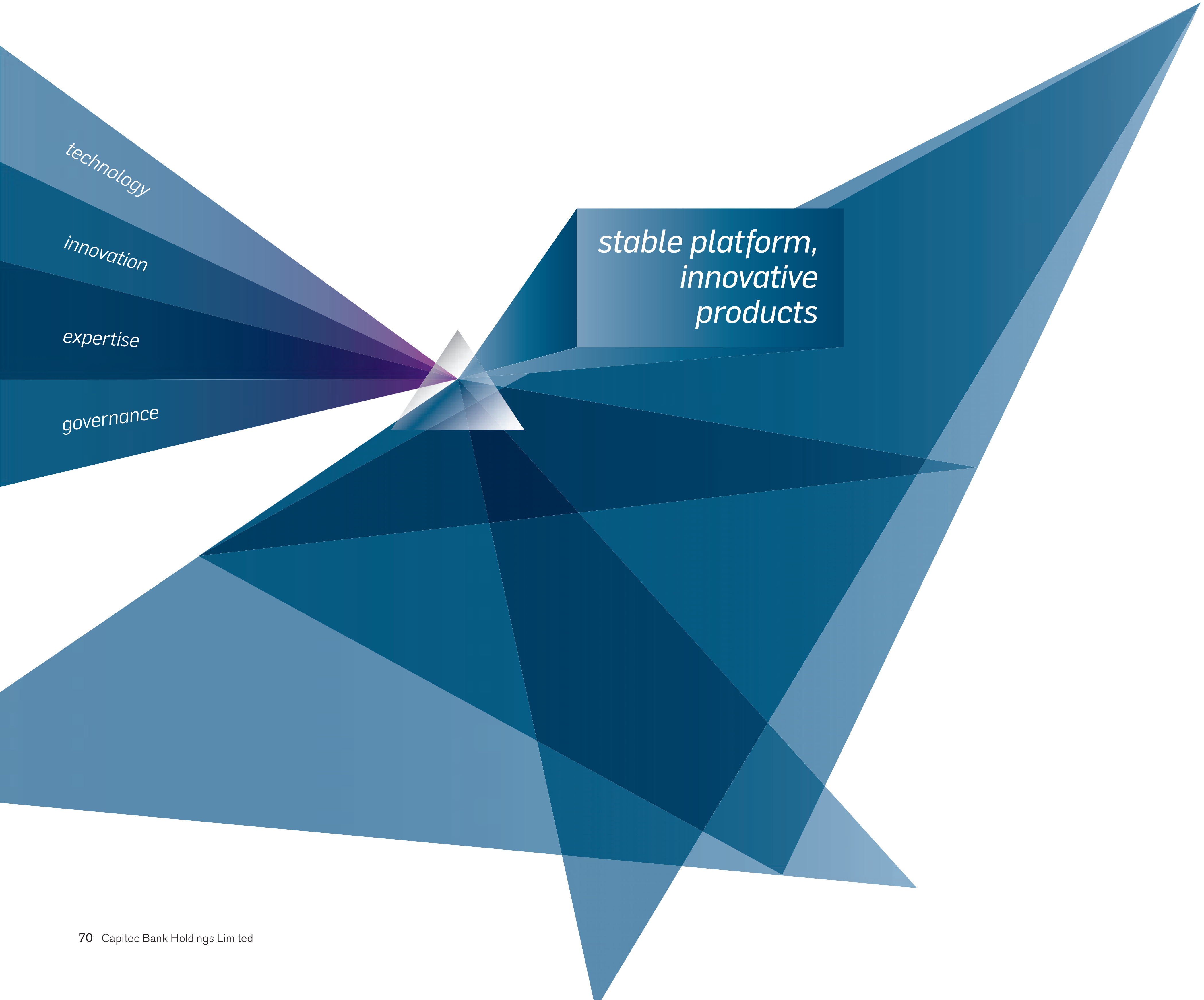
Agreements that do not fall within the ambit of the NCA or the CPA (mainly between Capitec companies and other organisations) have provisions that disputes must first be referred to senior management of both parties to be resolved and/or that an independent expert, who will not act as arbitrator, will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

PROCUREMENT SPEND (R)



Material issues are addressed in various chapters in this report	How material issues are addressed	Page
Brand confidence and trust in the market	• Reliable and trustworthy service • Stability • Access through expanded retail footprint. • Affordability, simplicity and transparency of product offer	40 – 42, 60
Fraud	• Zero-tolerance approach towards fraud and corruption • A fraud risk management framework is in place in terms of which fraud and corruption are prevented, identified, investigated and reported on • Continous training of employees to recognise fraud • Industry interaction, e.g. Sabric, where information is exchanged • Close working relationship with the South African Police Service • Conservative management of growth elements such as liquidity and credit quality	104
Growth	• Systems and processes are geared for expansion • Conservative management of growth elements such as liquidity and credit quality	29, 92, 99

Information technology 12



Information technology forms the backbone of the service that Capitec Bank provides to its clients. Innovative application of technology has enabled the development of uncomplicated, low-priced bank products. Through innovative technology a cost-effective business process was developed where floor space in branches is used to service clients directly; backoffice functions are centralised. Due to centralisation of the bulk of branch administrative processes, there is no requirement for expensive backoffice processes. Branches can remain open for longer hours and consultants in the branches can focus on providing personal service to clients.

Material issues

- Security of clients' money
- Downtime management

IT governance framework

IT governance is implemented according to the Capitec Bank IT governance policy and supporting IT governance framework. The framework is based on principles and controls as they are defined in the following international standards: Cobit, ITIL and ISO27001. The governance framework defines how Capitec Bank ensures that the IT strategy is created, approved, reviewed and implemented in such a way that it is always aligned with the business strategy.

The IT governance framework also defines the organisational structure that is required to facilitate good governance in the areas of technology and information security management. Weekly executive management meetings, as well as formal IT prioritisation meetings provide the platform where strategic IT issues are discussed and cross-functional priorities are agreed. Weekly meetings, focused on IT risks and potential performance issues, ensure that situations which could threaten the availability of systems, or the confidentiality and integrity of information, are identified and discussed on a senior management level. This ensures that important issues are dealt with, with the correct level of urgency and focus.

IT disaster recovery (DR)

The IT risk management department facilitates frequent tests on the ability of the bank to recover systems within an acceptable time limit when disaster strikes. These tests are regularly audited by the internal auditors and the range of tests and scope of tests are improved on a continuous basis. The results for tests conducted during the year showed that Capitec Bank managed to complete a successful switch of all critical and essential systems to the DR site, within the timelines that were agreed with the board and the industry. These tests were completed quarterly and are audited annually.

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

IT compliance

The IT risk manager acts as compliance champion for the IT department and in this role facilitates frequent assessment of the status of legal and regulatory compliance issues in cooperation with the Capitec Bank compliance officer. Progress on all compliance issues are formally tracked and reported on.

Information security management system (ISMS)

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

During the year Capitec Bank started a forum, which included senior managers within Capitec Bank and external information security experts, which focused on identifying longer-term information security risks. This forum now forms part of the Capitec Bank risk assessment framework for IT and will become an annual event.

Environmental matters

During the year numerous technology changes were implemented to reduce electricity consumption and to improve the ability of the bank to manage the use of electricity more efficiently:

- A system was implemented to manage and report in real time on electricity consumption.
- Changes were implemented to manage air-conditioning systems more efficiently.
- Lights in head office buildings were replaced by more environmentally friendly LED lights.
- New technology was deployed in the computer centre to make more efficient use of electricity and cooling (hot aisle containment).
- The continued deployment of virtualisation technology in the enterprise server environment created a potential saving of 57% in cooling requirements and energy consumption for the year.
- All electronic equipment that was decommissioned was recycled by an accredited third party.

Planned actions for the year ahead

- During the year ahead the computer centre will be expanded to accommodate growth. The design of the computer centre includes the use of hot aisle containment technology which will facilitate more efficient use of electricity.
- Virtualisation initiatives will lead to another 6% – 10% saving on the utilisation of electricity.

Due to the nature of its business and the manner in which it is managed, Capitec Bank is considered to have a very limited impact on the environment.

Governance 13

Corporate governance framework

Corporate governance review

Ethical leadership and corporate citizenship

Capitec prides itself on an ethical existence and responsible leadership. The extent to which Capitec achieves its goal is reflected in this integrated report, mostly in quantified measures. However, such measures are established and sustained by the inherent values associated with a brand. We understand that it takes time to gain the acceptance and respect required to establish a brand in an industry built on trust. With this in mind, Capitec builds its corporate existence with the emphasis on good governance. Having been around for 11 years now, the emphasis slowly shifts from establishment/survival to true sustainability. The companies in the Capitec group and their respective boards and employees act in a disciplined manner, with transparency and independence. Emphasis has always fallen on substance rather than form. Lately, intensified competition has led to more emphasis on brand loyalty. Capitec plays in this arena with confidence.

Existing as a registered bank as well as a credit provider, the Capitec group is highly regulated. The group benefits from this as compliance with standards such as those set by King Code III and Basel III follows relatively easily. An analysis has shown that the group already applies, and has done so throughout the period under review, virtually all principles stated in King III with minor exceptions. Where we do not comply, we state our reasons.

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

The board of directors

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

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

The roles and responsibilities of the chairman and chief executive officer are separated. The chairman is a non-executive director in terms of the popular definitions of independent and non-independent, but the board considers him the best person to fulfil the role of chairman of Capitec and Capitec Bank. Merlyn Mehl has been appointed as lead independent director.

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

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

Board members all attend training presented by GIBS Business School for and on behalf of the SARB. Ad hoc training is presented in-house from time to time.

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

Board committees

The board oversees a structure of committees comprising the following:

Committee	Purpose	Composition	Quorum	Frequency of meetings
1. Board of directors	The board of directors is responsible for the strategy and overall management of the bank	The board consists of: **Five non-executive directors** MS du P le Roux (chairman) RJ Huntley MJ Jooste PJ Mouton CA Otto **Four independent non-executive directors** JD McKenzie MC Mehl NS Mjoli-Mncube JP van der Merwe **Two executive directors** R Stassen (CEO) AP du Plessis (FD)	Majority of directors for the time being in office of which at least 50% must be non-executive	Six times a year
2. Executive management committee	Responsible for operational decision-making, implementation of strategic decisions approved by the board and approvals of administrative nature on an ongoing basis	R Stassen (chairman) AP du Plessis JE Carstens CG Fischer GM Fourie NST Motjuwadi A Olivier C Oosthuizen L Solwandle* CG van Schalkwyk L Venter C Vermeulen*	Majority of members, including at least three of the following: CEO, FD, exec: risk management and exec: operations	Three times a week and an extended meeting once a month
3. Directors' affairs committee	Responsible for evaluation of board effectiveness, senior management and board succession planning and corporate governance	All non-executive directors	Majority of members	Twice a year
4. Audit committee	Oversees financial controls, reporting and disclosure	JP van der Merwe (chairman) MC Mehl NS Mjoli-Mncube **Independent attendee** DG Malan (external audit partner – PricewaterhouseCoopers Inc.) **Management attendees** J-HC de Beer (compliance officer) AP du Plessis JJ Gourrah (internal audit) R Stassen CG van Schalkwyk	50% but not less than two members	Three times a year
5. Human resources and remuneration committee	Determines directors' and senior executives' remuneration. Levels of remuneration of all employees, adjustment thereof and, when applicable, additional remuneration such as bonuses and incentives, including share option incentives, are determined	CA Otto (chairman) MS du P le Roux MJ Jooste **Management attendees** R Stassen NST Motjuwadi	Majority of members	Once a year
6. Risk and capital management committee	Responsible for identification of all risks. Assists the board in reviewing the risk management systems and processes and significant risks facing the bank as well as capital management	MC Mehl (chairman) PJ Mouton CA Otto JP van der Merwe **Management attendees** J-HC de Beer JE Carstens J Delport (operational risk) AP du Plessis JJ Gourrah R Stassen CG van Schalkwyk	Majority of members	Four times a year
7. Large exposures committee	Approval of credit exposures in excess of 10% of bank capital	**Risk and capital management committee** MC Mehl (chairman) PJ Mouton CA Otto JP van der Merwe **Members of management** JE Carstens AP du Plessis R Stassen CG van Schalkwyk	Majority of members	As required
8. Social and ethics committee	Promotes the collective wellbeing of society, thereby facilitating the sustainable growth of the Capitec group	PJ Mouton (chairman) J Huntley CG van Schalkwyk **Management attendees** CG Fischer NST Motjuwadi	Majority of members	Twice a year

Note:

** Development seats, rotate annually*

ATTENDANCE BY BOARD MEMBERS OF MEETINGS HELD DURING THE YEAR UNDER REVIEW

Committees	Board	Directors' affairs	Audit	Human resources and remuneration (remco)	Risk and capital management	Social and ethics[4]
Number of meetings in the period under review	6	2	3	1	4	1
MS du P le Roux	6	2	3 [1]	1	–	–
AP du Plessis	5	–	3 [1]	–	2 [1]	–
MC Mehl	5	2	3	–	3	–
NS Mjoli-Mncube	6	2	3	–	–	–
PJ Mouton	6	2	2 [1]	–	4	1
CA Otto	5	2	3 [1]	1	4	–
JG Solms [2]	2	–	1	1	–	–
R Stassen	6	–	3 [1]	1 [1]	2 [1]	–
JP van der Merwe	6	2	3	–	4	–
M Jooste	4	2	1 [1]	–	–	–
RJ Huntley [3]	3	1	–	–	–	–

[1] *Attendance by invitation*
[2] *Mr Solms retired from the boards of Capitec and Capitec Bank on 3 June 2011*
[3] *Ms Huntley was appointed to the boards of Capitec and Capitec Bank on 14 April 2011*
[4] *The social and ethics committee was established on 2 December 2011 and had its first meeting of the year on 30 January 2012.*

Company secretary

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

Group boards

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

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

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

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

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

The group governance framework permeates all subsidiaries.

Remuneration of directors and senior executives

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

The responsibilities of the human resources and remuneration committee is dealt with in the remuneration report on page 50 of this integrated report.

Conflict of interest

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

Dealing in securities

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

Social and ethics committee

A newcomer on the committee scene, the social and ethics committee has recently seen the light in compliance with the Companies Act, 2008.

The committee comprises two non-executive directors of whom one is independent, as well as the company secretary. It functions under a charter approved by the board and has already met once. It considers matters relating to socio-economic development, equity and empowerment and good corporate citizenship and will annually report to shareholders at the annual general meeting of the company through its chairman.

Audit committee

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

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

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

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

The audit committee undertakes the prescribed functions on behalf of all subsidiary companies.

Independent assurance

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

Management encourages regular coordination and consultation between external and internal auditors to ensure an efficient audit process.

External audit

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

External audit fees are set annually in advance by the audit committee in a manner which should not impact the scope of the audit. The extent of the audit determines the audit fee. Non-audit services rendered by the external auditors are limited to ad hoc tax advice and other assurance-related services within the parameters of a policy approved by the audit committee limiting such expense to 40% of the annual audit fee. Details of fees paid to the external auditor are included in note 22 to the annual financial statements, together with details of non-audit services provided and the fees paid in respect thereof.

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

Internal audit

Status of internal audit

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

Role and function of internal audit

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

- evaluation of appropriateness of and adherence to company policies and procedures;
- prevention of fraud, unethical behaviour and irregularities;
- production of quality management information; and
- sound business processes and associated controls.

Scope of internal audit

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

Board of directors of Capitec and Capitec Bank

Non-executive

Michiel Scholtz du Pré le Roux (62)

BComm LLB

Chairman of the board and directors' affairs committee

Michiel is the chairman of Capitec and Capitec Bank. He was the chief executive officer of the bank until 2004. Michiel is a director of Zeder Investments. He spent the first 20 years of his career in the brandy and wine industry before entering the banking industry.

Michiel was appointed to the board of Capitec on 1 March 2001 and Capitec Bank on 6 April 2000.

Markus Johannes Jooste (51)

BAcc, CTA, CA(SA)

Markus is the chief executive officer of the Steinhoff International Group. He was appointed as group managing director of Steinhoff with responsibility for the Steinhoff group's northern hemisphere interests in 2000. Through these responsibilities he has gained extensive experience in the international business environment.

He serves on the boards of, inter alia, PSG Group, KAP International Holdings and Phumelela Gaming and Leisure.

Markus was appointed to the boards of Capitec and Capitec Bank on 28 January 2011.

Reitumetse Jacqueline Huntley (49)

BProc LLB

Jackie is the managing director of Mkhabela Huntley Adekeye Inc. and has extensive experience in commercial and corporate law, including telecommunications law. She has also worked extensively in low-cost housing, having advised both the Department of Housing and institutions in the housing sector on housing policy and legal aspects of housing. Jackie assisted the City of Johannesburg with the implementation of the bus rapid transit project where she was the interim chief executive officer up to February 2011. She serves on the board and various board committees of Telkom SA and is a director of Rorisang Basadi Investments.

Jackie was appointed to the board of Capitec and the board of Capitec Bank on 14 April 2011.

Petrus Johannes Mouton (35)

BComm (Maths)

Chairman of the social and ethics committee

Piet is the chief executive officer of PSG Group. He serves as a director on the boards of various PSG Group companies, including Curro Holdings, Paladin Capital and Zeder Investments. He has been active in the investment and financial services industry since 1999.

Piet was appointed to the board of Capitec and the board of Capitec Bank on 5 October 2007.

Chris Adriaan Otto (62)

BComm LLB

Chairman of the human resources and remuneration committee

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

Chris was appointed to the board of Capitec and the board of Capitec Bank on 6 April 2000.

Independent non-executive

Merlyn Claude Mehl (69)

PhD (Physics)

Lead independent director

Chairman of the risk and capital management committee

Merlyn serves on the boards of a number of companies. He was previously the chancellor of Peninsula Technikon and the chief executive officer of the Independent Development Trust. He is presently the executive chairman of Triple L Academy.

Merlyn was appointed to the board of Capitec and the board of Capitec Bank on 1 March 2001.

John David McKenzie (65)

BSc (Chemical Eng), MA

Jock serves on the boards of a number of companies. He was the chairman and chief executive officer of Caltex Petroleum Corporation until 2001. He was extensively involved in the merger of Caltex, Chevron and Texaco and was appointed president – Asia, Middle East and Africa of Chevrontexaco until 2004. Between 1997 and 2003 he was a member of a number of advisory boards in Singapore, including the American Chamber of Commerce. He was the founder president of the South Africa-Singapore Business Association and a director of the US-Asian Business Council and the Singapore Economic Development Board. Since 2004 he has served as a consultant to the Energy Market Authority and Temasek Holdings in Singapore and acted as chairman of the Commission of Enquiry into the Singapore Electricity and Gas Supply Systems. In South Africa he has been involved in consulting to, inter alia, Sasol, the South African Petroleum Industry Association's investigation into the impact of the global economic crisis on the South African oil industry and other related topics. He currently serves on the boards of Coronation Fund Managers, Sappi and Wesgro and is chairman of the UCT Foundation and Accelerate Cape Town.

Jock was appointed to the board of Capitec and the board of Capitec Bank on 1 March 2012.

Nonhlanhla Sylvia Mjoli-Mncube (53)
BA, MA (City and Regional Planning)
Nonhlanhla manages her own company, Mjoli Development Group. She was previously the economic advisor to the former Deputy President of South Africa. She has worked as a town and regional planner in South Africa and as a survey research supervisor at Washington State University. She was an executive director at a subsidiary of Murray & Roberts, the chairman of the National Urban Reconstruction and Housing Agency (NURCHA), as well as the chairman of the Rural Housing Loan Fund, Women for Housing and the Open Society Institute in South Africa. She is a fellow of Massachusetts Institute of Technology (MIT, USA), and a Harvard University Leadership Alumnus. She has won several business women awards. She is a director of Pioneer Foods, Tongaat Hullett and WBHO Construction.

Nonhlanhla was appointed to the boards of Capitec and Capitec Bank on 26 January 2004.

Jan Georg Solms (57)
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.

Johnnie retired from the boards of Capitec and Capitec Bank on 3 June 2011 after ten years of service to the group.

Jacobus Pieter van der Merwe (63)
BA, CTA, CA(SA)
Chairman of the audit committee
Pieter is an experienced retail banker. He commenced his career in banking as chief accountant at Boland Bank in 1974 after which he joined Volkskas Merchant Bank as general manager of finance in 1983. He joined Trust Bank in 1990, and after the amalgamation of Bankorp and Absa he was appointed general manager of Commercial Bank, a division of Absa, responsible for Absa Western Cape (1995 – 1999). In 2000 he was appointed operating executive of this division. From 2001 to his retirement in 2006 he was an executive director of Absa, the last two and a half years of which he was responsible for group administration, information management, IT, credit and risk.

Pieter was appointed to the boards of Capitec and Capitec Bank on 27 September 2007.

Executive

Riaan Stassen (58)
BComm (Hons), CA(SA)
Chief executive officer
Riaan joined Capitec Bank as the managing director in 2000 and was appointed chief executive officer of Capitec and Capitec Bank effective March 2004. He gained extensive experience in wholesale distribution 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.

Riaan was appointed to the boards of Capitec and Capitec Bank on 1 March 2001.

André Pierre du Plessis (50)
BComm (Hons), CA(SA)
Financial director
André joined Capitec Bank in 2000 as the executive: financial management and was appointed financial director of Capitec and Capitec Bank in May 2002. He has extensive experience in business advisory services, financial consulting and strategic and financial management. He was the chief executive of financial management of Boland PKS and NBS Boland Group from 1996 to 2000 and a partner at Arthur Andersen where he was employed from 1986 to 1996.

André was appointed to the boards of Capitec and Capitec Bank on 6 May 2002.

Executive management committee

Riaan Stassen (58)
BComm (Hons), CA(SA)
Chief executive officer
See board of directors.

André Pierre du Plessis (50)
BComm (Hons), CA(SA)
Financial director
See board of directors.

Jacobus Everhardus Carstens (43)
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 (55)
BComm (Hons), MBA
Executive: marketing and corporate affairs
Carl joined Capitec Bank in 2000. He was the chief executive of marketing and support services of Boland PKS from 1999 to 2000. Previous positions include group marketing and sales director (1996 – 1998) and group production/operations director of Stellenbosch Farmers' Winery (1993 – 1996).

Gerhardus Metselaar Fourie (48)
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.

Nathan Stephen Tlaweng Motjuwadi (45)
BA (Hons), UED, MBA
Executive: human resources
Nathan joined Capitec Bank in 2010 with almost 15 years' experience in the human resources/training environment. Prior to joining Capitec Bank, he was employed by XPS Services, Cyborg Systems, Coca-Cola (SA) (based in South Africa and London), and Danone SA. Nathan started his career as a teacher and head of department (English and History) from 1993 to 1995. He also lectured part time at Unisa's School of Business Leadership.

André Olivier (44)
BComm (Hons), CA(SA)
Executive: card services and business development
André joined Capitec Bank in 2000 and has been responsible for business development ever since. Card services was incorporated in his area of responsibility in 2009. He was financial risk manager at Boland PKS, after which he was head of operations of Pep Bank, in the bank's micro-lending division from 1997 to 2000. He gained audit and business advisory experience with Arthur Andersen.

Christiaan Oosthuizen (57)
Executive: information technology
Chris joined Capitec Bank as head of information technology in 2000. He previously held the position of chief executive of information technology at Boland PKS, where he was employed from 1976 to 2000.

Ludwe Solwandle* (35)
MBA
Manager: operational efficiency
Ludwe joined Capitec Bank in 2008 as branch manager. He was promoted to regional manager in 2009 and

manager: operational efficiency in 2011. Previous positions include financial advisor at Sanlam Wealth Agency and currency trader at PG Forex.

Christian George van Schalkwyk (57)
BComm LLB, CA(SA)
Executive: risk management and company secretary
Christian joined Capitec Bank as head of risk management and company secretary in 2000. He was chief executive of credit risk and legal services at Boland PKS from 1997 to 2000. Previous positions include being a partner at attorneys Jan S de Villiers (1987 – 1996) and a tax consultant at Arthur Andersen (1985).

Leonardus Venter (50)
BA (Hons), MA (Industrial psychology)
Executive: business support centre
Leon joined Capitec Bank as head of human resources in 2000. He was appointed as executive: business support centre in 2009. Previous positions include human resources manager at Iridium Africa (1998 – 1999), manager of human resources and support at Telkom SA (1993 – 1997) and area personnel manager at Iscor (1986 – 1992).

Chris Vermeulen* (43)
BSc, BEd, CISSP, MBA
Manager: IT risk
Chris joined Capitec Bank in 2005 as IT risk manager. He has 15 years' experience in IT, of which 12 years in banking (Boland PKS, BoE and Nedbank). His previous roles include involvement with e-commerce, card innovation, information security and risk management.

* There are two development seats on the executive management committee to provide senior employees the opportunity to gain experience at executive level. The incumbents rotate annually. During the 2012 financial year these positions were filled by Ronel Prinsloo and Craig Williams. Ludwe Solwandle and Chris Vermeulen were appointed to the committee on 1 March 2012.

Risk and capital management review

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

Risk and capital management

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

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

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

Assets and liability committee (alco)
- Capital adequacy, liquidity, interest rate, market, currency and counterparty risk

Credit committee
- Counterparty and credit risk

Risk management committee (risco)
- Compliance, human resources, legal, operational, regulatory, reputational, technology and business risk.

These subcommittees report to the risk and capital management committee. Refer to the corporate governance framework in the corporate governance review on page 74.

To enhance shareholders' and other stakeholders' interests, all risks are mitigated to an acceptable level relative to the return generated by the activity concerned. This remains a central theme of the manner in which the business is conducted. The group 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. Reports are generated regularly to monitor risk levels.

The concept of day-to-day financial risk management extends beyond the International Financial Reporting Standards (IFRS) accounting definitions of financial risks and includes the following: capital adequacy, credit, currency, equity risk in the banking book, interest rate, liquidity and solvency risk. The group does not have material counterparty and market risk, as understood in terms of the Regulations promulgated under the Banks Act, 1990 (Act 94 of 1990), as amended ("the Banks Act"). This is because it does not conduct financial market trading activities.

Impact of Basel III on Capitec
In response to the global financial crises the Basel Committee on Banking Supervision ("Basel") issued revised minimum global standards for banks in December 2010, revised in July 2011. Basel, through the network of central banks, instituted a programme of quantitative impact studies (QIS) whereby selected banks report figures to enable Basel to assess the impact of their policies. These QIS reports are submitted on a biannual basis. Capitec has participated fully in the QIS process. The main changes under Basel III are summarised as follows:
- Tighter definitions of what constitutes acceptable regulatory capital
- New revised minimum global capital percentages and buffers
- A new maximum leverage ratio
- Two new minimum liquidity standards
- Enhancing capital requirements for derivatives, repurchase and securities financing transactions

The changes must be phased in over a period beginning in 2013 and ending in 2022.

Basel III is a minimum global standard. This does not prevent the South African Reserve Bank (SARB) setting higher standards, as was done with the implementation of Basel II.

We have conducted a detailed review on the impact of Basel III on Capitec at all levels. The results of this analysis are summarised below:

Basel III changes	***Impact***	***Comment***
Tighter regulatory capital definitions	*Some*	*The impact on the current capital position is minimal as Capitec is well capitalised with high-quality capital instruments. The changes to capital deductions have an immaterial impact. There will be some adjustments due to a change in the risk weighting of deferred tax assets. These are currently risk weighted at 0% but will be risk weighted at 250% under Basel III rules.* *Preference share capital and subordinated debt that is not loss absorbent (refer to the explanation on page 91) will be phased out over 10 years from January 2013. We have taken account of this in our capital planning activities.*
New minimum capital percentages and buffers	*None*	*Capitec is well capitalised.*
A new maximum leverage ratio	*None*	*Capitec runs a prudent gearing position.*
Two new minimum liquidity standards	*Minor*	*Capitec's preference for longer-term wholesale funding instruments, no reliance on corporate and institutional call funds and healthy retail funding base have positioned the bank for compliance with the new liquidity standards. As at 29 February 2012 Capitec complied with both the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR).*
Enhancing capital requirements specifically for derivatives, repurchase and securities financing transactions	*None*	*These changes impact banks who are active in financial market trading and market-making activities in derivatives, repurchase agreements and securities financing transactions. The impact is an increased capital requirement resulting from the application of the Basel III Credit Valuation Adjustment.* *Capitec does not conduct financial market trading activities and has limited derivatives.*

Assets and liability management

Capital management

Risk management and capital management are directly linked.

Risk capital represents a reserve for those risk exposures where, after applying cost-effective risk management techniques, residual risk remains. Residual risk exists, given the potential for unexpected losses as well as volatility in losses expected to occur in the future, but not captured in terms of IFRS. Capitec retains capital not only for existing risk on book, but also to support risk arising from planned growth. This is particularly important for our business which is in a high-growth phase.

In addressing capital matters, both the supply and demand factors that impact capital adequacy are managed. Supply-side risk is the risk related to procuring appropriate capital resources at appropriate pricing and times to maintain capital buffers and meet the stipulated requirements of regulators and expectations of shareholders and rating agencies. The management of demand-side risk (risks impacting negatively on earnings and capital) is the risk management side of the business.

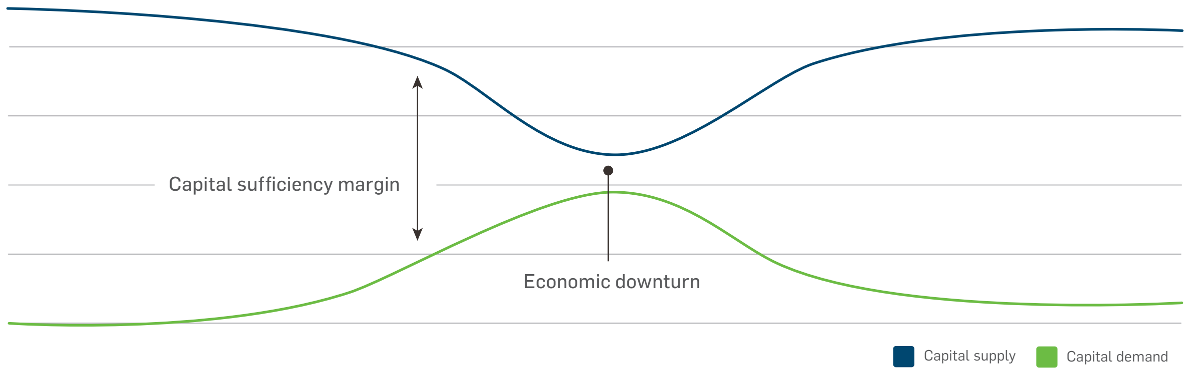
Management of demand-side risk also involves monitoring the growth in risk-weighted assets which drives the growth in the regulatory and own internal capital requirements.

The group's principal policies when managing capital are:

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

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

CAPITAL SUFFICIENCY IN AN ECONOMIC DOWNTURN



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

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

Quantitative information on capital adequacy is presented below and in note 27.7 to the annual financial statements.

Internal capital adequacy assessment process (ICAAP)
To achieve policy objectives the ICAAP is ongoing. This drives the position on capital management matters. The ICAAP addresses the management of capital and solvency risk and the risks arising from the procyclicality of business operations through the economic cycle.

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

Risk management is an integral element of the ICAAP given the interrelationship between capital and risk management. Therefore 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 ICAAP involves broad-based participation from all the key risk owners and it is subject to periodic review by internal audit and relevant external consulting specialists who benchmark our process against best practice.

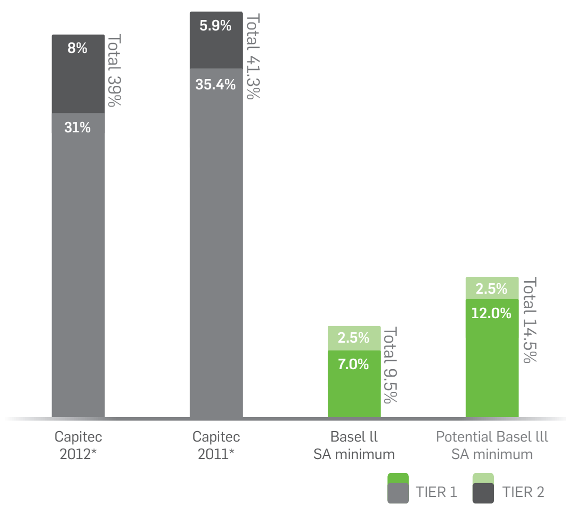
Basel II calculation methods for credit and operational risk capital
The ICAAP involves assessing capital from a business and regulatory perspective. The regulatory capital requirement is calculated using a percentage applied on a base; that base being the risk-weighted assets of the business. There are various methods used for the calculation of risk weights in terms of the Banks Act. As at the year-end reporting date Capitec's calculations of risk-weighted assets for credit and equity risks in the banking book were governed by the application of the standardised approach, while its calculation of operational risk was governed by the alternative standardised approach (ASA). In terms of the ASA, the group operates a mono-line banking business through a portfolio of retail banking assets. All other ancillary assets exist to support this business. In terms of the ASA, a factor of 0.0525 is applied to the average outstanding financial assets for the past three years, to arrive at a risk-weighted equivalent to which the minimum capital adequacy percentage is applied to calculate the capital requirement. This result is subject to a minimum requirement, in terms of a specific agreement with SARB, that operational risk capital shall constitute at least 12% of the total regulatory capital requirement, calculated for all risks.

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

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

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

CAPITAL ADEQUACY BY TIER



- *The Basel II and Basel III minimums include the South African country risk buffer of 1.5%. The level of this buffer is set at the discretion of the SARB and it is subject to periodic review.*
- *The SA minimum excludes bank-specific buffers.*
- *Globally, the Basel III minimum capital adequacy percentage is 8%. Added to this is a 2.5% "capital conservation buffer" that banks must maintain to avoid regulatory restrictions on the payment of dividends and bonuses. In addition to the capital conservation buffer there is a "countercyclical buffer" that can range between 0% and 2.5% at the discretion of the regulator. The countercyclical buffer, will be built up during times when growth in credit extension exceeds that of the real economy and is available for use when the general economy performs poorly. The capital conservation buffer must be met with ordinary shareholders' capital and reserves (common equity). The countercyclical buffer must be met with common equity or other fully loss-absorbing capital.*

* *The Banks Act rules in force as at 29 February 2012.*

Basel III — The leverage ratio

The leverage ratio will act as a minimum capital floor or "back-stop" to the current Basel risk-based capital adequacy framework. It will constrain leveraging by banks. Mandatory public disclosure of the ratio is expected from January 2015.

The ratio is currently set so that the ratio of Primary (Tier 1) capital to calculated asset exposure, is not less than 3%. Alternatively stated, the ratio means that exposure is limited to 33.3 x Tier 1 capital.

The calibration of the exposure amount for the leverage ratio will be based primarily on the financial statements. Some adjustment will be applied to exposures reflected in terms of IFRS to ensure that the contingent leveraging effects of derivatives are adequately captured and other off-balance sheet items are included in the net. Basel is aiming for global consistency and intends to ensure that differences in accounting methods across jurisdictions are adjusted for.

Capitec at 5 x Tier 1 is well below the maximum leverage of 33.3 x Tier 1.

Basel III — New capital definitions, minimum capital ratios and buffers

New capital definitions

- **Eligible Tier 1 and Tier 2 instruments**
  Basel has revised the definitions for instruments eligible as Tier 1 and Tier 2 regulatory capital. This means that the main form of Tier 1 capital must be ordinary shareholders' capital, share premium and retained earnings ("common equity").

- **Deductions against capital**
  The treatment of common regulatory deductions against the capital base has been harmonised across jurisdictions. These deductions are now applied against common equity whereas previously certain deductions could be applied against other Tier 1 and Tier 2 capital instruments. The changes to capital deductions have an immaterial impact on Capitec's capital position.

- **Loss absorbency**
  Other Tier 1 and Tier 2 instruments (capital instruments other than ordinary shareholders' funds) must now be "loss absorbent" not only on liquidation but also in the event of a bank bail-out by public state institutions (referred to by regulators as the point of non-viability). New capital instruments will need to make provision for this requirement to qualify as regulatory capital. This change impacts perpetual preference shares and subordinated debt.

  All capital that is not loss absorbent will be phased out over a period of 10 years. This will be done by setting an overall ceiling limit that reduces by 10% a year, beginning 1 January 2013. The ceiling is applied and calculated separately for Tier 1 and Tier 2 and not at individual instrument level. The ceiling base is the outstanding capital value of instruments on 31 December 2012. Subordinated debt that does not satisfy the loss absorbency criteria will phase out at the earlier of the 10 years, actual maturity or the optional call date (where relevant.) We have taken account of these changes in our capital planning activities.

- **Incentives to redeem**
  Incentives for the issuer to redeem, including "interest rate step-up" options are now prohibited. Subordinated debt agreements concluded post 12 September 2010 must have complied with this criterion to be eligible for the phasing-out arrangements. All Capitec subordinated debt instruments are eligible for phase out.

New minimum capital disclosures
Enhanced Pillar III disclosure requirements around capital instruments and capital adequacy will be effective from 1 January 2013.

New Basel minimum capital ratios and buffers
The current Banks Act has historically required banks to maintain levels of common equity and Tier 1 capital beyond the original Basel II minimums which means, locally, Basel III is less of a capital challenge relative to many banks operating outside South Africa.

As seen in the graph on page 89, Capitec is well positioned for compliance with Basel III capital rules.

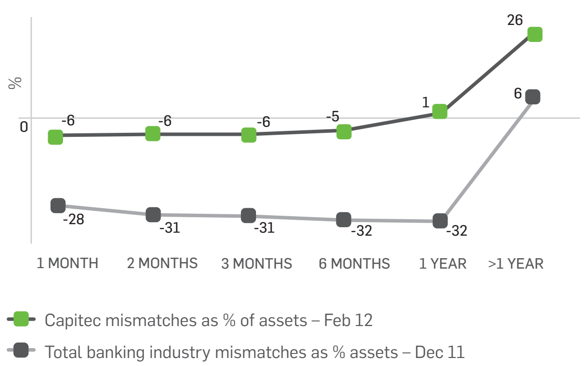
Liquidity risk

Liquidity risk is the risk that Capitec does not have sufficient or acceptable cash and cash equivalents, or access thereto, to fund increases in assets and meet its obligations (including, importantly, repayment of depositors' funds) as they become due, without incurring unacceptable losses. Notwithstanding a greater acceptance of Capitec by the wholesale funding market, liquidity continues to be managed cautiously and conservatively. The group operates an uncomplicated liquidity profile with a preference for long-term funding aligned with the structure of the asset book. The management of liquidity risk takes preference over the optimisation of interest rate risk.

Governance

Liquidity risk is managed by ALCO. The committee comprises broad representation by executive and senior management. ALCO meets at least monthly to consider the activities of the treasury desk which operates in terms of an approved asset and liability management (ALM)

CUMULATIVE CONTRACTUAL LIQUIDITY MISMATCHES – INDUSTRY COMPARISON



– *This graph shows that Capitec's contractual mismatch as a percentage of assets is prudent relative to the total industry mismatch.*
– *The source data is as reported on the SARB BA 300 returns, which exclude the impact of loan impairments.*

policy and in line with approved limits. Capitec also has the benefit of an uncomplicated structure – a single treasury desk with a direct reporting line to the financial director in line with the general ethos of flat reporting structures. A backoffice structure is in place to control and monitor all treasury activities.

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

Principal policies

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

- Wholesale deposit funding is limited, in the main, to contractual maturities of two months or more, although in the past year we have only accepted deposits with maturities of at least six months.
- The risk and capital management committee approved a limited amendment to the rule on what retail demand deposits may fund. There was a marginal increase in the

DIVERSIFICATION OF FUNDING SOURCES

2012	2011	
27%	30%	Demand deposits – retail
22%	22%	Equity – ordinary shareholders (listed)
18%	17%	Fixed-term deposits – retail
12%	15%	Fixed-term deposits – wholesale (listed)
9%	4%	Fixed-term deposits – wholesale (negotiable instruments)
6%	7%	Fixed-term deposits – wholesale (other)
3%	0%	Fixed-term deposits – wholesale (listed subordinated debt)
2%	3%	Fixed-term deposits – wholesale (subordinated debt)
1%	2%	Equity – preference shareholders (listed)

– *Capitec has no exposure to institutional or corporate call accounts.*
– *Wholesale (listed and subordinated debt listed) comprises domestic medium-term notes listed on the JSE Limited. Investors in these bonds comprise: banks, insurance companies, fund managers, and pension and provident funds.*
– *Wholesale (other) comprises deposits negotiated through bilateral agreements, including those with European development finance institutions (DFIs).*
– *Retail refers to individuals/natural persons.*

risk appetite that the board will tolerate. However, the utilisation of short-term retail deposit funding remains limited to funding net short-term cash flows and remains conservative relative to the rest of the banking industry.
- Capitec has a very low appetite for risk as regards the investment of surplus funds awaiting application in the high-yielding retail loan portfolio. During the year these funds are maintained in call accounts with highly rated South African banks, money market unit trusts operated by large asset managers, treasury bills issued by the National Treasury and SARB debentures.
- Adequate liquid assets are maintained in terms of the Banks Act 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.
- The bank places no reliance on interbank facilities as a funding mechanism. While no reliance is placed on interbank facilities, treasury management may use available unsecured facilities from time to time. This is done as Capitec always seeks to ensure it has access to multiple funding sources. Any utilisation of interbank facilities must be reported on and monitored.

Daily cash management

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

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

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

Deposit management

Management takes care in assessing the relative permanency and value distribution of various funding sources, be they wholesale or retail. For fixed-term funding, efforts are directed towards managing rollover risk, while for demand savings deposits attention is focused on monitoring and managing the "core" or "stable" element within the retail demand savings deposit base. Statistical techniques are utilised to estimate this core having due regard for client behaviour and the resulting fluctuations in day-to-day cash flows. Internal definitions of core and fluctuating deposits are formally authorised by ALCO.

Interest rates are reviewed daily to ensure that deposit rates remain competitive and appropriate.
Treasury management assesses concentration risk within the deposit portfolio and maintains a well-diversified wholesale and retail funding base. The business has the option of funding in either the retail or wholesale markets. The retail funding base has a strong fixed deposit component.

Treasury management constantly reviews the efficient utilisation of cash resources and evaluates new liquidity initiatives to improve the liquidity profile.

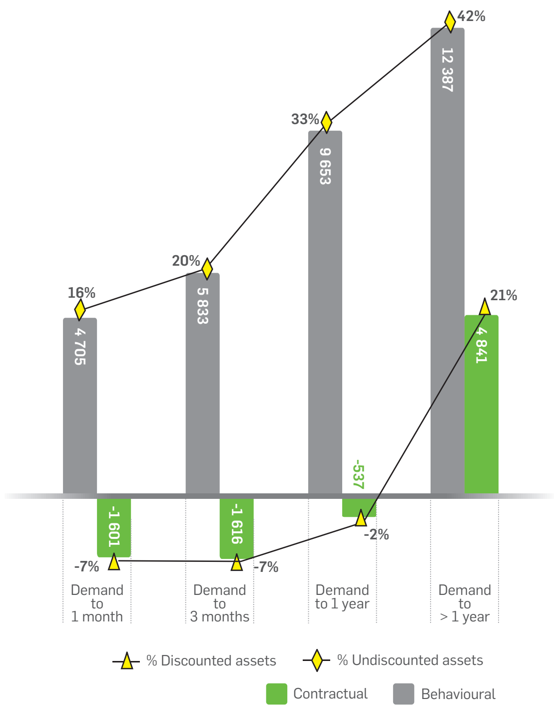
Liquidity contingency planning

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

Capitec holds a stock of highly liquid assets which are available in time of liquidity stress.

The CFP operates in conjunction with the ALM policy to ensure a coordinated approach to liquidity management.

CONTRACTUAL AND BEHAVIOURAL LIQUIDITY MISMATCHES R'm



- *Both the contractual and behavioural mismatches benefit positively from the high component of equity funding. This creates a greater surplus of asset cash flows over liability cash flows than at banks with lower capital ratios.*
- *The main difference between the behavioural and contractual mismatches relates to the treatment of retail demand deposits. Ninety-one percent of retail demand deposits are reflected as stable based on a one standard deviation measure of volatility, which is considered reasonable for business as usual conditions.*
- *The contractual mismatch is reported on a discounted basis whereas the behavioural mismatch is reported on an undiscounted basis.*

Basel III – Two new liquidity standards

The liquidity coverage ratio (LCR)

The LCR is designed as a 30-day stress test. It requires banks to hold liquid assets sufficient to cover the envisaged net outflows. These outflows are calibrated using prescribed Basel factors applied to assets and liabilities in a static or run-off model. Basel definitions are used to identify those assets eligible for the stock of liquid assets. The LCR is more severe for banks that are dependent on corporate and institutional demand and short-term deposits.

The net stable funding ratio (NSFR)

The NSFR is designed to ensure a closer matching of long-term asset cash flows with long-term funding cash flows. It reduces the traditional role of banks to intermediate short-term funds for use in funding longer-term assets.

The LCR and NSFR are only due to be introduced in 2015 and 2018 respectively. Banks currently report these ratios to the regulator on a biannual basis. Monthly reporting is expected to start in January 2013.

Capitec's prudent liquidity policies – a preference for longer-term wholesale funding, no reliance on corporate and institutional call funds and a healthy retail funding base – have positioned the bank so it complies with both ratios at 29 February 2012.

Interest rate risk

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

Governance

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

In general the principal policy governing the management of interest rate risk is that management should avoid taking speculative or trading positions on the banking book. ALCO aims to match the fixed or floating rate nature of funding with the fixed and floating rate elements of the loan book and surplus cash positions. To achieve this, significant long-term liabilities with floating or adjustable interest rates may be swapped to fixed rates.

The bank has a high level of equity relative to liabilities leading to a natural interest rate mismatch between assets and liabilities. This gives ALCO some flexibility, where it has a firm view on rates, to sustain a mismatch. Policy requires prioritisation of the management of the value of equity over annual earnings in order to ensure sustainability and ensure an appropriate focus in creating value over the longer term. Therefore ALCO considers the impact of interest rate decisions over the longer term and not only on annual earnings.

Although loan rates are fixed, the regulations to the National Credit Act (NCA) can have an impact on the pricing of loans. A reduction of 1% in the SARB repo rate reduces the NCA ceiling by 2.2%.

Equity risk in the banking book

Capitec does not deal or maintain a proprietary position in equity investments. During the financial year ended 29 February 2012, the group did not invest in any listed equities.

At the end of the 2012 financial year there were no equity investments as the investments in Visa and MasterCard were sold. All realised gains and losses were included in the income statement.

REGULATORY SENSITIVITY ANALYSIS

	2012		2011	
	R'000	%	R'000	%
Sensitivity of equity				
200 basis points shift				
Increase	**(126 619)**	(2.1)	(70 455)	(1.8)
Decrease	**116 378**	**2.0**	95 192	2.4

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

Currency risk

Currency risk is the risk that the value of assets and liabilities denominated in foreign currency are adversely affected by changes in the exchange rate between the rand and those currencies, with a consequent impact on the income statement and shareholders' equity. All the operations are within South Africa. Capital equipment and technological support services that are imported result in limited exposure to currency fluctuations; however, these transactions are hedged.

Hedging

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

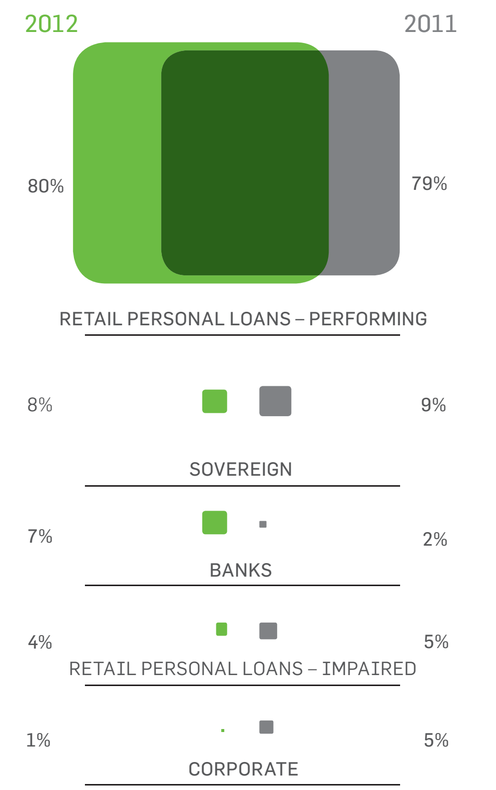
Interest rate swaps are used to convert floating rate funding to fixed (and vice versa) to achieve ALCO objectives of matching floating/fixed-rate assets to floating/fixed-rate funding. Further information on interest rate hedging strategy is discussed under interest rate risk and in note 27.3 and note 41 to the annual financial statements. The group uses forward foreign exchange contracts (FECs) to cover obligations relating to capital equipment, technology and technology support services needed for the core banking activities. FECs are purchased to exactly match the total value of the underlying foreign currency commitment. With the exception of FECs, use of derivatives must first be approved by ALCO prior to transacting.

Stress testing

The group has a programme of stress testing that assists management and the board in understanding the resilience of the business model. Stress testing is conducted for credit, liquidity, interest rate, capital adequacy and business risk. Stress testing is also an integral part of any key changes to credit acceptance rules and loan pricing with the credit management and costing departments.

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

CREDIT EXPOSURE BY TYPE (NET OF RISK MITIGATION)



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]
	2012	2011	2012	2011	2012	2011	
Basel II exposure categories	R'000	R'000	R'000	R'000	R'000	R'000	%
On-balance sheet							
Corporate [6]	275 728	135 251	243 078	616 875	243 078	616 875	100
Sovereign [7]	1 559 247	1 573 073	1 646 386	1 210 609	1 646 386	1 210 609	0
Banks (claims < 3 months original maturity) [8]	1 273 358	904 503	2 162 873	670 635	1 601 743	208 065	20
Banks (claims > 3 months original maturity)	4 229	–	2 554	–	2 554	–	50
Retail personal loans							
– performing	16 108 461	8 783 166	17 438 315	10 253 849	17 438 315	10 253 849	75
– impaired [9]	723 723	461 227	931 742	625 831	931 742	625 831	100
	19 944 746	11 857 220	22 424 948	13 377 799	21 863 818	12 915 229	
Off-balance sheet							
Retail personal loans							
– conditionally revocable commitments [10]	618 631	520 667	603 816	549 200	603 816	549 200	0
Total exposure	20 563 377	12 377 887	23 028 764	13 926 999	22 467 634	13 464 429	

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

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

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

(3) Represents exposure after taking into account qualifying collateral. Amounts are shown gross of impairments, which are deducted to calculate risk-weighted assets.

(4) 'Corporate' and 'Bank' exposures were calculated based on an average using daily balances for month twelve of the respective year-ends. 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 Banks Act. Risk weights for exposures (other than retail) are determined by mapping the exposure's Fitch International grade rating to a risk-weight percentage using the mapping table below. The risk weightings for retail exposures are specified directly in the banking regulations.

(6) 84% (2011: 96%) of corporate aggregate gross year-end exposure relates to investments in money market unit trusts.

(7) Sovereign comprises investments in RSA National Treasury bills and SARB debentures. These exposures are zero risk weighted.

(8) Qualifying collateral in the form of highly liquid securities, arising from resale transactions, is deducted to arrive at post risk mitigation values. All resale agreements are in respect of RSA National Treasury bills and are transacted via STRATE.

(9) An ageing of impaired advances is shown in note 6 to the annual financial statements.

(10) These commitments are a result of undrawn loan amounts. The loans are approved with a contractual repayment period of one month or less. The bank's contractual commitment is revocable should a client not meet their contractual obligations or where the bank has determined that the client's credit risk profile has changed. 18% is expected to be drawn down within one month. As these commitments are revocable, there is no capital charge in terms of the standardised approach for credit risk. For ease of comparison we have presented the corresponding values at 28 February 2011. These commitments are now disclosed on the Banks Act Return 900, line 293 – other contingent liabilities.

RATING GRADES AND RELATED RISK WEIGHTS

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

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

Credit risk management

Governance

Credit committee

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

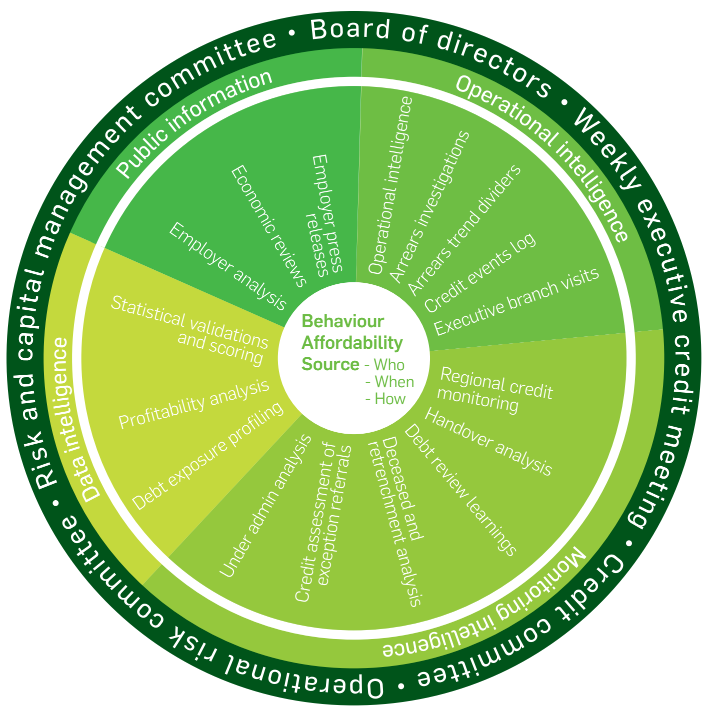
- Chief executive officer
- Financial director
- Executive: risk management (chairman)
- Chief credit officer
- Executive: operations
- Executive: card services and business development
- Credit managers:
  - Head: credit monitoring and operations
  - Manager: credit decision support
  - Manager: Capitec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

The credit committee meets monthly to evaluate the activities of the credit division and operations, new business results, arrears, provisioning and regulatory compliance. This committee determines credit policy. Representation at the weekly executive credit meetings is broad-based as it includes the credit committee members and key senior financial management members.

Credit policies

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

CREDIT RISK MANAGEMENT GOVERNANCE



Institutional credit risk management

Capitec has a very limited risk appetite as regards the investment of surplus cash. Therefore surplus cash is invested in short-dated instruments with high market liquidity such as National Treasury bills (TB), SARB debentures, cash on call with highly rated banks and short-term TB resale transactions. From time to time, and particularly when the bank has large volumes of surplus cash, Capitec will also invest in the money market unit trusts of large fund managers in order to achieve a level of risk diversification, subject to sufficient yield commensurate with the additional risk of investing in an instrument with no capital guarantee.

Credit risk related to the investment of surplus cash resources with banks and money market funds is managed by ALCO. ALCO proposes a list of counterparties and related limits which are approved and monitored by the credit committee. A separate large exposures committee exists to evaluate and approve exposures to other banks and money market funds in terms of the limits specified in the Banks Act.

Retail credit risk management

CREDIT RISK MONITORING TOOLS

CREDIT RISK MANAGEMENT APPROACH

ACCEPT

CREDIT ASSESSMENT

Granting policy
Application processing with sales and services system

Referral policy
Central assessment team (CAT)

MONITOR

CREDIT MONITORING

Regional credit monitoring
Support, investigations and policy adherence

Economic reviews
External publications and internal analyses

CONTROL

PAY DATE MANAGEMENT: Central and branch
ARREARS FOLLOW-UP: Tallyman central collections policy

RECOVER

CAPITEC COLLECTION SERVICES (CCS)

- Handover to and management of collection agents (legal)
- Debt review and under administrations/ sequestrations
- Deceased and retrenchment claims
- Collection and agent management
- Court orders

LEARN

DECISION SUPPORT

- Provision model
- Scoring and rule validations
- Decision analytics
- Reporting, modelling and forecasting

CHANGE

DEVELOPMENT AND CHANGE MANAGEMENT

- Coordinate projects
- Systems development and implement credit policy changes
- System optimisation, accuracy and efficiency

Acceptance

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

- *Behaviour (willingness to pay)*
  The willingness to pay is determined by inference from external bureau enquiry data and internal repayment records. Variations of Bureaux, Application and Behavioural scorecards are blended purpose-fit throughout the decision flow with other product and client rules, employer risk and debt stress indicators. Fraud checks are included.

- *Affordability (ability to pay)*
  The ability to pay is assessed after client authentication; document verification and capturing of income, expenditure and financial obligation information, as prescribed by the NCA and other internally designed measures. Exposure is limited to the lowest of a validated client cash flow calculation and a household affordability assessment, as agreed to by the client. Further mitigation is achieved through decreasing repayment-to-income parameters as the allowed loan term increases.

- *Source of payment (when, who and how)*
  Information about the source of payment is established from the salary slip details, bank statement, employment confirmation and type of employment (Employer stability).

Quality of new business

Roll rate reports, first payment default reports, arrears reports and non-authenticated early debit order (NAEDO) success reports are used as an early indication to determine the quality of the loans granted. Vintage graphs are utilised more as a lagging indication to measure that the quality of credit granted was in line with what was expected in terms of profitability. Vintage graph trends indicate improvement or deterioration in each month's sales (a tranche) and therefore seasonal trends are easily separated from a worsening trend. Cumulative arrears figures for each tranche are tracked at 90 days, the point of handover (deceased, retrenched, under administration, debt review, etc.) and divided into the total original instalments payable (late delinquency).

Accept rates, not taken-up rates and turnaround are monitored from the branch to bank levels and evaluated from all business perspectives.

Process and policy changes

The credit risk management model is continuously adjusted. This is to maintain and improve levels of arrears against the backdrop of changes in the market. Changes in credit exposures and consumer debt levels trigger process and policy responses. Scoring, affordability assessments, pay date management, collections and the end-to-end automation of processes have been enhanced.

Monitoring

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

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

  Where deviations in an individual employer's arrears are observed, investigations into these are actioned on a daily basis to determine if there is an employer problem (e.g. strikes, retrenchments), a pay date problem which could be due to the employer having moved the employees' pay date, or a NAEDO processing problem.

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

- *Credit events log*
  All identified credit events are registered on a central credit events log and communicated to branches and operations management. System flags drive appropriate mitigating action.

- *Root cause analysis*
  Root cause analysis and continuous learning are performed by the regional credit monitoring team. All branches are reviewed every month but branches with high arrears are covered more extensively.

Control

- *Collection method*
  Capitec mainly 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 mandated by clients in terms of their loan contracts; collections are made from their external bank account or clients can deposit their salary with Capitec Bank and collections are then made from their Capitec Bank account under the same rules as external NAEDO debits.

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

- *Arrears follow-up*
  Arrears follow-up is mostly performed centrally from our internal call centre, run on a best-of-breed collection system and predictive dialler.

Recovery

Legal collections are outsourced to various external debt collectors/attorneys, who are responsible for tracing and instituting legal action. These collectors are contractually managed in terms of mandates and their performance is reviewed monthly. Collectors, the handed-over-accounts database and recoveries are managed by the Capitec collection services (CCS) department. The specialised services area within CCS has the legal skills, with the support of the legal department in the risk management division, to manage debt review applications, deceased estates, retrenchment and deceased cover claims, court orders and under-administration/sequestration cases.

Operational risk management

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. Legal risk includes, but is not limited to, exposure to fines, penalties or punitive damages resulting from legal actions, as well as private settlements.

Governance

To minimise exposure to operational risk that arises as a consequence of the group's financial risk-taking (credit and market) and operating activities, an operational risk management framework has been implemented in the group. Operational risk governance and management form part of the corporate governance control framework (refer to page 74). The risk committee (risco) has been established to oversee the risk profile of the group. The role of risco is to direct, govern and coordinate all risk management processes in accordance with an approved policy that sets out the expectations and responsibilities relating to risk management. All divisional heads are members of risco. The heads of the compliance, forensic, internal audit, IT risk and operational risk management units provide independent monitoring and assist business with specialist advice, policies and standards relating to:

- business continuity planning and disaster recovery;
- forensic services;
- information security;
- legal risk management;
- regulatory risk services
- safety and security services; and
- an insurance programme.

Operational risk trends are monitored and reported to risco and, where appropriate, to the board risk and capital management committee.

The group considers financial crime to be a major operational risk that leads to losses. For this reason a policy has been implemented to mitigate the risk through the following measures:

- a zero-tolerance policy in respect of staff dishonesty,
- cooperation with government and industry role players to ensure the successful apprehension and conviction of the perpetrators of financial crime,
- effective and comprehensive investigation and recovery of losses, and
- proactive identification and prevention of criminal acts against Capitec Bank.

The management of operational risk is inherent in the day-to-day execution of duties by management and is a central element of the management process. A dedicated operational risk manager is responsible for the application of group policies, providing guidance in terms of best practice and for 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.

Operational risk measurement, processes and reporting systems

The three primary operational risk management processes are risk assessment, loss data collection and the tracking of risk indicators. The results of these processes are utilised to raise awareness of operational risk management and to enhance the internal control environment with the ultimate aim of reducing losses.

Additional related processes include the continuous consideration of the business environment and consistent review of internal control factors, as well as the analysis of operational risk causes. Management is responsible for developing and maintaining control environments to mitigate operational risks inherent in the business. Specific mitigating actions are reported to risco. Risk assessments are designed to be forward-looking. In other words, management identifies risks that could threaten the achievability of business objectives, together with the required set of controls and actions to mitigate the risks. Loss data collection and key risk indicator tracking are backward-looking and enable the monitoring of trends.

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

Business continuity planning
A continuity management team is responsible for all aspects of business continuity. The business continuity framework and methodology is based on British Standard 25999 and has been approved by the board. The business continuity and disaster recovery plan documents procedures to be followed should an extreme event occur. The disaster recovery and evacuation plans have been tested successfully during the year as part of a scheduled programme.

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

- Toll-free number
- Client Care Centre
- Website

Occupational health and safety
Rates of injury, occupational diseases, lost days and absenteeism due to occupational injuries and number of work-related fatalities per region are insignificant as the working environment is mostly office based. At the Stellenbosch and Bellville campuses, where 1 167 employees are aggregated, health and safety coordinators arrange the appointment and training of safety, health and environment (SHE) representatives, first aiders, fire wardens and fire fighters as prescribed by the Occupational Health and Safety Act and in accordance with the Capitec health and safety policies and procedures documents. The branch infrastructure was designed to provide for a low-cash environment. The intention is, inter alia, to safeguard employees and clients in all branches. Cash deposited by clients is held in drop safes. Employees do not have access to the keys of either ATMs or drop safes; the keys are kept off site. Cash is not paid out over the counter but is electronically deposited into the account of the client who then withdraws the required amount at an ATM or other transaction point. Exposure to hazardous material and machinery is limited.

Reputational risk
Reputational risk is the risk that an activity, action or stance taken by the Capitec group or its officials will impair its image in the community and the long-term trust placed in the organisation by its stakeholders; this may result in the loss of business and/or threaten legal action. Capitec views reputational risk as a function of the management of all other risks as well as its communication strategy in the marketplace. If the other risks are well managed and this is adequately communicated to the market, reputational risk is managed appropriately. In terms of the management approach, reputational risk is dealt with by RISCO. Reputational risk is managed on an ongoing basis through compliance with disclosure and communication policies.

Disclosure of information is made in the annual financial statements, via public statements by authorised spokespersons and through periodic disclosure of information on the website (www.capitecbank.co.za) in terms of the Banks Act requirements.

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

Business risk management
Business risk is the impact that fluctuations in earnings, driven by volume and pricing variances against historical and budgeted benchmarks, have on the group. Both positive and negative variances impact the business in various ways and must be managed. Business risk is impacted most significantly by strategic direction and delivery on planned actions to achieve strategic objectives.

Strategy
The board considers strategic direction as part of the annual budgeting and planning processes, when the budget is tabled for approval. The budget is a result of a comprehensive budgeting exercise involving all key decision-makers. A challenge process is used to assess the robustness and substance behind the budget and it is subject to audit by the internal audit department. Daily, weekly and monthly reporting processes are in place to enable effective monitoring. The budget is a critical tool for monitoring progress in terms of strategic objectives. If necessary, adjustments are authorised and made to accommodate significant changes in circumstances and or strategy. Processes and incentives are in place to ensure a focused approach to achieving targets. Variances against budget receive significant attention to understand the underlying drivers.

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transparency

The preparation of the audited consolidated annual financial statements was supervised by the financial director, André du Plessis, CA(SA)

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 111 to 178 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 110.

The financial statements were approved by the board of directors on 27 March 2012, 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 88(2)(e) of the Companies Act (Act 71 of 2008) (the 'Act'), that to the best of my knowledge, for the year ended 29 February 2012, the company has lodged with the Companies Commissioner all such returns and notices as required in terms of the Act and that all such returns and notices are true, correct and up to date.

Christian van Schalkwyk
Stellenbosch
27 March 2012

Audit committee report

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

The Capitec Bank Holdings group audit committee ("the committee") is an independent statutory committee appointed by the board of directors in terms of section 64 of the Banks Act (Act 94 of 1990). The committee's responsibilities include its statutory duties in terms of the Companies Act (Act 71 of 2008) ("the Act"), as well as responsibilities assigned to it by the board of directors of the group.

The committee's terms of reference are determined by a board-approved charter. The committee has conducted its affairs in compliance with, and has discharged its responsibilities in terms of, the charter for the year ended 29 February 2012.

The committee comprises three independent non-executive directors. The committee met three times during the year and there was 100% attendance by members at the meetings. The functions of the committee are detailed in the corporate governance review.

The committee performed the following statutory duties during the period under review:

- Satisfied itself that the external auditor is independent of the group, as set out in section 94(8) of the Act.
- Ensured that the appointment of the auditor complied with the Act, and any other legislation relating to the appointment of auditors.
- In consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted fees for the 2012 financial year.
- Approved the terms of the master agreement for the provision of non-audit services by the external auditor, and approved the nature and extent of non-audit services that the external auditor may provide.
- Nominated for election at the annual general meeting, PricewaterhouseCoopers Inc. as the external audit firm. Mr DG Malan is the designated auditor responsible for performing the functions of the audit.
- Satisfied itself, based on the information and explanations supplied by management and discussions with the independent external auditor and internal auditors, that the system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements.
- Reviewed the accounting policies and the group financial statements for the year ended 29 February 2012 and, based on the information provided to the committee, considers that the group complies, in all material respects, with the requirements of the Act, the JSE Listings Requirements, the King III Code and IFRS.
- Undertook the prescribed functions (in terms of section 94(7) of the Act on behalf of the subsidiary companies of the group.

The committee performed the following duties assigned by the board during the period under review:

- Considered the sustainability information as disclosed in the integrated report, which is the result of a combined assurance model, and satisfied itself that the information is reliable and consistent with the financial results. The committee approved the integrated report.
- Ensured that the company's internal audit function is independent and had the necessary resources and authority to enable it to discharge its duties. The committee recommended the internal audit charter for approval by the board and approved the annual audit plan.
- During the year, the committee met with the external auditors and with the head of the internal audit function without management being present.
- The committee satisfied itself that the group financial director has appropriate expertise and experience as required by the JSE Listings Requirement 3.84(h).

Pieter van der Merwe
Chairman
27 March 2012

Independent auditor's report

To the shareholders of Capitec Bank Holdings Limited

We have audited the consolidated annual financial statements and annual financial statements of Capitec Bank Holdings Limited, which comprise the consolidated and separate balance sheets as at 29 February 2012, and the consolidated and separate income statements, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 111 to 178.

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 the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's 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 29 February 2012, 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 the requirements of the Companies Act of South Africa.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.
Director: DG Malan
Registered Auditor
Cape Town
27 March 2012

Directors' report

Year ended 29 February 2012

The directors present their annual report, which forms part of the audited financial statements of the company, for the year ended 29 February 2012.

1. Nature of business

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

2. Review of operations

The operating results and the state of affairs of the company and the group are fully set out in the attached balance sheets, income statements, statements of comprehensive income, statements of changes in equity, statements of cash flows and the notes thereto.

The group's earnings attributable to shareholders amounted to R1 094.3 million (2011: R656.0 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 for the current and previous financial years:

	DPS	Rand	Declared	LDT	Date paid
2012					
Ordinary dividend					
Interim	**125.0**	**124 102 750**	**27 Sep 2011**	**25 Nov 2011**	**5 Dec 2011**
Final*	**300.0**	**297 846 600**	**1 Mar 2012**	**15 Mar 2012**	**26 Mar 2012**
Preference dividend					
Interim	**340.27**	**9 762 508**	**31 Aug 2011**	**16 Sep 2011**	**26 Sep 2011**
Final	**336.58**	**9 656 527**	**29 Feb 2012**	**15 Mar 2012**	**26 Mar 2012**
2011					
Ordinary dividend					
Interim	85.0	71 573 930	29 Sep 2010	26 Nov 2010	6 Dec 2010
Final	205.0	193 836 676	29 Mar 2011	17 Jun 2011	27 Jun 2011
Preference dividend					
Interim	380.65	6 410 949	31 Aug 2010	16 Sep 2010	27 Sep 2010
Final	343.77	9 342 955	28 Feb 2011	17 Mar 2011	28 Mar 2011

** An ordinary dividend of 300 cents per share was declared by the directors on 1 March 2012 (2011: 205 cents). In line with IFRS, no accrual was made for this dividend.*

4. Share capital

Ordinary shares: 5 894 528 shares were issued this financial year (2011: 10 405 135) and share issue costs of R11 679 035 (2011: R43 777 068) were allocated against share premium.

Preference shares: Nil (2011: 1 184 803) shares were issued this financial year and share costs of Nil (2011: R788 087) were allocated against share premium .

Settlement of share options

The group settled 1 253 326 options (2011: 1 270 826 options) relating to the share incentive scheme.

5. Directors and secretary

Information relating to the directors and secretary of the company is in section 13 of the annual report.

6. Group details

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

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

7. Interests of the directors in share capital and contracts

7.1 At year-end, the directors, in aggregate, were directly or indirectly, beneficially or non-beneficially, interested in 18 499 242 (2011: 18 716 809) Capitec Bank Holdings Limited shares, equivalent to 18.63% (2011: 20.04%), of the issued share capital of Capitec Bank Holdings Limited. The individual interests of the directors were as follows:

2012	Number of shares held					
	Beneficial		Non-beneficial		Total	
	Direct	Indirect**	Direct	Indirect**	shares	%
AP du Plessis*	55 202	1 173 151	–	–	1 228 353	1.24
MS du P le Roux (Chairman)	–	–	–	14 367 841	14 367 841	14.47
RJ Huntley (1)	–	–	–	28 200	28 200	0.03
MJ Joost (2)	–	–	–	–	–	0.00
MC Mehl	40 784	–	–	–	40 784	0.04
NS Mjoli-Mncube	110 000	–	–	–	110 000	0.11
PJ Mouton	–	11 000	–	–	11 000	0.01
CA Otto	1 064	–	–	506 500	507 564	0.51
JG Solms (3)	–	–	–	–	–	0.00
R Stassen*	137 819	–	–	2 047 681	2 185 500	2.20
JP van der Merwe	20 000	–	–	–	20 000	0.02
	364 869	1 184 151	–	16 950 222	18 499 242	18.63
2011						
AP du Plessis*	–	1 173 151	–	–	1 173 151	1.26
MS du P le Roux (Chairman)	–	–	–	14 367 841	14 367 841	15.39
MJ Jooste (2)	–	–	–	–	–	0.00
MC Mehl	70 784	–	–	–	70 784	0.08
NS Mjoli-Mncube	110 000	–	–	–	110 000	0.12
PJ Mouton	–	11 000	–	–	11 000	0.01
CA Otto	1 064	–	–	506 500	507 564	0.54
JG Solms (3)	108 500	44 969	–	–	153 469	0.16
R Stassen*	67 819	–	–	2 235 181	2 303 000	2.47
JP van der Merwe	20 000	–	–	–	20 000	0.02
	378 167	1 229 120	–	17 109 522	18 716 809	20.04

* *Executive*
** *Includes shareholding through associates as defined in terms of the JSE Listings Requirements.*
(1) *Appointed on 14 April 2011.*
(2) *Appointed on 28 January 2011.*
(3) *Resigned on 3 June 2011.*

7.2 At year-end the directors were participants in the Capitec Bank Holdings Limited share incentive scheme in respect of 977 375 (2011: 1 258 250) Capitec Bank Holdings Limited share options.

2012				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	12 Apr 11	12 Apr 06	30.73	13 125	(13 125)	177.00	4 May 11	–
(direct beneficial)	21 Apr 11	21 Apr 08	35.54	15 685	(15 685)	175.00	5 May 11	–
	21 Apr 11	21 Apr 08	35.54	15 565	(15 565)	188.00	31 May 11	–
	26 Apr 11	26 Apr 07	35.82	19 000	(19 000)	188.00	31 May 11	–
	20 May 11	20 May 05	14.05	17 500	(17 500)	189.00	2 Jun 11	–
	12 Apr 12	12 Apr 06	30.73	13 125	–	–		13 125
	15 Apr 12	15 Apr 09	31.23	18 750	–	–		18 750
	21 Apr 12	21 Apr 08	35.54	31 250	–	–		31 250
	26 Apr 12	26 Apr 07	35.82	19 000	–	–		19 000
	14 Apr 13	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 13	15 Apr 09	31.23	18 750	–	–		18 750
	21 Apr 13	21 Apr 08	35.54	31 250	–	–		31 250
	26 Apr 13	26 Apr 07	35.82	19 000	–	–		19 000
	12 Apr 14	12 Apr 11	160.09	–	3 750	–		3 750
	14 Apr 14	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 14	15 Apr 09	31.23	18 750	–	–		18 750
	21 Apr 14	21 Apr 08	35.54	31 250	–	–		31 250
	12 Apr 15	12 Apr 11	160.09	–	3 750	–		3 750
	14 Apr 15	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 15	15 Apr 09	31.23	18 750	–	–		18 750
	12 Apr 16	12 Apr 11	160.09	–	3 750	–		3 750
	14 Apr 16	14 Apr 10	97.30	3 125	–	–		3 125
	12 Apr 17	12 Apr 11	160.09	–	3 750	–		3 750
				313 250	(65 875)			247 375
R Stassen	12 Apr 11	12 Apr 06	30.73	50 000	(50 000)	175.00	5 May 11	–
(direct beneficial)	21 Apr 11	21 Apr 08	35.54	125 000	(125 000)	178.25	17 May 11	–
	20 May 11	20 May 05	14.05	70 000	(70 000)	187.50	3 Jun 11	–
	12 Apr 12	12 Apr 06	30.73	50 000	–	–		50 000
	15 Apr 12	15 Apr 09	31.23	62 500	–	–		62 500
	21 Apr 12	21 Apr 08	35.54	125 000	–	–		125 000
	14 Apr 13	14 Apr 10	97.30	6 250	–	–		6 250
	15 Apr 13	15 Apr 09	31.23	62 500	–	–		62 500
	21 Apr 13	21 Apr 08	35.54	125 000	–	–		125 000
	12 Apr 14	12 Apr 11	160.09	–	7 500	–		7 500
	14 Apr 14	14 Apr 10	97.30	6 250	–	–		6 250
	15 Apr 14	15 Apr 09	31.23	62 500	–	–		62 500
	21 Apr 14	21 Apr 08	35.54	125 000	–	–		125 000
	12 Apr 15	12 Apr 11	160.09	–	7 500	–		7 500
	14 Apr 15	14 Apr 10	97.30	6 250	–	–		6 250
	15 Apr 15	15 Apr 09	31.23	62 500	–	–		62 500
	12 Apr 16	12 Apr 11	160.09	–	7 500	–		7 500
	14 Apr 16	14 Apr 10	97.30	6 250	–	–		6 250
	12 Apr 17	12 Apr 11	160.09	–	7 500	–		7 500
				945 000	(215 000)			730 000
Total				1 258 250	(280 875)			977 375

The directors were also participants in the Capitec Bank Holdings Limited share incentive scheme in respect of 876 250 (2011: 987 500) share appreciation rights (SARs) as follows:

2012				Opening balance	(SAR exercised) / SAR granted			Closing balance
Directors	Maturity date	Issue date	SAR exercise price R	Number of SAR	Number of SAR	Market price R	Exercise date	Number of SAR
AP du Plessis	21 Apr 11	21 Apr 08	35.54	31 250	(31 250)	175.00	5 May 11	–
(direct beneficial)	15 Apr 12	15 Apr 09	31.23	18 750	–	–		18 750
	21 Apr 12	21 Apr 08	35.54	31 250	–	–		31 250
	14 Apr 13	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 13	15 Apr 09	31.23	18 750	–	–		18 750
	21 Apr 13	21 Apr 08	35.54	31 250	–	–		31 250
	12 Apr 14	12 Apr 11	160.09	–	3 750	–		3 750
	14 Apr 14	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 14	15 Apr 09	31.23	18 750	–	–		18 750
	21 Apr 14	21 Apr 08	35.54	31 250	–	–		31 250
	12 Apr 15	12 Apr 11	160.09	–	3 750	–		3 750
	14 Apr 15	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 15	15 Apr 09	31.23	18 750	–	–		18 750
	12 Apr 16	12 Apr 11	160.09	–	3 750	–		3 750
	14 Apr 16	14 Apr 10	97.30	3 125	–	–		3 125
	12 Apr 17	12 Apr 11	160.09	–	3 750	–		3 750
				212 500	(16 250)			196 250
R Stassen	21 Apr 11	21 Apr 08	35.54	125 000	(125 000)	188.00	24 May 11	–
(direct beneficial)	15 Apr 12	15 Apr 09	31.23	62 500	–	–		62 500
	21 Apr 12	21 Apr 08	35.54	125 000	–	–		125 000
	14 Apr 13	14 Apr 10	97.30	6 250	–	–		6 250
	15 Apr 13	15 Apr 09	31.23	62 500	–	–		62 500
	21 Apr 13	21 Apr 08	35.54	125 000	–	–		125 000
	12 Apr 14	12 Apr 11	160.09	–	7 500	–		7 500
	14 Apr 14	14 Apr 10	97.30	6 250	–	–		6 250
	15 Apr 14	15 Apr 09	31.23	62 500	–	–		62 500
	21 Apr 14	21 Apr 08	35.54	125 000	–	–		125 000
	12 Apr 15	12 Apr 11	160.09	–	7 500	–		7 500
	14 Apr 15	14 Apr 10	97.30	6 250	–	–		6 250
	15 Apr 15	15 Apr 09	31.23	62 500	–	–		62 500
	12 Apr 16	12 Apr 11	160.09	–	7 500	–		7 500
	14 Apr 16	14 Apr 10	97.30	6 250	–	–		6 250
	12 Apr 17	12 Apr 11	160.09	–	7 500	–		7 500
				775 000	(95 000)			680 000
Total				987 500	(111 250)			876 250

7.3 At year-end, the directors, in aggregate, were indirectly non-beneficially interested in 21 000 (2011: 21 000) Capitec Bank Holdings Limited non-redeemable, non-cumulative, non-participating preference shares, equivalent to 0.73% (2011: 0.73%) of the issued preference share capital of Capitec Bank Holdings Limited.

The individual interest of the directors were as follows:

	2012		2011	
Non-beneficial indirect	Number of shares	%	Number of shares	%
R Stassen	21 000	0.73	21 000	0.73
	21 000	0.73	21 000	0.73

7.4 The directors' remuneration in respect of the financial year was as follows:

2012	Salaries R'000	Fringe benefits R'000	Bonuses R'000	Fees R'000	Total R'000	Fair value of options and rights granted during the year on reporting date R'000
Executive						
AP du Plessis	4 172	151	593	–	4 916	269
R Stassen	8 872	324	1 323	–	10 519	538
Non-executive						
MS du P le Roux (Chairman)	–	–	–	1 040	1 040	–
RJ Huntley	–	–	–	116	116	–
MJ Jooste [1]	–	–	–	150	150	–
MC Mehl	–	–	–	348	348	–
NS Mjoli-Mncube	–	–	–	202	202	–
PJ Mouton	–	–	–	238	238	–
JG Solms	–	–	–	63	63	–
CA Otto	–	–	–	348	348	–
JP van der Merwe	–	–	–	348	348	–
	13 044	475	1 916	2 853	18 288	807

The total share option expense relating to directors amounted to R4 482 281 (2011: R2 236 166) and share appreciation rights expense amounted to R46 288 285 (2011: R46 172 105). This expense includes the movement on all tranches.

2011	Salaries R'000	Fringe benefits R'000	Bonuses R'000	Fees R'000	Total R'000
Executive					
AP du Plessis	3 733	121	449	–	4 303
R Stassen	7 143	299	3 720	–	11 162
Non-executive					
MS du P le Roux (Chairman)	–	–	–	960	960
TD Mahloele	–	–	–	95	95
MC Mehl	–	–	–	319	319
NS Mjoli-Mncube	–	–	–	184	184
PJ Mouton	–	–	–	184	184
CA Otto	–	–	–	292	292
JG Solms	–	–	–	222	222
JP van der Merwe	–	–	–	319	319
MJ Jooste [1]	–	–	–	10	10
	10 876	420	4 169	2 585	18 050

[1] Director's fees paid to Steinhoff International Holdings Limited

8. Investments in subsidiaries

Information relating to the company's financial interest in its subsidiaries is set out in note 9 to the financial statements.

9. Material events after year-end

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

10. Prescribed officers

The executive directors are the prescribed officers of the company.

Balance sheets

As at 29 February 2012

		GROUP		COMPANY	
		2012	2011	2012	2011
	Notes	R'000	R'000	R'000	R'000
Assets					
Cash and cash equivalents	4	4 551 203	2 841 918	18	13
Investments designated at fair value	5	1 198 833	988 664	–	–
Loans and advances to clients	6	16 863 028	10 071 466	–	–
Inventory	7	42 079	30 847	–	–
Other receivables	8	57 745	48 177	9 657	9 355
Current income tax assets		62 331	–	–	–
Interest in subsidiaries	9	–	–	3 203 661	2 196 440
Property and equipment	10	543 121	375 185	–	–
Intangible assets	11	69 262	34 357	–	–
Deferred income tax assets	12	234 242	48 903	–	–
Total assets		23 621 844	14 439 517	3 213 336	2 205 808
Liabilities					
Loans and deposits at amortised cost	13	17 692 062	10 449 883	–	–
Provisions	15	24 998	14 403	–	–
Other liabilities	14	718 549	489 685	10 303	10 533
Current income tax liabilities		885	35 033	–	–
Total liabilities		18 436 494	10 989 004	10 303	10 533
Equity					
Capital and reserves					
Ordinary share capital and premium	16	2 926 435	1 918 677	2 926 435	1 918 677
Cash flow hedge reserve	17	(1 920)	(3 469)	–	–
Retained earnings		2 001 866	1 276 336	17 629	17 629
Share capital and reserves attributable to ordinary shareholders		4 926 381	3 191 544	2 944 064	1 936 306
Non-redeemable, non-cumulative, non-participating preference share capital and premium	16	258 969	258 969	258 969	258 969
Total equity		5 185 350	3 450 513	3 203 033	2 195 275
Total equity and liabilities		23 621 844	14 439 517	3 213 336	2 205 808

Income statements

Year ended 29 February 2012

	Notes	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Interest income	18	**4 346 902**	2 808 543	**–**	–
Interest expense	18	**(1 022 374)**	(751 360)	**–**	–
Net interest income		**3 324 528**	2 057 183	**–**	–
Loan fee income		**1 657 018**	1 273 574	**–**	–
Loan fee expense		**(186 360)**	(121 710)	**–**	–
Transaction fee income		**1 360 308**	883 040	**–**	–
Transaction fee expense		**(524 202)**	(351 309)	**–**	–
Net fee income		**2 306 764**	1 683 595	**–**	–
Dividend income	19	**1 532**	571	**337 358**	217 636
Net impairment charge on loans and advances to clients	20	**(1 604 190)**	(988 177)	**–**	–
Net movement in financial instruments held at fair value through profit or loss	21	**12 070**	(210)	**–**	–
Other income		**679**	251	**932**	702
Sales		**217 145**	219 298	**–**	–
Cost of sales		**(191 996)**	(197 040)	**–**	–
Non-banking income		**25 149**	22 258	**–**	–
Income from operations		**4 066 532**	2 775 471	**338 290**	218 338
Banking operating expenses		**(2 486 318)**	(1 812 499)	**(932)**	(732)
Non-banking operating expenses		**(22 342)**	(22 672)	**–**	–
Operating profit before tax	22	**1 557 872**	940 300	**337 358**	217 606
Income tax expense	23	**(463 532)**	(284 276)	**–**	–
Profit for the year		**1 094 340**	656 024	**337 358**	217 606
Earnings per share (cents)					
Basic	24	**1 122**	757		
Diluted	24	**1 096**	730		

Statements of comprehensive income

Year ended 29 February 2012

	Notes	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Profit for the year		**1 094 340**	656 024	**337 358**	217 606
Cash flow hedge before tax		**2 151**	17 181	**–**	–
Income tax relating to cash flow hedge		**(602)**	(4 811)	**–**	–
Other comprehensive income for the year net of tax	17	**1 549**	12 370	**–**	–
Total comprehensive income for the year		**1 095 889**	668 394	**337 358**	217 606

Statements of changes in equity

Year ended 29 February 2012

GROUP	Ordinary share capital and premium R'000	Preference share capital and premium R'000	Cash flow hedge reserve R'000	Retained earnings R'000	Total R'000
Balance at 28 February 2010	682 219	154 606	(15 839)	906 991	1 727 977
Total comprehensive income for the year	–	–	12 370	656 024	668 394
Ordinary dividend	–	–	–	(201 882)	(201 882)
Preference dividend	–	–	–	(15 754)	(15 754)
Employee share option scheme: Value of employee services	–	–	–	11 706	11 706
Shares issued and acquired for employee share options at cost	127 169	–	–	(131 591)	(4 422)
Proceeds on settlement of employee share options	–	–	–	23 255	23 255
Tax effect on share options	–	–	–	27 587	27 587
Shares issued	1 153 066	105 151	–	–	1 258 217
Share issue expenses	(43 777)	(788)	–	–	(44 565)
Balance at 28 February 2011	1 918 677	258 969	(3 469)	1 276 336	3 450 513
Total comprehensive income for the year	–	–	1 549	1 094 340	1 095 889
Ordinary dividend	–	–	–	(317 939)	(317 939)
Preference dividend	–	–	–	(19 419)	(19 419)
Employee share option scheme: Value of employee services	–	–	–	11 778	11 778
Shares issued and acquired for employee share options at cost	220 505	–	–	(221 207)	(702)
Proceeds on settlement of employee share options	–	–	–	35 091	35 091
Tax effect on share options	–	–	–	142 886	142 886
Shares issued	798 932	–	–	–	798 932
Share issue expenses	(11 679)	–	–	–	(11 679)
Balance at 29 February 2012	2 926 435	258 969	(1 920)	2 001 866	5 185 350
Notes	16	16	17		

Statements of changes in equity (continued)

Year ended 29 February 2012

COMPANY	Ordinary share capital and premium R'000	Preference share capital and premium R'000	Retained earnings R'000	Total R'000
Balance at 28 February 2010	682 219	154 606	17 659	854 484
Total comprehensive income for the year	–	–	217 606	217 606
Ordinary dividend	–	–	(201 882)	(201 882)
Preference dividend	–	–	(15 754)	(15 754)
Shares issued	1 280 235	105 151	–	1 385 386
Share issue expenses	(43 777)	(788)	–	(44 565)
Balance at 28 February 2011	1 918 677	258 969	17 629	2 195 275
Total comprehensive income for the year	–	–	337 358	337 358
Ordinary dividend	–	–	(317 939)	(317 939)
Preference dividend	–	–	(19 419)	(19 419)
Shares issued	1 019 437	–	–	1 019 437
Share issue expenses	(11 679)	–	–	(11 679)
Balance at 29 February 2012	2 926 435	258 969	17 629	3 203 033
Notes	16	16		

Statements of cash flows

Year ended 29 February 2012

		GROUP		COMPANY	
		2012	2011	2012	2011
	Notes	R'000	R'000	R'000	R'000
Cash flow from operating activities					
Cash flow from operations	30	2 406 380	(537 593)	337 038	214 828
Income taxes paid	31	(603 066)	(290 639)	–	–
		1 803 314	(828 232)	337 038	214 828
Cash flow from investing activities					
Purchase of property and equipment	10	(315 366)	(203 170)	–	–
Proceeds from disposal of property and equipment		1 236	3 107	–	–
Purchase of intangible assets	11	(65 873)	(32 193)	–	–
Investment in subsidiaries		–	–	(1 007 221)	(1 341 909)
Acquisition of investments at fair value through profit or loss		(1 542 428)	(1 469 502)	–	–
Disposal of investments at fair value through profit or loss		1 344 330	1 786 927	–	–
		(578 101)	85 169	(1 007 221)	(1 341 909)
Cash flow from financing activities					
Dividends paid	32	(337 570)	(214 092)	(337 570)	(213 728)
Preference shares issued	16	–	104 363	–	104 363
Ordinary shares issued	16	1 007 758	1 236 458	1 007 758	1 236 458
Realised loss on settlement of employee share options less participants' contributions	33	(186 116)	(108 336)	–	–
		484 072	1 018 393	670 188	1 127 093
Net increase in cash and cash equivalents		1 709 285	275 330	5	12
Cash and cash equivalents at the beginning of the year		2 841 918	2 566 588	13	1
Cash and cash equivalents at the end of the year	4	4 551 203	2 841 918	18	13

Notes to the annual financial statements

Year ended 29 February 2012

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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling 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 non-controlling interests

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of the net assets of the subsidiary acquired, is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

The group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 March 2010 when revised IAS 27 *Consolidated and separate financial statements*, became effective for the group.

Previously, transactions with non-controlling interests were treated as transactions with parties external to the group. Disposals therefore resulted in gains and losses in profit or loss, and purchases resulted in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of the net assets of the subsidiary acquired.

The group has applied a new policy to transactions occurring on or after 1 March 2010. As a consequence, no adjustments to any amounts previously recognised in the financial statements were necessary.

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 financial instruments at initial recognition and re-evaluates this categorisation at each reporting date.

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

(a) Financial assets at fair value through profit or loss

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

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

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

(b) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(i) those that the entity intends to sell immediately or in the short term, which are categorised as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
(ii) those that the entity upon initial recognition designates as available-for-sale; or
(iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

They arise when the group provides money, goods or services directly to a debtor with no intention of trading the advance. Included within this category are group loans receivable and other receivables. Loans and advances are recognised when funds are advanced to the borrowers.

(c) Held-to-maturity investments

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

1.3.3 Offsetting financial instruments

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

1.3.4 Derivative financial instruments and hedging activities

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

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

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

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

The group designates certain derivatives as:

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

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

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

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

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

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in note 41. Movements on the hedging reserve in shareholders’ equity are shown in note 17.

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.

1.3.6 Resale agreements

Financial instruments purchased under agreements to resell, at either a fixed price or the purchase price plus a lender’s rate of return, are recorded as loans granted under resale agreements and included under cash and cash equivalents or loans and advances as appropriate. The difference between the purchase and sales price is treated as interest and amortised over the life of the reverse repurchase agreement using the effective interest rate method.

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

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

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

In outline, the statistical analyses are performed on a portfolio basis as follows:

- Loans and advances are monitored on a product basis, with each month's advances being treated as a discrete portfolio, on which an analysis of the run-off of recoveries, in period buckets and stratified between default statistics, is performed in order to develop a historical base for statistics on probability of default (PD).
- These derived statistics, based on actual experience, are used in plotting default values on a model curve that reflects the risk profile of the portfolio.
- Clients in arrears by more than 90 days 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 in gross loans and advances.
- Upon write-off the accrual of interest income on the original term of the advance is discontinued.

1.4.2 Incurred but unidentified impairment

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

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

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

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

1.4.3 Loan write-offs

Clients (and the related impairment allowance accounts) are normally written off in full when they are 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 viewed as part of the company's investment in subsidiaries and are carried at cost net of impairment.

1.7 Current tax

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

South African resident companies are subject to a dual corporate tax system, one part of the tax being levied on taxable income and the other, secondary tax on companies (called STC), on distributed income. A company incurs STC charges on the declaration or deemed declaration of dividends (as defined under tax law) to its shareholders. STC is not a withholding tax on shareholders, but a tax on companies.

The STC tax consequence of dividends is recognised as a taxation charge in the income statement in the same period that the related dividend is accrued as a liability. The STC liability is reduced by dividends received during the dividend cycle. Where dividends declared exceed the dividends received during a cycle, STC is payable at the current STC rate on the net amount. Where dividends received exceed dividends declared within a cycle, there is no liability to pay STC. The potential tax benefit related to excess dividends received is carried forward to the next dividend cycle as an STC credit. Deferred tax assets are recognised on unutilised STC credits to the extent that it is probable that the group will declare future dividends to utilise such STC credits.

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 reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

1.9 Property and equipment

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

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

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

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

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

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

1.10 Intangible assets

1.10.1 Goodwill

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

1.10.2 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

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

1.12 Provisions

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

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

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

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

1.13 Share capital

1.13.1 Categories of share capital

Authorised share capital consists of:

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

1.13.2 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.

1.13.3 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.

1.13.4 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.

1.13.5. Unissued shares

An amount of 5% (2011: 5%) of the issued ordinary share capital and all unissued non-redeemable, non-cumulative, non-participating preference shares are under the control of the directors until the next annual general meeting.

1.14 Employee benefits

1.14.1 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.

1.14.2 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.

1.14.3 Performance incentive scheme

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

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

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

1.15 Foreign currency translation

1.15.1 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, and company's functional and presentation currency. The financial statements of all the subsidiaries are also presented in rand, which is their functional and presentation currency.

1.15.2 Transactions and balances

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

1.16 Revenue recognition

1.16.1 Interest income and expense

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

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

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

1.16.2 Fee income

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

1.16.3 Non-banking sales

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

1.16.4 Dividend income

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

1.17 Segment reporting

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

1.18 Leases

1.18.1 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.

1.18.2 Where a group company is the lessor

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

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

Amendment to IAS 24 Related party disclosures (effective 1 March 2011)

- Improvements to IFRSs 2010 issued in May 2010
- IAS 27 Consolidated and separate financial statements (effective 1 March 2011)

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

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 March 2012 or later periods but which the group has not early adopted, as follows:

- IFRS 9 Financial instruments (effective 1 March 2013)
- Amendments to IAS 12 Deferred tax: recovery of underlying assets (effective 1 March 2012)
- IFRS 10 Consolidated financial statements (effective 1 March 2013)
- IFRS 11 Joint arrangements (effective 1 March 2013)
- IFRS 12 Disclosure of interests in other entities (effective 1 March 2013)
- IFRS 13 Fair value measurement (effective 1 March 2013)
- Amendments to IAS 1 Presentation of items of other comprehensive income (effective 1 March 2013)
- Amendments to IAS 19 Employee benefits (effective 1 March 2013)
- Revised IAS 27 Separate financial statements (effective 1 March 2013)
- Revised IAS 28 Investments in associates and joint ventures (effective 1 March 2013)
- Amendments to IFRS 7 Financial instruments disclosures – transfer of financial assets (effective 1 March 2012)
- Amendment to IFRS 7 Financial instruments disclosure (effective 1 March 2013)

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

2. Critical accounting estimates and judgements in applying accounting policies

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

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

Impairment losses on loans and advances

The group reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Refer to note 1.4 for the accounting policy regarding the impairment of advances.

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

	2012	2011
Expected default rates	**R'000**	**R'000**
Increase by 5%	**23 966**	16 548
Decrease by 5%	**(23 934)**	(16 514)

Property and equipment

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

3. Segment analysis

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

Banking – incorporating retail banking services including savings, deposits, debit cards and consumer loans to individuals. Refer to note 27.2 for the geographical distribution of branches.

Wholesale distribution – consisting of the wholesale distribution of fast moving consumer goods.

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

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

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

	Banking	Wholesale distribution	Adjustment for intra-segment items	Total
	R'000	R'000	R'000	R'000
2012				
Segment revenue [1]	7 367 351	217 145	(912)	7 583 584
Segment earnings after tax	1 092 630	1 710	–	1 094 340
The following items are included in ariving at segment earnings after tax:				
Interest income	4 347 814	–	(912)	4 346 902
Interest expense	(1 022 329)	(957)	912	(1 022 374)
Net fee income	2 306 764	–	–	2 306 764
Net impairment charge on loans and advances to clients	(1 604 052)	(138)	–	(1 604 190)
Depreciation	(145 141)	(457)	–	(145 598)
Amortisation	(27 920)	–	–	(27 920)
Other operating expenses	(2 313 257)	(21 885)	–	(2 335 142)
2011				
Segment revenue [1]	4 966 768	219 298	(789)	5 185 277
Segment earnings after tax	657 273	(1 249)	–	656 024
The following items are included in ariving at segment earnings after tax:				
Interest income	2 809 332	–	(789)	2 808 543
Interest expense	(751 299)	(850)	789	(751 360)
Net fee income	1 683 595	–	–	1 683 595
Net impairment charge on loans and advances to clients	(988 192)	15	–	(988 177)
Depreciation	(106 647)	(479)	–	(107 126)
Amortisation	(19 571)	–	–	(19 571)
Other operating expenses	(1 686 281)	(22 193)	–	(1 708 474)

[1] Banking segment revenue consists of interest income and fee income on consumer loans, transaction fee income on savings accounts, dividend income and other income. Wholesale distribution revenue consists of sales of fast-moving consumer goods.

4. Cash and cash equivalents

	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
	R'000	R'000	R'000	R'000
Cash on hand	906 473	710 166	–	–
Bank balances	2 700 281	631 075	18	13
Resale agreements with banks	558 317	669 827	–	–
Money market unit trusts	909	592 570	–	–
Central bank balances				
Mandatory reserve deposits with central bank	385 223	238 280	–	–
	4 551 203	2 841 918	18	13
Maximum exposure to credit risk	4 551 203	2 841 918	18	13
Current	4 551 203	2 841 918	18	13
Non-current	–	–	–	–

Cash on hand is non-interest bearing.

Money market unit trusts are floating rate assets.

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

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

Mandatory reserve deposits with the SARB must be maintained at the average required by the SARB over a 30-day period and are non-interest bearing. These deposits may be used to manage significant intra- and inter-day cash outflows but are not taken into consideration by the group for cash planning purposes.

The difference between the purchase and resale price of resale agreements with banks is treated as interest. Resale agreements relate to treasury bills issued by the South African National Treasury.

5. Investments designated at fair value

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Unlisted equity investments at fair value				
Amortised cost	33	3 125	–	–
Cumulative fair value adjustment – other market risk	16 302	13 617	–	–
Balance at the beginning of the year	16 335	16 742	–	–
(Disposals)/ additions	(33)	(3 092)	–	–
Exchange rate risk	3 682	(1 605)	–	–
Other market risk	8 944	1 190	–	–
Realised on disposals	(28 928)	3 100	–	–
Fair value adjustment	(16 302)	2 685	–	–
Amortised cost	–	33	–	–
Cumulative fair value adjustment – other market risk	–	16 302	–	–
Balance at the end of the year	–	16 335	–	–
Interest-bearing debt instruments[1]				
Amortised cost	972 340	1 289 773	–	–
Cumulative fair value adjustment	(11)	(217)	–	–
Balance at the beginning of the year	972 329	1 289 556	–	–
(Disposals)/additions	227 059	(317 433)	–	–
Interest rate risk	(555)	206	–	–
Credit risk	–	–		–
Fair value adjustment	(555)	206	–	–
Amortised cost	1 199 399	972 340	–	–
Cumulative fair value adjustment	(566)	(11)		–
Balance at the end of the year	1 198 833	972 329	–	–
Total investments at fair value	1 198 833	988 664	–	–
Credit risk for financial assets designated at fair value [2]:				
Maximum exposure to credit risk	1 198 833	972 329	–	–
Current	1 198 833	988 664	–	–
Non-current	–	–	–	–

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 27.3 and 27.4.

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

[1] Interest-bearing instruments comprise unlisted instruments with a maturity greater than three months from date of acquisition. This figure comprises government instruments (2011: government instruments).

[2] Exposure to credit risk arises from the interest-bearing debt instruments only.

6. Loans and advances to clients

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Maturity analysis of loans and advances				
Demand to one month	1 105 723	895 717	–	–
One to three months	1 184 056	953 143	–	–
Three months to one year	4 464 590	3 419 393	–	–
More than one year	12 145 976	6 017 098	–	–
Total	18 900 345	11 285 351	–	–
Deferred loan fee income	(492 071)	(369 159)	–	–
Gross loans and advances	18 408 274	10 916 192	–	–
Allowance for impaired loans and advances	(1 545 246)	(844 726)	–	–
Net amount [1,2]	16 863 028	10 071 466	–	–
Credit quality of performing loans and advances [3]				
Top two grades of the internal rating system	7 678 686	1 125 112		
Percentage of total performing loans	44%	11%		
Bottom two grades of the internal rating system	204 987	51 478		
Percentage of total performing loans	1.2%	0.5%		
Impairment of loans and advances				
Gross	17 476 532	10 290 361	–	–
Impairment	(1 015 181)	(512 082)	–	–
Not past due	16 461 351	9 778 279	–	–
Gross	931 742	625 831	–	–
Impairment	(530 065)	(332 644)	–	–
Past due	401 677	293 187	–	–
Net amount	16 863 028	10 071 466	–	–

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

Included in loans and advances is an investment of R23.8 million (2011: R22.2 million) in cumulative preference shares bearing interest at 80% of the prime interest rate with a redemption date of 15 February 2014.

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

[1] Loans and advances are unsecured and the balance constitutes the maximum exposure to credit risk.

[2] Included within loans and advances is related accrued interest receivable of R101.4 million (2011: R58.6 million).

[3] A customer rating system of 7 external classifications and 9 internal classifications is utilised, which in combination with a qualitative category grades a customer into 11 possible scores of which the higher qualifies a customer for a lower-risk product or lower score limits a customer to higher-risk products.

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

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Movement on provision for impaired advances				
Unidentified losses	512 082	182 171	–	–
Identified losses	332 644	200 162	–	–
Opening balance	844 726	382 333	–	–
Unidentified losses	503 099	329 911	–	–
Identified losses	197 421	132 482	–	–
Movement	700 520	462 393	–	–
Unidentified losses	1 015 181	512 082	–	–
Identified losses	530 065	332 644	–	–
Closing balance	1 545 246	844 726	–	–
Ageing of impaired advances				
< 60 days	828 008	558 682	–	–
60 – 90 days	103 734	67 149	–	–
	931 742	625 831		
Exposure to credit risk:				
Loans and advances to clients	18 900 345	11 285 351	–	–
Conditionally revocable retail loan commitments	603 816	549 200	–	–
Maximum exposure to credit risk	19 504 161	11 834 551	–	–

Conditionally revocable retail loan commitments totalling R603.8 million (2011: R549.2 million) are included in the credit risk analysis above. The commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of one month or less.

The group's contractual commitment is revocable should a client not meet their contractual obligations or where the group has determined that the client's credit risk profile has changed. A total of 18.3% of these commitments is expected to be drawn down within one month. As these are one-month loans, repayment of any future drawdowns must also occur within the month.

7. Inventory

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Finished goods	42 079	30 847	–	–
	42 079	30 847	–	–
Current	42 079	30 847	–	–
Non-current	–	–	–	–

The cost of obsolete inventories recognised as an expense and included in cost of sales amounted to Nil (2011: R124 496).

8. Other receivables

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Rental deposits	2 356	2 931	–	–
Accrued income	28 270	13 967	9 657	9 355
Receivables at fair value through profit or loss (Note 27.10)	–	4 662	–	–
Derivative (Note 40)	263	–	–	–
Prepayments	26 856	26 617	–	–
	57 745	48 177	9 657	9 355
Current	55 589	46 041	9 657	9 355
Non-current	2 156	2 136	–	–

9. Interest in subsidiaries

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Investment in unlisted subsidiaries at cost	–	–	3 187 311	2 191 362
Loans to subsidiaries	–	–	16 350	5 078
	–	–	3 203 661	2 196 440

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

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

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

10. Property and equipment

GROUP	Land and buildings[1] R'000	Computer Equipment R'000	Office equipment and vehicles R'000	Total R'000
2012				
Opening net book value	32 846	157 084	185 255	375 185
Additions	45	180 285	135 036	315 366
Disposals	–	(1 300)	(532)	(1 832)
Depreciation charge	(55)	(79 249)	(66 294)	(145 598)
Net book value at the end of the year	32 836	256 820	253 465	543 121
Cost	33 184	473 594	547 905	1 054 683
Accumulated depreciation	(348)	(216 774)	294 440	(511 562)
Net book value at the end of the year	32 836	256 820	253 465	543 121
Current	–	–	–	–
Non-current	32 836	256 820	253 465	543 121
2011				
Cost	33 139	236 948	331 588	601 675
Accumulated depreciation	(240)	(139 791)	(180 034)	(320 065)
Opening net book value	32 899	97 157	151 554	281 610
Additions	–	113 163	90 007	203 170
Disposals	–	(1 252)	(1 217)	(2 469)
Depreciation charge	(53)	(51 984)	(55 089)	(107 126)
Net book value at the end of the year	32 846	157 084	185 255	375 185
Cost	33 139	332 568	416 505	782 212
Accumulated depreciation	(293)	(175 484)	(231 250)	(407 027)
Net book value at the end of the year	32 846	157 084	185 255	375 185
Current	–	–	–	–
Non-current	32 846	157 084	185 255	375 185

[1] *Land and buildings with a book value of R1.5 million (2011: R1.6 million) are encumbered in terms of a mortgage bond (note 13).*

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000

11. Intangible assets

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Computer software				
Cost	98 294	70 800	–	–
Accumulated amortisation	(63 937)	(48 589)	–	–
Opening net book value	34 357	22 211	–	–
Additions	65 873	32 193	–	–
Scrappings	(3 048)	(476)	–	–
Amortisation charge	(27 920)	(19 571)	–	–
Net book value at the end of the year	69 262	34 357	–	–
Cost	148 574	98 294	–	–
Accumulated amortisation	(79 312)	(63 937)	–	–
Net book value at the end of the year	69 262	34 357	–	–
Current	–	–	–	–
Non-current	69 262	34 357	–	–

Computer software substantially consists of the primary banking application system.

12. Deferred income tax assets

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2011: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
The movement on the deferred income tax account is as follows:				
Balance at the beginning of the year	48 903	19 183	–	–
Cash flow hedge	(602)	(4 811)	–	–
Income statement charge	185 941	34 531	–	–
Balance at the end of the year	234 242	48 903	–	–
Deferred income tax assets are attributable to the following items:				
Provisions and accruals	261 640	70 366	–	–
Cash flow hedge	747	1 349	–	–
Capital allowances	(21 787)	(15 929)	–	–
Prepayments	(6 358)	(6 883)	–	–
	234 242	48 903	–	–
Current	135 854	343	–	–
Non-current	98 388	48 560	–	–

13. Loans and deposits at amortised cost

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
By maturity				
Within one month	**6 911 390**	4 414 990	–	–
One to three months	**932 963**	955 228	–	–
Three months to one year	**3 932 021**	1 368 723	–	–
More than one year	**5 915 688**	3 710 942	–	–
	17 692 062	10 449 883	–	–
By nature				
Retail savings	**6 348 206**	3 933 098	–	–
Retail fixed deposits	**4 014 621**	2 315 659	–	–
Wholesale[1]	**1 297 275**	928 293	–	–
Subordinated debt – unlisted bonds[2]	**499 254**	454 646	–	–
Subordinated debt – listed bonds[3]	**591 533**	-	–	–
Listed senior bonds[4]	**2 775 944**	1 993 708	–	–
Other unlisted negotiable instruments	**1 998 468**	577 067	–	–
Reserve Bank settlement balance	**166 761**	247 412	–	–
	17 692 062	10 449 883	–	–
Amounts payable on maturity of the funding	**20 547 386**	12 308 648	–	–

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

[1] *Wholesale deposits include a mortgage bond of R0.4 million (2011: R0.6 million) that is secured as stated in note 10.*
[2] *Subordinated unlisted bonds comprise 12-year floating rate bonds. The debt is callable by the bank after seven years. Bonds in the amount of R250 million bear interest at a rate of 3-month JIBAR plus 6.75% for the first seven years and 3-month JIBAR plus 8.00% for the last five years if not called. Bonds in the amount to R200 million bear interest at a rate of 3-month JIBAR plus 5.75% for the first seven years and 3-month JIBAR plus 7.00% for the last five years if not called.*
[3] *Subordinated listed bonds comprise a seven-year fixed rate bond in the amount of R250 million that bears interest at a rate of 3.91% over the R204 government bond, a seven-year floating rate bond in the amount of R150 million that bears interest at a rate of 4.50% over the 3-month JIBAR rate and a seven-year fixed rate bond in the amount of R175 million that bears interest at a rate of 4.16% over the R204 government bond.*
[4] *Listed senior bonds consist of domestic medium-term notes. Domestic medium-term notes (nominal value R1 150 million) issued at variable rates are hedged through interest rate swap agreements as set out in notes 17 and 41.*

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

14. Other liabilities

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Trade payables	**222 663**	163 996	**30**	48
Dividends payable	**10 273**	10 485	**10 273**	10 485
Accruals	**264 930**	154 200	–	–
Share appreciation rights (Note 38)	**217 362**	154 735	–	–
Derivatives (Note 40 and 41)	**3 321**	6 269	–	–
	718 549	489 685	**10 303**	10 533
Current	**493 739**	312 046	**10 303**	10 533
Non-current	**224 810**	177 639	–	–

15. Provisions

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Performance incentive scheme				
Balance at the beginning of the year	**14 403**	7 117	–	–
Addition	**19 705**	10 923	–	–
Used during the year	**(9 110)**	(3 637)	–	–
Balance at the end of the year	**24 998**	14 403	–	–
Current	**—**	—	–	–
Non-current	**24 998**	14 403	–	–

Senior management qualify for a cash-settled performance bonus scheme. The scheme rewards managers based on the growth in headline earnings per share and, in order to foster a long-term approach by management, the bonus is paid out over a three-year period. The bonuses to be paid out in the 2014, 2015 and 2016 financial years are included in provisions. The bonus to be paid in the 2013 financial year is included in accruals.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000

16. Share capital and premium

Authorised				
Ordinary shares				
500 000 000 shares of R0.01 each	5 000	1 000	5 000	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
	6 000	2 000	6 000	2 000
Issued				
99 282 200 (2011: 93 387 672) shares of R0.01 each at par	993	934	993	934
Share premium	2 925 442	1 917 743	2 925 442	1 917 743
Ordinary share capital and premium	2 926 435	1 918 677	2 926 435	1 918 677
2 869 014 (2011: 2 869 014) shares of R0.01 each at par	29	29	29	29
Share premium	258 940	258 940	258 940	258 940
Non-redeemable, non-cumulative, non-participating preference share capital and premium(1)	258 969	258 969	258 969	258 969
Total issued share capital and premium(2)(3)	3 185 404	2 177 646	3 185 404	2 177 646

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

All issued ordinary and preference shares are fully paid up.

(1) The preference shares carry a coupon rate of 75% of the prime overdraft rate on a face value of R100 per share.
(2) Refer to note 33 for detail regarding the issue of shares to settle share options.
(3) Nil (2011: 2 905 912) of the unissued ordinary shares and 100% of the non-redeemable, non-cumulative, non-participating preference shares that were placed under the control of the directors until the next annual general meeting remained at year-end.

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

During the year a loss of R186.1 million (R43.2 million after tax) (2011: R108.3 million, R80.7 million after tax) was realised on settlement of share options as reflected in the statement of changes in shareholders' equity.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000

17. Cash flow hedge reserve

Cash flow hedge reserve/(loss)(1)				
Balance at the beginning of the year	(3 469)	(15 839)	–	–
Amount recognised in comprehensive income during the year	(4 916)	(4 822)	–	–
Amount reclassified from comprehensive income and included in profit and loss for the year	7 067	22 003	–	–
	(1 318)	1 342	–	–
Deferred tax recognised in comprehensive income during the year	(602)	(4 811)	–	–
Balance at the end of the year	(1 920)	(3 469)	–	–

(1) The hedging reserve is released to the income statement on realisation of the domestic medium-term notes interest expense. Refer to note 41 for additional disclosure.

18. Net interest income

Loans and advances to clients	4 188 980	2 648 588		
Non-bank money market placements	17	38	–	–
Money market funds	62 894	30 480	–	–
Treasury bills	10 485	12 892	–	–
Bank balances	761	436	–	–
Resale agreements with banks	30 705	22 393	–	–
Central bank balances	3 989	6 834		
Cash and cash equivalents	108 851	73 073	–	–
Interest-bearing instruments	49 071	86 882	–	–
Interest income	4 346 902	2 808 543	–	–
			–	–
Retail savings	(243 532)	(162 700)		
Retail fixed deposits	(222 946)	(153 173)		
Wholesale	(125 292)	(107 585)	–	–
Subordinated debt	(71 629)	(43 922)	–	–
Domestic Medium Term Note	(271 103)	(240 023)	–	–
Negotiable deposits	(87 855)	(43 888)		
Forward foreign exchange contracts	(17)	(69)	–	–
Interest expense	(1 022 374)	(751 360)	–	–
Net interest income	3 324 528	2 057 183	–	–

Included in interest income is R35.3 million (2011: R30.0 million) with respect to interest income accrued on impaired financial assets.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000

19. Dividend income

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Ordinary dividends	–	–	317 939	201 882
Preference dividends	–	–	19 419	15 754
Subsidiaries	–	–	337 358	217 636
Investments at fair value through profit or loss	1 532	571	–	–
	1 532	571	337 358	217 636

20. Net impairment charge on loans and advances to clients

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Bad debts	1 079 237	626 199	–	–
Movement in impairment allowance	700 520	462 393	–	–
Bad debts recovered	(175 567)	(100 415)	–	–
Net impairment charge	1 604 190	988 177	–	–

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

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Change in fair value due to changes in credit risk	–	–	–	–
Change in fair value due to other factors	12 070	(210)	–	–
Financial assets held at fair value through profit or loss	12 070	(210)	–	–

The methods and assumptions applied to calculate the fair value changes due to credit risk are set out in Note 27.10 and credit risk mitigation techniques are set out in Note 27.1.

22. Operating profit before tax

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
The following items have been included in arriving at operating profit before tax:				
Loss/(Profit) on disposal of equipment	596	(638)	–	–
Loss on scrapping of intangibles	3 048	476	–	–
Depreciation on fixed assets	145 598	107 126	–	–
Amortisation of computer software	27 920	19 571	–	–
Foreign exchange (gains)/losses [(1)]	(3)	(1)	–	–
Operating lease rentals				
Land and buildings	163 588	127 054	–	–
Office equipment	3 160	3 076	–	–
	166 748	130 130	–	–
Income from subletting	(2 529)	(2 086)	–	–
Auditors' remuneration				
Audit fees – current year	2 681	2 622	–	–
Audit fees – prior year (over)/underprovision	166	(584)	–	–
Other services	228	205	–	85
Less: Other services accounted for in equity	–	(85)	–	(85)
	3 075	2 158	–	–
Directors' emoluments (included in employee costs below)				
Executive				
Salaries	13 044	10 876	–	–
Fringe benefits	475	420	–	–
Bonuses	1 916	4 169	–	–
Share appreciation rights	46 288	46 172	–	–
Share options	4 482	2 236	–	–
Non-executive				
Fees	2 853	2 585	–	–
Employee costs				
Salaries and wages	1 129 445	796 680	–	–
Equity-settled share-based payment	11 778	11 706	–	–
Cash-settled share appreciation rights	123 613	121 503	–	–
Social security cost	24 522	18 181	–	–
Training cost	40 488	27 729	–	–
Training refund	(5 287)	(3 318)	–	–
	1 324 559	972 481	–	–
Consultancy fees relating to non-employees comprise:				
Managerial services	76	646	–	–
Secretarial services	4 432	891	625	439
Technical	13 900	7 637	–	–
Administrative	7 988	4 904	–	–
	26 396	14 078	625	439

(1) Excludes change in fair value of financial assets through profit or loss as per note 5.

23. Income tax expense

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Normal company tax	615 889	297 044	–	–
Secondary tax on companies	33 584	21 763	–	–
Current tax	649 473	318 807	–	–
Normal company tax	(185 941)	(34 531)	–	–
Deferred tax	(185 941)	(34 531)	–	–
	463 532	284 276	–	–

The tax on the profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Profit before tax	1 557 872	940 300	337 358	217 606
Tax calculated at a tax rate of 28%	436 204	263 284	94 460	60 930
Secondary tax on companies	33 584	21 763	–	–
Adjustments for prior periods	(8)	(238)	–	–
Income not subject to tax	(5 854)	(613)	(94 460)	(60 930)
Expenses not deductible for tax purposes	128	3	–	–
Withholding tax	8	6	–	–
Movement in unutilised tax losses	(530)	71	–	–
Income tax expense	463 532	284 276	–	–
Estimated tax losses at year-end available for utilisation against future taxable income	12 814	14 703	212	238
Less: Applied in raising a deferred tax asset	–	–	–	–
Net calculated tax losses carried forward	12 814	14 703	212	238
Tax relief calculated at current tax rates	4 928	5 512	59	67

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

24. Earnings per share

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

	GROUP 2012 R'000	GROUP 2011 R'000
Net profit after tax	1 094 340	656 024
Preference dividend	(19 419)	(15 754)
Net profit after tax attributable to ordinary shareholders	1 074 921	640 270
Weighted average number of ordinary shares in issue (thousands)	95 790	84 565
Basic earnings per share (cents)	1 122	757

Diluted earnings per share is calculated using the weighted average number of ordinary shares in issue, adjusted to assume conversion of all potentially dilutive ordinary shares. For 2012 and 2011 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).

	GROUP 2012 R'000	GROUP 2011 R'000
Net profit used to determine diluted earnings per share	1 074 921	640 270
Weighted average number of ordinary shares in issue (thousands)	95 790	84 565
Adjustment for:		
Exercise of share options	2 271	3 088
Weighted average number of ordinary shares for diluted earnings per share (thousands)	98 061	87 653
Diluted earnings per share (cents)	1 096	730

	GROUP 2012 R'000	2011 R'000

25. Headline earnings per share attributable to ordinary shareholders

	2012 R'000	2011 R'000
Net profit attributable to ordinary shareholders	1 074 921	640 270
Non-headline items		
Loss/(Profit) on disposal of property and equipment	596	(638)
Income tax charge – property and equipment	(192)	193
Loss on scrapping of intangible assets	3 048	476
Income tax charge – intangible assets	(853)	(133)
Headline earnings	1 077 520	640 168
Basic headline earnings per share (cents)	1 125	757
Diluted headline earnings per share (cents)	1 099	730

26. Dividend per share

The directors declared a final dividend in respect of 2012 of 300 cents per share (2011: 205 cents per share) amounting to a dividend of R297.8 million (2011: R193.8 million) on 1 March 2012 .

The secondary tax on companies in respect of this dividend will amount to R29.8 million (2011 R19.1 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 2013, which is in line with recommended accounting practice.

An interim dividend of 125 cents per share (2011: 85 cents per share) was declared on 27 September 2011 and paid on 5 December 2011.

27. Financial risk management

The financial instruments carried on the balance sheet are set out in note 27.9.

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

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

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

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

27.1 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 credit quality of loans and advances is disclosed in note 6.

The maximum capital advanced in terms of any one personal loan is R150 000 (2011: R120 000). At balance sheet date the number of outstanding loans was 1 375 508 (2011: 1 203 807).

Wholesale

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

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

	Notes	AAA-A R'000	BBB R'000	Below BBB R'000	Not rated R'000	Total carrying amount R'000
2012						
Cash on hand	4	906 473	–	–	–	906 473
Bank balances	4	1 639 902	1 060 374	–	5	2 700 281
Resale agreements with banks	4	–	558 317	–	–	558 317
Money market instruments	4	–	–	–	909	909
Treasury bills (< 3 months)	4	–	–	–	–	–
Central bank balances	4	385 223	–	–	–	385 223
Treasury bills (> 3 months)	5	1 198 833	–	–	–	1 198 833
		4 130 431	1 618 691	–	914	5 750 036
2011						
Cash on hand	4	710 166	–	–	–	710 166
Bank balances	4	267 640	363 474	–	(39)	631 075
Resale agreements with banks	4	–	669 827	–	–	669 827
Money market instruments	4	–	–	–	592 570	592 570
Treasury bills (< 3 months)	4	–	–	–	–	–
Central bank balances	4	238 280	–	–	–	238 280
Treasury bills (> 3 months)	5	972 329	–	–	–	972 329
		2 188 415	1 033 301	–	592 531	3 814 247

The bank balances were with 18 institutions (2011: 10), with the maximum exposure to one institution being R1 514 million (2011: R1 096 million). This exposure consists of government instruments.

Money market instruments consist of interest accrued on money market unit trust investments that were realised during February 2012. The placements were with two institutions (2011: eight).

27.2 Geographical concentration of operations

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:

	2012	2011
Eastern Cape	61	55
Free State	31	27
Gauteng	140	123
KwaZulu-Natal	79	74
Limpopo	40	31
Mpumalanga	41	44
North West	27	28
Northern Cape	18	13
Western Cape	70	60
	507	455

27.3 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 assets and liabilities committee (alco). Management aims to match the fixed or floating rate nature of funding with the fixed and floating rate elements of the loan book and surplus cash positions.

Financial assets and liabilities are accounted for, in the main, on an amortised cost basis and therefore the income statement is not significantly impacted by fair value interest rate risk. The return on surplus cash balances placed in call money market accounts varies with changes in interbank interest rates as does the interest payable on floating rate bond liabilities and some retail deposits, resulting in cash flow interest rate risk. Floating rate bond liabilities may be hedged using interest rate swaps in order to match positions. The use of interest rate swaps mitigates the changes in cash flows of variable rate bonds issued by the group. The objective is to protect the group from uncontrolled changes in future interest cash flow commitments that arise from changes in market interest rates and re-borrowing of current balances that can have a negative impact on the value of the business and annual earnings. The use of interest rate swaps has the economic effect of converting borrowings from floating rates to fixed rates. Under the terms of the interest rate swaps, the group agrees with other banking entities to exchange, quarterly, the difference between fixed contractual rates and floating rate interest amounts calculated by reference to the agreed notional amounts. The group has discretion over the rates offered on its demand savings deposits. Retail advances are only offered in fixed rate terms. The maturity breakdown of the advances book is set out in note 6 and note 27.6.

Alco meets monthly and considers the results of management's analysis of the impact of interest rates on the group which includes, inter alia, the results of various models and the impact of interest rate strategy on the gross margin.

27.3 Interest rate risk *(continued)*

The sensitivity analysis presented below is a run-off analysis.

The sensitivity analysis below reflects 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 savings deposits, floating bond liabilities)
- Assets and liabilities accounted for at fair value through profit and loss
- On balance sheet at the reporting date.
- The movement in rates was applied as a parallel shift in the applicable yield curves

Unless otherwise stated, the continuity of items for the purpose of this analysis is the contractual maturity dates.

	Impact on income statement				Impact on equity			
	2012		2011		2012		2011	
200 basis points	**Pre-tax R'000**	**Post-tax R'000**	**Pre-tax R'000**	**Post-tax R'000**	**Pre-tax R'000**	**Post-tax R'000**	**Pre-tax R'000**	**Post-tax R'000**
Increase	(111 592)	(80 346)	(65 331)	(47 038)	(82 223)	(60 133)	(63 517)	(46 664)
Decrease	111 592	80 346	65 330	47 038	82 223	60 133	63 516	46 664

27.4 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.

27.5 Other market risk

There is no exposure to other pricing risk.

27.6 Liquidity risk

The group manages liquidity cautiously and operates an uncomplicated maturity profile which is monitored by alco. The matching of the term of funding to the term of the loan book reduces the liquidity risk of the group.

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

- Asset and liability cash flows are presented on an undiscounted basis with an adjustment to reflect the total discounted result.
- The cash flows of floating rate financial instruments are calculated using published forward market rates at balance sheet date.
- The cash flows of the derivative financial instruments are included on a gross basis.
- Contractual cash flows with respect to off-balance sheet items which have not yet been recorded on the balance sheet, are excluded. Refer to note 34.
- Conditionally revocable retail loan commitments totalling R603.8 million (2011: R549.2 million) are not included in the liquidity analysis below. The commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment term of one month or less.
- The group's contractual commitment is revocable should a client not meet his/her obligations or where the group has determined that a client's credit risk profile has changed. A total of 18.3% of these commitments is expected to be drawn down within one month. As these are one-month loans, repayment of any future drawdowns must also occur within one month.
- Adjustments to loans and advances to clients relate to initiation fee income.
- Non-cash liabilities, representing leave pay and the straight-lining of operating leases, are disclosed as adjustments to trade and other payables.

27.6 Liquidity risk *(continued)*

Maturities of financial assets and financial liabilities (discounted cash flows)	Notes	**Demand to one month R'000**	**One to three months R'000**	**Three months to one year R'000**	**More than one year R'000**	**Adjustment R'000**	**Total R'000**
2012							
Undiscounted assets							
Cash and cash equivalents – sovereigns	4	–	–	–	–	–	–
Cash and cash equivalents – banks	4	4 538 222	15 274	–	–	–	4 553 496
Cash and cash equivalents – corporate money markets unit trusts	4	909	–	–	–	–	909
Investments at fair value through profit or loss	5	48 290	75 000	1 127 060	–	–	1 250 350
Loans and advances to clients – retail personal	6	1 504 581	2 052 357	7 650 217	17 724 937	(492 071)	28 440 021
Loans and advances to clients – retail other	6	802	–	–	–	–	802
Loans and advances to clients – corporate other	6	14 438	–	–	23 781	–	38 219
Other receivables	8	28 733	–	–	2 156	–	30 889
Current income tax assets		–	–	62 331	–	–	62 331
Undiscounted assets		6 135 975	2 142 631	8 839 608	17 750 874	(492 071)	34 377 017
Adjustments for undiscounted assets		(417 208)	(869 345)	(3 236 192)	(5 602 742)	–	(10 125 487)
Discounted assets							
Loan impairment provision	6	(130 479)	(237 420)	(493 418)	(683 929)	–	(1 545 246)
Total discounted assets		5 588 288	1 035 866	5 109 998	11 464 203	(492 071)	22 706 284
Undiscounted liabilities							
Loans and deposits at amortised cost	13	6 916 087	1 015 697	4 350 825	8 264 777	–	20 547 386
Trade and other payables	14	277 809	116 671	99 259	145 849	78 997	718 585
Current income tax liabilities		–	885	–	–	–	885
Provisions	15	–	–	–	24 998	–	24 998
Undiscounted liabilities		7 193 896	1 133 253	4 450 084	8 435 624	78 997	21 291 854
Adjustments for undiscounted liabilities to depositors		(4 697)	(82 745)	(418 893)	(2 349 025)	–	(2 855 360)
Total discounted liabilities		7 189 199	1 050 508	4 031 191	6 086 599	78 997	18 436 494
Net liquidity excess/(shortfall)		(1 600 911)	(14 642)	1 078 807	5 377 604	(571 068)	4 269 790
Cumulative liquidity excess/(shortfall)		(1 600 911)	(1 615 553)	(536 746)	4 840 858	4 269 790	4 269 790

27.6 Liquidity risk *(continued)*

Maturities of financial assets and financial liabilities (discounted cash flows)	Notes	Demand to one month R'000	One to three months R'000	Three months to one year R'000	More than one year R'000	Adjustment R'000	Total R'000
2011							
Undiscounted assets							
Cash and cash equivalents	4	2 841 918	–	–	–	–	2 841 918
Investments at fair value through profit or loss	5	225 744	248 810	537 500	–	–	1 012 054
Undiscounted assets		3 067 662	248 810	537 500	–	–	3 853 972
Adjustments for undiscounted assets		(411)	(2 847)	(20 132)	–	–	(23 390)
Discounted assets							
Loans and advances to clients	6	895 717	953 143	3 419 393	6 017 098	(369 159)	10 916 192
Loan impairment provision	6	(105 764)	(199 336)	(441 602)	(98 024)	–	(844 726)
Other receivables	8	14 762	–	4 662	2 136	–	21 560
Total discounted assets		3 871 966	999 770	3 499 821	5 921 210	(369 159)	13 923 608
Undiscounted liabilities							
Loans and deposits at amortised cost	13	4 419 413	1 013 657	1 673 440	5 202 138	–	12 308 648
Trade and other payables	14	214 280	45 838	51 928	119 367	58 333	489 746
Current income tax liabilities		986	–	34 047	–	–	35 033
Provisions	15	–	–	–	14 403	–	14 403
Undiscounted liabilities		4 634 679	1 059 495	1 759 415	5 335 908	58 333	12 847 830
Adjustments for undiscounted liabilities to depositors		(4 423)	(58 490)	(304 717)	(1 491 196)	–	(1 858 826)
Total discounted liabilities		4 630 256	1 001 005	1 454 698	3 844 712	58 333	10 989 004
Net liquidity (shortfall)/excess		(758 290)	(1 235)	2 045 123	2 076 498	(427 492)	2 934 604
Cumulative liquidity (shortfall)/excess		(758 290)	(759 525)	1 285 598	3 362 096	2 934 604	2 934 604

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

Much of the liquidity shortfall in the demand to three-month categories results from the investment of excess cash in treasury bills and SARB debentures with maturities in excess of three months. These instruments are highly liquid and can be converted into cash should the need arise.

The definitions of sovereign, corporate and retail are aligned with the Banks Act Regulations.

27.7 Capital management

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

- address the expectations of its shareholders, and optimise business activities to ensure return on capital targets are achieved through efficient capital management;
- ensure that the group and bank holds 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; and
- 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	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Ordinary share capital	2 926 435	1 918 677	3 380 895	2 384 427
Accumulated profit	2 001 866	1 276 336	1 210 468	577 213
Preference share capital	258 969	258 969	258 969	258 969
Intangible assets in terms of IFRS	(69 258)	(34 357)	(69 258)	(34 357)
Specified advances	(28 063)	(22 153)	(28 063)	(22 153)
Unappropriated profit	(275 094)	(47 842)	(275 094)	(47 842)
Total regulatory adjustments	(372 415)	(104 352)	(372 415)	(104 352)
Primary (Tier 1) capital	4 814 855	3 349 630	4 477 917	3 116 257
Unidentified impairments	175 987	108 441	175 987	108 441
Subordinated debt	1 069 000	450 000	1 069 000	450 000
Secondary (Tier 2) capital	1 244 987	558 441	1 244 987	558 441
Total qualifying regulatory capital	6 059 842	3 908 071	5 722 904	3 674 698
Primary %	31.0	35.4	28.9	32.7
Secondary %	8.0	5.9	8.0	5.9
Total capital adequacy % (1) (2)	39.0	41.3	36.9	38.6
Composition of required regulatory capital				
On balance sheet	1 334 286	820 998	1 337 388	824 030
Off balance sheet	–	–	112	122
Credit risk	1 334 286	820 998	1 337 500	824 152
Operational risk	80 615	28 604	80 779	28 695
Equity risk in banking book	–	1 552	–	1 552
Other assets	61 906	47 755	55 357	50 037
Total regulatory capital requirement (3)	1 476 807	898 909	1 473 636	904 436

27.7 Capital management *(continued)*

	GROUP 2012 R'000	GROUP 2011 R'000	BANK 2012 R'000	BANK 2011 R'000
Composition of risk-weighted assets [(4)]				
On balance sheet	14 045 118	8 642 086	14 077 773	8 674 003
Off balance sheet	–	–	1 182	1 283
Credit risk	14 045 118	8 642 086	14 078 955	8 675 286
Operational risk	848 574	301 094	850 303	302 056
Equity risk in the banking book	–	16 335	–	16 335
Other assets	651 640	502 681	582 700	526 707
Total risk-weighted assets	15 545 332	9 462 196	15 511 958	9 520 384
Total assets based on IFRS	23 621 844	14 439 517	23 583 053	14 498 054
Total risk-weighted assets – adjustments [(5)]	(8 076 512)	(4 977 321)	(8 071 095)	(4 977 670)
Total risk-weighted assets – regulatory	15 545 332	9 462 196	15 511 958	9 520 384

(1) The total capital adequacy ratio percentage (CAR%) is determined by dividing the total qualifying regulatory capital by total risk-weighted assets.

(2) The CAR% calculations incorporate a calculation change in line with standard Basel practice. The risk-weighted asset/equivalent for operational risk included in the divisor is now as per the Alternative Standardised Approach calculation for retail banking. The previous method calculated the risk-weighted asset/equivalent for operational risk as the inverse of the operational risk floor. There has been no change by the regulator to the capital requirement. The comparative has been restated.

(3) This value is reported in terms of the Banks Act circular 5/2011. It excludes the required regulatory capital amount relating to the bank-specific buffer (Basel pillar 2b add-on). The value disclosed is 9.5% of risk-weighted assets, being the Basel global minimum requirement of 8% and a South African country-specific buffer of 1.5%.

(4) Risk-weighted assets are calculated by using regulatory percentages applied to the balance sheet, in order to establish the base for calculating the required regulatory capital.

(5) The adjustments reflect mainly the impact of the regulatory percentages and the addition of a risk-weighted equivalent for operational risk.

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

	Notes	Held for trading R'000	Designated at fair value R'000	Loans and receivables R'000	Financial liabilities at amortised cost R'000	Total R'000
2012						
Interest income	18	–	49 071	4 297 831	–	4 346 902
Interest expense	18	(17)	–	–	(1 022 357)	(1 022 374)
Loan fee income		–	–	1 657 018	–	1 657 018
Loan fee expense		–	33 820	(220 180)	–	(186 360)
Transaction fee income		–	–	–	1 360 308	1 360 308
Transaction fee expense		–	–	–	(524 202)	(524 202)
Dividend income	19	–	1 532	–	–	1 532
Net impairment on loans and advances to clients	20	–	–	(1 604 190)	–	(1 604 190)
Net movement in financial instruments held at fair value through profit or loss	21	–	12 070	–	–	12 070
2011						
Interest income	18	–	86 882	2 721 661	–	2 808 543
Interest expense	18	(69)	–	–	(751 291)	(751 360)
Loan fee income		–	–	1 273 574	–	1 273 574
Loan fee expense		–	(3 757)	(117 953)	–	(121 710)
Transaction fee income		–	–	–	883 040	883 040
Transaction fee expense		–	–	–	(351 309)	(351 309)
Dividend income	19	–	571	–	–	571
Net impairment on loans and advances to clients	20	–	–	(988 177)	–	(988 177)
Net movement in financial instruments held at fair value through profit or loss	21	–	(210)	–	–	(210)

27.9 Classification of financial assets and financial liabilities

	Notes	Held for trading	Held at fair value	Loans and receiv-ables	Available for sale	Financial liabilities at amortised cost	Total	Fair value
		R'000	R'000	R'000	R'000	R'000	R'000	R'000
2012								
Financial assets								
Cash and cash equivalents	4	–	–	4 551 203	–	–	4 551 203	4 551 203
Investments at fair value through profit or loss	5	–	1 198 833*	–	–	–	1 198 833	1 198 833
Loans and advances to clients	6	–	–	16 863 028	–	–	16 863 028	17 016 644
Other receivables	8	263	–	30 626	–	–	30 889	30 418
Financial liabilities								
Loans and deposits at amortised cost	13	–	–	–	–	17 692 062	17 692 062	17 818 558
Trade and other payables	14	–	3 321#	–	–	715 228	718 549	718 107
Provisions	15	–	–	–	–	24 998	24 998	24 998
2011								
Financial assets								
Cash and cash equivalents	4	–	–	2 841 918	–	–	2 841 918	2 841 918
Investments at fair value through profit or loss	5	–	988 664*	–	–	–	988 664	988 664
Loans and advances to clients	6	–	–	10 071 466	–	–	10 071 466	10 251 002
Other receivables	8	–	4 662	16 898	–	–	21 560	21 046
Financial liabilities								
Loans and deposits at amortised cost	13	–	–	–	–	10 449 883	10 449 883	10 519 902
Trade and other payables	14	–	6 269#	–	–	483 416	489 685	489 898
Provisions	15	–	–	–	–	14 403	14 403	14 403

** Designated at fair value through profit or loss*

 # Cash flow hedge

27.10 Fair value hierarchy

Valuation of assets and liabilities

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

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

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

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

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

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

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

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

A 10% change in the estimate of unreported claims would have an impact of R4.4 (2011: R0.5 million) on the fair value of the receivable.

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

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

The group considers relevant and observable market prices where possible.

27.10 Fair value hierarchy *(continued)*

Assets and liabilities measured at fair value

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2012				
Investments at fair value through profit or loss	–	1 198 833	–	1 198 833
Total assets	–	1 198 833	–	1 198 833
Trade and other payables	–	3 321	–	3 321
Total liabilities	–	3 321	–	3 321
2011				
Investments at fair value through profit or loss	–	988 664	–	988 664
Receivables at fair value through profit or loss	–	–	4 662	4 662
Total assets	–	988 664	4 662	993 326
Trade and other payables	–	6 269	–	6 269
Total liabilities	–	6 269	–	6 269

Reconciliation of receivables at fair value through profit or loss

	2012 R'000	2011 R'000
Balance at the beginning of the year	4 662	8 419
Gains and losses recognised in profit or loss	33 820	(3 757)
Settlements	(38 482)	–
Balance at the end of the year	–	4 662

28. Retirement benefits

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
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 22.	57 272	38 978	–	–

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

29. Related-party transactions

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Transactions with subsidiaries				
Investments in subsidiaries are disclosed in note 9.				
Dividend received				
Ordinary dividend	–	–	317 939	201 882
Preference dividend	–	–	19 419	15 754
Capitec Bank Limited	–	–	337 358	217 636
Management fees received				
Capitec Bank Limited	–	–	932	702
Loans due from:				
Capitec Bank Limited	–	–	16 351	5 079
Loans due to:				
Keymatrix (Pty) Limited	–	–	1	1

Guarantees (1)

Key Distributors received a guarantee from a fellow subsidiary, Capitec Bank Limited. The value guaranteed is R4.4 million (2011: R4.4 million).

The balance outstanding at year-end that is covered amounted to R2.4 million (2011: R2.6 million). A market-related guarantee fee of R70 830 (2011: R83 182) was paid by Key Distributors (Pty) Limited to Capitec Bank Limited.

Capitec Bank Holdings Limited

An intra-group unlimited suretyship provided in favour of a financial institution in respect of operating facilities of Capitec Bank Limited with a maximum exposure of R5.6 million (2011: R0.7 million).

A suretyship limited to R0.6 million (2011: R0.6 million) in favour of a financial institution with which Key Distributors (Pty) Limited has a mortgage bond.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
PSG Group and subsidiaries (2)				
Brokers' fees	46	63	–	–
Sponsor fees	72	63	72	63
Commitment fees	–	16 844	–	16 844
Loans and advances to directors and other key management employees included in loans and advances to clients				
Loans outstanding at the beginning of the year	5 714	2 742	–	–
Loans advanced during the year	3 431	6 043	–	–
Interest charged on loans during the year	514	400	–	–
Loan repayments during the year	(5 515)	(3 471)	–	–
Loans outstanding at the end of the year	4 144	5 714	–	–
Less advanced by subsidiaries	(4 144)	(5 714)	–	–

29. Related-party transactions *(continued)*

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Retail deposits from directors and other key management employees [3]			–	–
Deposits at the beginning of the year	3 174	4 001	–	–
Interest earned during the year	231	284	–	–
Deposits/(withdrawals) made during the year	1 555	(1 111)	–	–
Deposits at the end of the year	4 960	3 174	–	–
			–	–
Key management compensation [4]				
Salaries and other short-term benefits	22 439	23 413		
Post-employment benefits	1 568	1 866	–	–
Share-based payments	47 420	42 293	–	–
Key management compensation paid by subsidiaries	71 427	67 572	–	–

[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 are conducted through a number of intermediaries.*
[3] *Savings and deposits are unsecured, carry variable interest rates and are repayable on demand.*
[4] *Key management are considered to be the members of the executive management committee, excluding development members. Key management compensation excludes directors' remuneration. Refer to the directors' report for details of directors' remuneration.*

Directors

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

30. Cash flow from operations

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Net profit before tax	1 557 872	940 300	337 358	217 606
Adjusted for non-cash items				
Fair value adjustments on financial assets	(12 070)	209	–	–
Loan impairment charge	700 520	462 393	–	–
Depreciation	145 598	107 126	–	–
Amortisation	27 920	19 571	–	–
Movements in provisions	10 595	7 286	–	–
Share-based employee costs – share options	11 778	11 706	–	–
Share-based costs – share appreciation rights	62 627	121 504	–	–
(Profit)/loss on disposal of assets	3 644	(162)	–	–
Receivables at fair value through profit or loss	4 662	3 757	–	–
Movements in current assets and liabilities				
Loans and advances to clients	(7 492 082)	(5 308 720)	–	–
Inventory	(11 232)	(4 780)	–	–
Other receivables	(14 230)	(10 807)	(302)	(2 778)
Deposits	7 242 179	3 089 558	–	–
Trade and other payables	168 599	23 466	(18)	–
Cash flow from operations	2 406 380	(537 593)	337 038	214 828

31. Income taxes paid

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Balance at the beginning of the year	35 033	34 452	–	–
Income statement charge	463 532	284 276	–	–
Movement in deferred tax	185 941	34 531	–	–
Tax effect on settlement of share options taken to equity	(142 886)	(27 587)	–	–
Balance at the end of the year	61 446	(35 033)	–	–
Income tax paid	603 066	290 639	–	–

32. Dividends paid

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Balance at the beginning of the year	10 485	6 941	10 485	6 577
Dividend declared during the year:				
Ordinary dividend	317 939	201 882	317 939	201 882
Preference dividend	19 419	15 754	19 419	15 754
Balance at the end of the year	(10 273)	(10 485)	(10 273)	(10 485)
Dividends paid	337 570	214 092	337 570	213 728

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000

33. Realised loss on settlement of employee share options less participants' contributions

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
1 249 576 (2011: 1 227 212) ordinary shares issued	(220 505)	(127 169)	–	–
Shares acquired	(702)	(4 422)	–	–
Fair value of shares utilised to settle share options	(221 207)	(131 591)	–	–
Proceeds on settlement of options	35 091	23 255	–	–
	(186 116)	(108 336)	–	–

34. Commitments and contingent liabilities

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Property operating lease commitments				
The future aggregate minimum lease payments under non-cancellable leases are as follows:				
Within one year	167 995	129 070	–	–
From one to five years	470 288	357 702	–	–
After five years	99 694	54 331	–	–
Total future cash flows	737 977	541 103	–	–
Straight-lining accrued	(35 749)	(25 354)	–	–
Future expenses	702 228	515 749	–	–
Other operating lease commitments				
Within one year	2 253	1 988	–	–
From one to five years	5 083	5 093	–	–
	7 336	7 081	–	–
Capital commitments – approved by the board				
Contracted for				
Property and equipment	85 195	29 609	–	–
Intangible assets	6 744	–	–	–
Not contracted for				
Property and equipment	458 247	417 556	–	–
Intangible assets	122 329	88 212	–	–
	672 515	535 377	–	–

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A suretyship limited to R0.6 million (2011: R0.6 million) in favour of a financial institution with which Key Distributors (Pty) Limited has a mortgage bond.

35. 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) and section 45(3)(a)(ii) of the Companies Act, 2008. A special resolution was passed at the Annual General Meeting on 3 June 2011 authorising the board to approve that the company provides any financial assistance that it deems fit to any related or interrelated company, on the terms and conditions and for the amount that the board may determine.

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

36. Share incentive scheme

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

The bank allows its employees to purchase shares in Capitec Bank Holdings Limited up to a value not exceeding 20% (2011: 20%) of their monthly salary.

The purchase price includes a subsidy of 20% (2011: 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, 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.

	2012 Number	2011 Number
Options issued to employees of Capitec Bank Limited		
Balance at the beginning of the year	4 221 594	5 322 184
Options granted	138 000	182 736
Options cancelled and/or lapsed	(19 375)	(12 500)
Options exercised	(1 253 326)	(1 270 826)
Balance at the end of the year	3 086 893	4 221 594

36. Share incentive scheme *(continued)*

Analysis of outstanding share options by year of maturity	2012 Weighted average strike price R	2012 Number	2011 Weighted average strike price R	2011 Number
Financial year				
2011/2012	–	–	29.95	1 255 826
2012/2013	**34.14**	**1 088 671**	34.14	1 096 796
2013/2014	**44.93**	**869 352**	44.47	874 977
2014/2015	**69.35**	**708 020**	47.66	676 651
2015/2016	**98.14**	**306 151**	63.52	271 657
2016/2017	**130.59**	**80 193**	93.81	45 687
2017/2018	**160.09**	**34 506**	–	–
	43.58	**3 086 893**	35.10	4 221 594

	2012 Number	2011 Number
Shares purchased/issued during the year	**1 253 326**	1 270 826
Shares utilised for settlement of options	**(1 253 326)**	(1 270 826)
Shares available for settlement of options	–	–
Settled in cash	–	–
Settled in shares	**(1 253 326)**	(1 270 826)
Options exercised	**(1 253 326)**	(1 270 826)

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

37. Share option expense

Data utilised in the valuation of options granted

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

Year granted	Strike price R	Share price on issue date R	Volatility used in valuation %	Dividend yield %	Year maturing	Risk-free rate %	Number of options outstanding	Fair value on issue/repricing date ignoring vesting conditions R'000	Expected[(1)] vesting proportion %	Value taking into account expected vesting proportion R'000
2006/2007	30.20	31.00	36.1	1.4	2012/2013	7.6	12 500	167	99.1	166
	30.73	34.00	36.3	1.3	2012/2013	7.6	252 500	3 960	98.8	3 911
2007/2008	36.07	36.00	34.2	1.7	2012/2013	7.9	7 500	101	99.1	100
		36.00	34.2	1.7	2013/2014	7.9	7 500	110	89.2	98
	36.00	35.60	34.1	1.7	2012/2013	7.9	13 889	182	98.8	180
		35.60	34.1	1.7	2013/2014	7.8	13 889	198	88.9	176
	35.82	38.30	34.0	2.2	2012/2013	7.8	156 750	2 240	98.4	2 204
		38.30	34.0	2.2	2013/2014	7.7	156 750	2 392	88.5	2 118
	41.46	38.00	34.1	1.7	2012/2013	8.6	5 125	69	91.2	63
		38.00	34.1	1.7	2013/2014	8.5	5 125	75	82.1	62
2008/2009	35.54	33.10	36.6	3.2	2012/2013	9.6	395 625	3 983	98.5	3 923
		33.10	36.6	3.2	2013/2014	9.4	395 625	4 390	88.7	3 892
		33.10	36.6	3.2	2014/2015	9.3	395 625	4 707	79.8	3 756
	35.82	38.90	33.9	0.6	2012/2013	8.4	12 562	198	98.4	194
		38.90	33.9	0.6	2013/2014	8.3	12 562	219	88.5	194
	28.96	29.05	37.1	3.0	2012/2013	8.1	6 250	58	91.4	53
		29.05	37.1	3.0	2013/2014	8.0	6 250	63	82.3	52
		29.05	37.1	3.0	2014/2015	8.0	6 250	67	74.1	50
2009/2010	31.23	36.50	37.2	4.6	2012/2013	7.9	209 375	2 315	98.7	2 285
		36.50	37.2	4.6	2013/2014	8.2	209 375	2 500	88.8	2 220
		36.50	37.2	4.6	2014/2015	8.4	209 375	2 633	79.9	2 105
		36.50	37.2	4.6	2015/2016	8.5	209 375	2 722	72.0	1 958
	45.49	61.50	36.8	3.5	2012/2013	8.2	12 500	293	93.5	274
		61.50	36.8	3.5	2013/2014	8.5	12 500	312	84.2	263
		61.50	36.8	3.5	2014/2015	8.7	12 500	326	75.7	247
		61.50	36.8	3.5	2015/2016	8.8	12 500	337	68.2	230
	61.05	64.00	36.7	3.4	2012/2013	8.2	4 095	76	93.1	70
		64.00	36.7	3.4	2013/2014	8.5	4 095	85	83.8	72
		64.00	36.7	3.4	2014/2015	8.7	4 095	93	75.5	70
		64.00	36.7	3.4	2015/2016	8.8	4 095	98	67.9	67
2010/2011	97.30	100.20	35.9	2.4	2013/2014	7.4	42 497	1 236	88.8	1 098
		100.20	35.9	2.4	2014/2015	7.7	42 497	1 419	80.0	1 135
		100.20	35.9	2.4	2015/2016	7.9	42 503	1 569	72.0	1 129
		100.20	35.9	2.4	2016/2017	8.2	42 503	1 702	64.8	1 102
	117.79	129.00	35.5	2.2	2013/2014	6.6	3 184	126	86.1	109
		129.00	35.5	2.2	2014/2015	6.9	3 184	143	77.5	111
		129.00	35.5	2.2	2015/2016	7.2	3 184	157	69.7	110
		129.00	35.5	2.2	2016/2017	7.5	3 184	169	62.8	106
2011/2012	160.09	168.00	34.4	1.9	2014/2015	7.5	34 494	1 742	80.0	1 394
		168.00	34.4	1.9	2015/2016	7.8	34 494	2 009	72.0	1 447
		168.00	34.4	1.9	2016/2017	8.0	34 506	2 232	64.8	1 446
		168.00	34.4	1.9	2017/2018	8.2	34 506	2 420	58.3	1 411
Grand total							3 086 893	49 891	83.5	41 649

(1) *Executive staff turnover of 8% p.a. (2011:10%) was used to estimate likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.*

38. Share appreciation rights

Data utilised in the valuation of share appreciation rights granted

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

Year granted	Strike price	Year maturing	Risk-free rate	Number of options outstanding	Fair value	Portion of term expired	Expected vesting proportion[2]	Liability at year-end
			%		R'000	%	%	R'000
2009/2010	31.23	2012/2013	5.6	209 375	32 111	95.8	99.0	30 442
		2013/2014	5.8	209 375	31 459	71.9	91.0	20 584
		2014/2015	6.1	209 375	30 846	57.5	83.8	14 858
		2015/2016	6.4	209 375	30 270	47.9	77.1	11 180
	45.49	2012/2013	5.7	12 500	1 725	78.7	94.8	1 288
		2013/2014	5.9	12 500	1 697	59.1	87.2	874
		2014/2015	6.2	12 500	1 672	47.3	80.3	634
		2015/2016	6.5	12 500	1 648	39.4	73.8	480
	61.05	2012/2013	5.7	4 095	503	77.6	94.5	369
		2013/2014	5.9	4 095	498	58.2	87.0	252
		2014/2015	6.2	4 095	494	46.5	80.0	184
		2015/2016	6.5	4 095	490	38.8	73.6	140
2008/2009	28.96	2012/2013	5.7	6 250	958	78.7	93.1	702
		2013/2014	6.0	6 250	938	63.0	85.7	506
		2014/2015	6.3	6 250	920	52.5	78.8	381
	35.54	2012/2013	5.6	395 625	58 963	96.4	98.8	56 194
		2013/2014	5.8	395 625	57 824	77.2	90.9	40 567
		2014/2015	6.1	395 625	56 763	64.3	83.7	30 535
2010/2011	97.30	2013/2014	5.8	42 497	3 766	62.6	91.1	2 147
		2014/2015	6.1	42 497	3 846	47.0	83.8	1 513
		2015/2016	6.4	42 503	3 928	37.6	77.1	1 138
		2016/2017	6.7	42 503	3 995	31.3	70.9	886
	117.79	2013/2014	5.8	3 184	229	52.6	88.8	107
		2014/2015	6.2	3 184	242	39.5	81.7	78
		2015/2016	6.5	3 184	253	31.6	75.2	60
		2016/2017	6.7	3 184	262	26.3	69.2	48
2011/2012	160.09	2014/2015	6.1	34 494	1 682	29.5	83.8	416
		2015/2016	6.4	34 494	1 907	22.1	77.1	325
		2016/2017	6.7	34 506	2 082	17.7	70.9	261
		2017/2018	6.9	34 506	2 219	14.7	65.3	213
Grand total				2 430 241	334 190	73.2	88.8	217 362
Note								14

(1) *All rights were valued using the following variables:*
Dividend yield 2.6%
Volatility 33.1%
Ex dividend share price (cents) 180.29

(2) *Executive staff turnover of 8% p.a. (2011:10%) was used to estimate likelihood of vesting conditions realising. A re-estimate in terms of IFRS 2 will be done on an annual basis.*

39. 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 communication 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, would 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 commenced in February 2010 and depend on continued employment by the group.

The agreement with employees 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 29 February 2012, 1 502 (28 February 2011: 1 666) employees qualified for the rights.

Year granted	Year maturing	Risk-free rate	Rights	Value per right	Estimated value	Portion of term expired	Expected vesting portion	Fair value
		%	Number	R	R'000	%	%	R'000
2008	2013	5.6%	300 400	84.95	13 863	80%	86%	9 576

(1) *All rights were valued using the following variables:*
Dividend yield 2.6%
Volatility 33.1%
Ex dividend share price (cents) 180.29

(2) *Actual staff turnover of participants of 14% p.a. (2011: 10%) was used to estimate the likelihood of vesting conditions realising. A re-estimate in terms of IFRS 2 will be done on an annual basis.*

(3) *The estimated value consists of the cumulative value of the rights less payments to date.*

40. Derivative financial instruments: economic hedges

	Notional amount R'000	Fair values Assets R'000	Liabilities R'000
2012			
Forward foreign exchange contracts			
Notional amounts in ZAR	**4 101**	**263**	**–**
Notional amounts in USD	**579**	**–**	**–**
2011			
Forward foreign exchange contracts			
Notional amounts in ZAR	4 271	–	203
Notional amounts in USD	579	–	–

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 R4.1 million (2011: R4.3 million).

41. Derivative financial instruments: cash flow hedges

	Notional amount R'000	Fair values Assets R'000	Liabilities R'000
2012			
Interest rate swaps	**1 150 000**	**–**	**3 321**
2011			
Interest rate swaps	**380 000**	–	6 066

	Demand to one month R'000	One to three months R'000	Three months to one year R'000	More than one year R'000	Grand total R'000
2012					
Discounted swap cash flows	**–**	**1 058**	**2 438**	**(175)**	**3 321**
Net	**–**	**1 058**	**2 438**	**(175)**	**3 321**
2011					
Discounted swap cash flows	–	6 066	–	–	6 066
Net	–	6 066	–	–	6 066

Gains and losses recognised in the hedging reserve in comprehensive income (note 17) on interest rate swap contracts as at financial year-end 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 financial year-end, 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 29 February 2012, the fixed interest rates were between 5.74% and 6.32% and the floating rates were based on forecast 3-month JIBAR rates at 29 February 2012.

The fair value adjustment removed from the cash flow hedging reserve and transferred to the income statement amounting to a debit of R7.1 million (2011: R22 million), 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 2012 and 2011. There were no transactions for which cash flow hedge accounting had to be discontinued in 2012 and 2011 as a result of highly probable cash flow no longer being expected to occur.

42. Shareholders holding more than 5% of the company's ordinary shares

Shareholder	Shares held	Shareholding
Year ended 29 February 2012	Number	%
PSG Financial Services Limited	32 314 970	32.55
Limietberg Beleggings (Pty) Limited	10 398 444	10.47
Coral Lagoon Investments 194 (Pty) Limited [1]	10 000 000	10.07

[1] *Coral Lagoon Investments 194 (Pty) Limited (Coral) disposed of 5 284 735 shares in the ordinary share of Capitec on 29 February 2012 (settlement date of the transaction in terms of the STRATE operating system being 7 March 2012) to the Public Investment Corporation SOC (PIC) as part of a restructuring of the financing of Coral's interest in Capitec. Subsequent to the acquisition of these shares the PIC holds an interest of 7.8% in the ordinary shares of Capitec.*

43. Black economic empowerment shareholding

Shareholder	Shares held	Shareholding
Year ended 29 February 2012	Number	%
Coral Lagoon Investments 194 (Pty) Limited	10 000 000	10.07
Thembeka Capital Limited	3 473 193	3.50
Merlyn Claude Mehl	40 784	0.04
Nonhlahnla Mjoli-Mncube	110 000	0.11
	13 623 977	13.72

44. Shareholding by executive management [1]

Shareholder	Shares held	Shareholding
Year ended 29 February 2012	Number	%
CG van Schalkwyk	719 355	0.72
CG Fischer	1 109 654	1.12
A Olivier	252 634	0.25
L Venter	327 306	0.33
C Oosthuizen	102 575	0.10
NST Motjuwadi	246	0.00
JE Carstens	2 491	0.00
GM Fourie	975 342	0.98
	3 489 603	3.5

[1] *Executive directors' shareholdings is presented in note 7.1 of the directors' report.*

Statutory information

Analysis of shareholders holding ordinary shares

	Number of shareholders	% of total	Number of shares	% of interest
1 – 1 000	7 439	78.68	2 150 676	2.00
1 001 – 10 000	1 646	17.41	4 544 660	5.00
10 001 – 100 000	291	3.08	8 912 053	9.00
100 001 and over	79	0.84	83 674 811	84.00
	9 455	100.00	99 282 200	100.00
Shareholder spread				
Public shareholders	9 432	99.76	38 496 188	38.80
Holdings less than 5%	9 432	99.76	38 496 188	38.80
There are no public shareholders with holdings of 5% or more				
Non-public shareholders excluding directors and their associates	2	0.02	42 314 970	42.55
There are no non-public shareholders (excluding directors and their associates) holding less than 5%				
Holdings of 5% or more	2	0.02	42 314 970	42.55
PSG Financial Services Limited	1	0.01	32 314 970	32.55
Coral Lagoon Investments 194 (Pty) Limited [1]	1	0.01	10 000 000	10.00
Directors (refer to page 112 for detail)	21	0.22	18 471 042	18.65
Directors of company or any subsidiaries	6	0.06	364 869	0.40
Associates of directors of company or any of its subsidiaries [2]	15	0.16	18 106 173	18.25
	9 455	100.00	99 282 200	100.00

[1] *Coral Lagoon Investments 194 (Pty) Limited disposed of 5 284 735 shares in the ordinary share capital of Capitec to the Public Investment Corporation SOC Limited on 29 February 2012. The transaction settled on 7 March 2012. The BEE status of these shares remains unchanged.*

[2] *Excludes 28 200 shares held by RJ Huntley via Coral Lagoon Investments 194 (Pty) Limited.*

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

	Number of shareholders	% of total	Number of shares	% of interest
1 – 1 000	515	50.89	260 601	9.08
1 001 – 10 000	456	45.06	1 469 568	51.22
10 001 – 100 000	39	3.85	890 019	31.02
100 001 and over	2	0.20	248 826	8.68
	1 012	100.00	2 869 014	100.00
Shareholder spread				
Public shareholders	1 011	99.90	2 848 014	99.27
Holdings less than 5%	1 011	99.90	2 848 014	99.27
There are no public shareholders holding more than 5%				
Non-public shareholders excluding directors and/or their associates	0	0.00	0	0.00
There are no non-public shareholders other than the associate of a director				
Directors (refer to page 115 for detail)	1	0.10	21 000	0.73
None of the directors hold preference shares				
Associates of directors of company or any of its subsidiaries	1	0.10	21 000	0.73
	1 012	100.00	2 869 014	100.00

Special resolution of a subsidiary

The following special resolutions were passed by Capitec Bank Limited ("Capitec Bank" or "the bank") during the financial year under review:

1. **Special resolution number 1**
"Resolved, in terms of section 66(9) of the Companies Act, 71 of 2008, as amended ("the Act"), and in accordance with special resolution 3.2 of the 2011 notice of the Capitec annual general meeting dealing with the directors' fees proposed to the shareholders of Capitec and subject to approval by the shareholders of Capitec, that Capitec Bank pays the stated directors' fees to the said boards of Capitec and Capitec Bank."

2. **Special resolution number 2**
"Resolved that the bank be authorised, for a period up to 15 months from the date of this resolution, as a general approval, to repurchase any of the ordinary shares issued by the bank 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 46 and 48 of the Act, the Banks Act, 1990 (Act 94 of 1990), as amended, the Listings Requirements of the JSE Limited ("JSE"), as applicable and the memorandum of incorporation of the bank."

3. **Special resolution number 3**
"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 46 and 48 of the Act, the memorandum of incorporation of the bank and, insofar as they may be applicable, the Banks Act, 1990 (Act 94 of 1990), as amended ("the Banks Act") and the Listings Requirements of the JSE Limited ("JSE"), provided always that:

- This general approval shall expire at the date of the bank's next AGM in 2012 or 3 September 2012, whichever is the earlier;
- 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.

4. **Special resolution number 4**
"Resolved in terms of section 45(3)(a)(ii) of the Act, as a general approval, that the board of the bank be authorised to approve that the bank provides any direct or indirect financial assistance ("financial assistance" will herein have the meaning attributed to it in section 45(1) of the Act) that the board of the bank may deem fit to any company or corporation that is related or inter-related ("related" and "inter-related" will herein have the meaning attributed to it in section 2 of the Act) to the bank, on the terms and conditions and for amounts that the board of the bank may determine."

Shareholders' calendar

Financial year-end
29 February 2012

Profit announcement
28 March 2012

Integrated annual report
May 2012

Annual general meeting
1 June 2012

Interim report
September 2012

Ordinary dividend

JSE code
CPI

ISIN
ZAE 000035861

Final dividend number 16 was paid on 26 March 2012

Salient dates for the dividend payment were:

Last day to trade cum dividend
Thursday, 15 March 2012

Record date
Friday, 23 March 2012

Administration and addresses

Capitec Bank Holdings Limited

Registration number
1999/025903/06

Auditors
PricewaterhouseCoopers Inc.

Directors
MS du Pré le Roux (Chairman)
R Stassen (Chief executive officer)
AP du Plessis (Financial director)
RJ Huntley (Ms) (appointed 14 April 2011)
MJ Jooste
JD McKenzie (appointed 1 March 2012)
MC Mehl (Prof)
NS Mjoli-Mncube (Ms)
PJ Mouton
CA Otto
JG Solms (retired 3 June 2011)
JP van der Merwe

Secretary
CG van Schalkwyk

Registered address
1 Quantum Street, Techno Park,
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