transparency with simplicity is

control

CAPITEC BANK HOLDINGS LIMITED

Integrated Annual Report 2011

Integrated Annual Report 2011

A simplified, transparent banking offer that enables clients to control their financial affairs

CAPITEC BANK HOLDINGS LIMITED

Contents

20% Batho-Batho Trust
5% Capitec Bank Group Employee Empowerment Trust
33% Keabetsoe Holdings (Pty) Ltd
5% Koma Trust
5% Lemoshanang Trust
5% Mdumo Trust
5% Nozala Investment (Pty) Ltd
15% Regiments Capital (Pty) Ltd
3% Rorisang Badasi Investment Holdings (Pty) Ltd
Others holding **less than 3% each**

Coral Lagoon
10.7%

Paladin Capital Financial Services (Pty) Ltd **49%**
PSG Group BEE Employee Trust **10.9%**
Steinhoff BEE Management Trust **5.9%**
Tokara BEE Trust **8.4%**
TSIBA Investment Corporation (Pty) Ltd **7.2%**
URC Cape Empowerment Trust **5.9%**
ZL Combi **3.8%**
Others holding **less than 3% each**

Thembeka
3.7%

BLACK OWNERSHIP

MS du P le Roux
Limietberg Beleggings
13.9%

Other director holdings
6.1%

Executive management committee
page 154
3.6%

PSG Group
34.6%

Board of directors
page 90

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 – pages 39 – 41

Keymatrix (Pty) Ltd
100%
1999/010617/07
RSA incorporated
(Dormant)

Capitec Bank Limited
100%
1980/003695/06
RSA incorporated
(Retail bank)
1 Quantum Street, Techno Park, Stellenbosch 7600
www.capitecbank.co.za

Capitec Properties (Pty) Ltd
100%
1998/007658/07
RSA incorporated
(Property holding company)

Key Distributors (Pty) Ltd
75%
2001/000964/07
RSA incorporated
(FMCG wholesaler)
101 Samuel Evens, Aeroton, Johannesburg 2190

Keynes Rational Corporate Services (Pty) Ltd
100%
1999/014817/07
RSA incorporated
(Dormant)

Capitec Bank Limited		Key Distributors (Pty) Ltd
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	Products	Fast-moving consumer goods distributor
Winner of Sunday Times Business Times Top 100 Companies	Awards received	
5 233	Employees	98
R4.9bn	Revenue	R219.3m
	Total capitalisation	
R3.2bn	Equity	R2.7m
R11.3bn	Debt	R25.1m
R14.5bn	Total assets	R27.8m
455	Total number of branches/warehouses	4
54	Increase/(decrease) in branches/warehouses	(1)
R473.1m	Contribution to group earnings after tax	(R1.2m)

Scope and boundary of the 2011 integrated annual report

The Capitec integrated report for the financial year ended 28 February 2011 details the performance of the Capitec group. Capitec is an investment holding and bank controlling company. The majority of its business operation is concentrated in Capitec Bank, its wholly owned banking subsidiary. Capitec Properties holds one property in Techno Park, Stellenbosch. A new head office may be constructed on this property in future. Key Distributors is a fast-moving consumer goods wholesale distributor. Its contribution to the Capitec group business is not significant 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 2010 integrated annual report. The 2011 report is, however, more closely aligned with the Global Reporting Initiative (GRI3) reporting guidelines as part of our journey to develop a comprehensive yet simplified report addressing issues considered to be material to stakeholders in the Capitec group. The group continues to develop its systems to facilitate improved application of the GRI3 going forward.

Our strategy

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 everyday 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

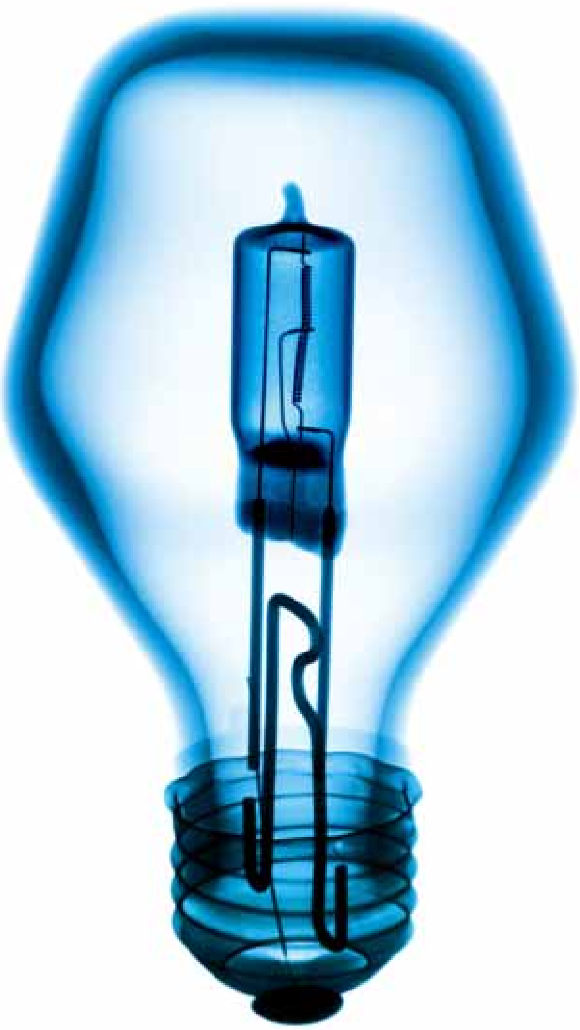
Increase shareholder value by setting in place the infrastructure and building blocks required to ensure continued long-term, real growth in assets and profitability. Quality book growth and cautious bad debt management are the main building blocks in the design of a healthy bank.

Key performance indicators

		2011	2010	Change % 2011/2010	2009	2008
Profitability						
Income from banking operations	R'm	**3 741**	2 556	46	1 983	1 315
Net loan impairment expense	R'm	**(988)**	(548)	80	(468)	(231)
Banking operating expenses	R'm	**(1 813)**	(1 368)	33	(1 065)	(763)
Non-banking operations	R'm	**–**	2	(100)	6	3
Tax	R'm	**(284)**	(193)	47	(137)	(95)
Preference dividend	R'm	**(16)**	(14)	14	(19)	(17)
Earnings attributable to ordinary shareholders						
• Basic	R'm	**640**	435	47	300	212
• Headline	R'm	**640**	437	46	302	212
Cost to income ratio banking activities	%	**48**	54		54	58
Return on ordinary shareholders' equity	%	**34**	32		27	22
Earnings per share						
• Attributable	cents	**757**	525	44	364	259
• Headline	cents	**757**	527	44	366	259
• Diluted attributable	cents	**730**	509	43	357	250
• Diluted headline	cents	**730**	511	43	359	251
Dividends per share						
• Interim	cents	**85**	55	55	30	25
• Final	cents	**205**	155	32	110	75
• Total	cents	**290**	210	38	140	100
Dividend cover	x	**2.6**	2.5		2.6	2.6
Assets						
Total assets	R'm	**14 440**	9 488	52	4 969	2 936
Net loans and advances	R'm	**10 071**	5 225	93	2 982	2 019
Cash and cash equivalents	R'm	**2 842**	2 567	11	1 514	618
Investments	R'm	**989**	1 306	(24)	150	14
Other	R'm	**538**	390	38	323	285
Liabilities						
Total liabilities	R'm	**10 989**	7 760	42	3 563	1 719
Deposits	R'm	**10 450**	7 360	42	3 317	1 528
Other	R'm	**539**	400	35	246	191
Equity						
Shareholders' funds	R'm	**3 451**	1 728	100	1 406	1 217
Capital adequacy ratio	%	**38**	37		43	36
Net asset value per ordinary share	cents	**3 418**	1 896	80	1 512	1 297
Share price	cents	**15 901**	8 200	94	3 001	3 900
Market capitalisation	R'm	**14 850**	6 805	118	2 485	3 195
Number of shares in issue	'000	**93 388**	82 983	13	82 798	81 928

		2011	2010	Change % 2011/2010	2009	2008
Equity *(continued)*						
Share options						
• Number outstanding	’000	**4 222**	5 322		5 713	5 159
• Number outstanding to shares in issue	%	**5**	6		7	6
• Average strike price	cents	**3 510**	2 888		2 487	1 815
• Average time to maturity	months	**20**	24		25	24
Operations						
Branches		**455**	401	13	363	331
Employees		**5 331**	4 154	28	3 414	2 800
Active clients	’000	**2 829**	2 122	33	1 545	1 110
ATMs						
• Own		**479**	417	15	368	328
• Partnership		**1 182**	821	44	571	437
Capital expenditure	R’m	**235**	149	58	133	117
Sales						
Loans						
Value of loans advanced	R’m	**14 318**	8 645	66	6 273	5 162
Number of loans advanced	’000	**5 471**	3 861	42	3 536	3 155
Average loan amount	R	**2 617**	2 239	17	1 774	1 636
Repayments	R’m	**12 117**	8 288	46	6 744	4 526
Gross loans and advances	R’m	**10 916**	5 607	95	3 238	2 192
Loans past due (arrears)	R’m	**626**	350	79	326	247
Arrears to gross loans and advances	%	**5.7**	6.2		10.1	11.2
Provision for doubtful debts	R’m	**845**	382	121	256	173
Provision for doubtful debts to gross loans and advances	%	**7.7**	6.8		7.9	7.9
Arrears coverage ratio	%	**135**	109		79	70
Loan revenue	R’m	**3 800**	2 603	46	2 032	1 273
Loan revenue to average gross loans and advances	%	**46.0**	58.9		74.8	82.0
Gross loan impairment expense	R’m	**1 088**	620	75	514	265
Recoveries	R’m	**100**	72	39	46	35
Net loan impairment expense	R’m	**988**	548	80	468	231
Net impairment expense to loan revenue	%	**26.0**	21.1		23.0	18.1
Net impairment expense to average gross loans and advances	%	**12.0**	12.4		17.2	14.9
Net loan impairment expense to repayments	%	**8.2**	6.6		7.2	5.1
Deposits						
Wholesale deposits	R’m	**3 954**	3 669	8	1 690	632
Retail call savings	R’m	**3 933**	2 346	68	1 306	842
Retail fixed savings	R’m	**2 316**	1 148	102	265	–
Net transaction fee income	R’m	**532**	295	80	160	89

Highlights



Headline earnings per share up
44%

Final dividend per share
205 cents

Return on equity
34%

Clients
2.8 million

Shareholders' funds
R3.5 billion

Statement of economic value added

For the year ended 28 February 2011

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

	2011 R'000	2010 R'000
Direct economic value generated		
Interest income	**2 808 543**	1 763 966
Loan fee income	**1 273 574**	1 038 905
Transaction fee income	**883 040**	507 438
Dividend income	**571**	519
Net movement in financial instruments designated at fair value	**(210)**	1 011
Non-banking sales	**219 298**	208 604
Other income	**251**	43
Net impairment charge on loans and advances to clients	**(988 177)**	(547 731)
	4 196 890	2 972 755
Economic value distributed		
To suppliers in payment of operating expenses	**1 236 114**	923 970
To employees	**931 811**	664 843
To providers of funds	**968 996**	641 720
Ordinary dividends	**201 882**	136 921
Preference dividends	**15 754**	14 163
Interest paid to providers of wholesale funding	**435 487**	297 260
Interest paid to savings clients	**315 873**	193 376
To government	**528 999**	343 696
Normal tax	**297 044**	186 710
Value added tax	**196 490**	132 483
Secondary tax on companies	**21 763**	15 062
Unemployment insurance	**5 012**	3 733
Skills development levies	**8 662**	5 652
Property rates and taxes	**28**	56
To the community	**416**	267
	3 666 336	2 574 496
Economic value retained for expansion and growth	**530 554**	398 259
Retained income	**438 388**	298 140
Depreciation and amortisation	**126 697**	108 759
Deferred tax	**(34 531)**	(8 640)

Capitec at a glance 01

Capitec Bank has simplified banking to the core functions of saving, credit and transacting

Who is Capitec Bank?

A unique and innovative bank that focuses on technologically driven, simplified solutions to retail banking. The key factors that differentiate the bank in relation to its local competitors are:

- Our banking offer which is a single, simplified solution to daily money management
- Savings, credit and transacting needs addressed in real time
- All transactions and processes in branches are paperless, driving the focus on service
- Banking fees that are the lowest in the market
- A strategy which maximises the use of technology and minimises administration
- Delivery of the most simplified, accessible and affordable banking to consumers in a personalised manner

What is different about our approach?

It is the recognition that successful retailing requires the simplified delivery of good value products, combined with the sincere support of service consultants to enable clients to make the best choices which are in their best interest.

Client connectivity and a sound understanding of client needs in the financial services industry are at the heart of all solutions developed in the business. This drives the required service ethic that delivers simplified banking options which empower clients. Simplicity is the ultimate sophistication and key driver of efficiency.

A short history of almost everything

- Obtained a bank licence – 2001
- First ATM installed – 2001
- Member of the Payments Association of SA – 2001
- Listed on the JSE securities exchange – 2002
- Establishment of the Capitec Bank brand – 2002
- First deposit taken – 2003
- Global One facility introduced as a single solution – 2003
- Capitec empowerment share purchase scheme established – 2003
- Agreements with Pick n Pay and Shoprite/Checkers for clients to draw cash at tills – 2005
- Branch numbers exceed 250 – 2005
- Introduce multi loan products and term loans – 2005
- Launch website – 2006
- Introduce mobile banking services – 2006
- Introduce salary transfer facility – 2006
- Launch internet banking – 2007
- Issue of 10 million shares to BEE consortium – 2007
- Roll out biometric verification for clients – 2008
- Launch fixed-term savings plan – 2008
- Launch cellphone banking updates – 2009
- Client numbers exceed 2.5 million – 2010
- Branch numbers exceed 400 – 2010
- Credit Suisse accolade as one of 27 great brands of the future – 2010
- Number one – Sunday Times Business Times Top 100 companies survey for 2010
- Capitec rights issue – 2011

Innovation that works

Worldwide banking is regarded as complex and most clients complain that they are not sure what they are getting and what it ends up costing them. Most banks make their solutions complex through the multitude of terms and conditions attached to the various options they provide.

Capitec Bank has simplified banking to the core functions of savings, credit and transacting. These products are packaged into a single facility with a transaction account as the access mechanism, which also doubles as an additional everyday savings account. This facility, called Global One, is a simple and low-priced money management tool. It delivers a straightforward solution to clients to manage their funds flow surpluses and shortages on a daily basis.

Access and usage of the facility is simplified via the use of the following innovations in-branch:

- Card-initiated transacting in-branch
- Identification of clients using biometrics
- Photographic recognition of clients

simplicity

- No application forms completed
- Realtime verification of bureau data for credit applications
- Savings plan options defined by the client
- Immediate activation of products
- Realtime updating by cellphone of all transactions on the facility in excess of R100

A snapshot of the market

1. South Africans who use formal financial products (%)

	2008	2009	2010
Do	66	64	68
Don't	34	36	32

The growth in 2010 in the use of formal financial products was primarily through the growth in client numbers at formal institutions other than banks. These include insurance companies, retail credit providers and regulated micro finance providers.

2. South Africans who are banked (%)

2007	2008	2009	2010
60	62.7	59.8	62.5

The growth in the banked population in South Africa appears to have originated from individuals who receive social grants and from Mzansi clients. Individuals reflect having obtained a savings account; however, these accounts are used primarily as a means to withdraw money immediately which was paid to them from institutions or the government.

3. Banking products held by South Africans (%)

Percentage of consumers who say they hold:	2008	2009	2010
ATM card	58	55	57
Car finance		3	5
Cellphone transacting (not notification)	4	4	12
Credit card	9	8	7
Debit/cheque card	27	33	37
Home loan	5	5	5
Internet			7
Mzansi account	11	13	15
Savings/transaction account	38	36	34

The most significant growth has been experienced in debit card and cellphone transacting channels. Debit cards are, however, also ATM cards and the growth could be due to more clients understanding the concept of an ATM card also being a purchase card. Most banks have promoted the use of bank cards as purchase cards at retailers during 2009 and 2010. The decline in savings cards may also be due to client confusion as to the core usage of the cards. Cellphone transacting has increased significantly; however, the largest usage remains on balance enquiries and inter-account transfers between a client's own accounts. Significant growth is also experienced in the industry in clients who make use of cellphone transaction updates, which are not reflected in the cellphone transacting numbers. The vehicle finance market was strongly influenced by the recent economic downturn; however, it experienced an upturn in 2010, as is reflected by the growth in vehicle sales.

4. Savings culture in South Africa

South Africans who save (%)	2008	2009	2010
	37	39	43

Saving mechanisms used (%)	2008	2009	2010
Bank products	9.4	8.5	10.0
Other formal products	16.0	16.6	21.0
Informal products	8.8	9.7	18.0
At home	8.0	12.7	7.0

Why consumers save (%)	
Emergency	14.8
Funeral	9.3
School fees/education	9.6
Other	9.3
Total	**43.0**

The increase in the incidence of saving can be attributed to the take-up of funeral insurance, the saving of money for funerals and the ongoing use of informal saving mechanisms such as stokvels. The resistance to saving in the formal market continues to be driven by high fees on bank accounts, low returns on small savings amounts and the fluctuating returns on insurance products due to market conditions.

5. Credit products used

South Africans who make use of credit (%)	2008	2009	2010
	28	24	27

Credit mechanisms used by South Africans (%)	2008	2009	2010
Bank products	14.0	4.5	13.0
Other formal products	10.0	23.1	11.0
Informal products	4.0	4.0	12
Friend/family	11.0	12.4	9.0

The fluctuations in the use of the various credit mechanisms can be directly related to the economic conditions and the credit criteria set by the various credit providers. It is evident that credit via the banks was restricted during 2009 and consumers turned to retail credit where possible. This trend is also supported by the decline in the use of credit cards (refer to the table under item 3 above). The greater use of informal products in 2010 is due to consumers exhausting formal mechanisms in times of economic downturn and resorting to informal sources to survive. Over 50% of respondents reflected that borrowing was for daily basic living needs.

Note: The statistics included under items 1 to 5 above were extracted from reports by Finmark Trust.

The main thing to note is the structural changes in the credit market and the ability of clients to understand and cope.

1994

A very large component of the South African population was unable to have their financial needs fulfilled by formal banks. Credit was mainly available to these consumers from microlenders that granted expensive loans. Loans of up to R10 000 and with a duration not exceeding three years were exempted from the Usury Act 73 of 1968 ("Usury Act") that regulated interest rates at the time. During this time, the furniture retail market granted credit over longer periods and for larger amounts to facilitate the sale of its furniture.

2007

The National Credit Act 34 of 2005 replaced the Usury Act. Consumers may now borrow larger amounts over longer periods. Exposure to credit increased. The credit market has therefore grown significantly. A downturn in the economy, as recently experienced internationally, affects employment which has a ripple effect on the financial industry. The recent credit crisis, both in South Africa and internationally, has shown that there is a lack of financial education and literacy amongst consumers worldwide. Consumers do not appear to understand the implication of debt review. It regularly happens that as soon as debt reviewers have assisted individuals to streamline their credit repayments when they fall behind with instalments, they return to the bank for further loans. The fact that the instalment is now smaller and seemingly under control, irrespective of the fact that instalments are simply stretched over a much longer period, seems to lull individuals under debt review into a false sense of security and restored financial health. Today, the financial industry grants credit of up to R200 000 for periods up to 84 months. This is a major concern.

The South African credit market

Capitec Bank share of market

	Capitec market share	
Loans disbursed (*)	**Q3 2010 R'm**	**Q3 2010 %**
Capitec Bank loans – net	3 473	
Total SA credit market:		
Short-term credit (< R8 000; 6 months)	1 398	
Unsecured loans < 36 months	6 582	
Subtotal	7 980	43.52
Unsecured credit over 36 months	6 803	
Subtotal	14 783	23.49
Secured credit – furniture/durable	1 407	
Subtotal	16 190	21.45
Credit facilities – store cards	2 774	
Subtotal	18 964	18.31
Credit facilities – credit cards	3 177	
Subtotal	22 141	15.69
Secured credit – retirement funded	339	
Subtotal	22 480	15.45
Secured credit – vehicle market	22 420	
Subtotal	44 900	7.73
Mortages over R700 000	16 639	
Mortages under R700 000	9 701	
Other credit	3 895	
Total credit disbursed	75 135	4.62

Note: (*) The above table on loans disbursed was obtained from reports prepared by the National Credit Regulator

Guide to material sustainability matters identified by the organisation and its stakeholders

MATERIAL MATTERS	STAKEHOLDERS	HOW MATERIAL MATTERS ARE ADDRESSED	page
Human capital Retention of skilled employees	Employees Clients	• Market-related salaries • Bursaries for further education • Various methods of engagement to ascertain matters of concern to employees • Opportunities to become co-owners of the group	17, 42, 66 80 73 17, 43, 77
Development of adequate management skills in the organisation to drive the balance between quality and efficiency in the service platform		• Career path management system • Development seats on the executive management committee to allow for exposure at executive level • Leadership training	78 78 78
Embedding an ongoing service culture which delivers a unique service experience to clients		• Emphasis on service delivery at a level to be distinguished from competition in all its aspects such as training, employees, technology	80
Financial capital Capital, retail and wholesale fund raising in a changing regulatory environment	Clients Rating agencies Regulators Shareholders/ Investors	• Good relationships with the regulatory authorities to promote efficient and constructive oversight • Maintain good relationships with existing funders and investors in general through transparency and regular engagement	18 29 - 31, 49 - 56, 75
IT systems Meeting the needs of clients in a highly regulated and competitive environment	Clients Employees Suppliers	• Maintain capacity to deliver innovation • Identify and utilise superior suppliers	
Natural resource consumption	Society through conservation of natural resources	• Monitor and manage consumption	82
Peak-day volumes that cause a decline in service quality	Clients Employees	• Improved efficiency in the client service processes on the service front end • Reduction of the number of steps in the product delivery process in branch • Increasing access to products and information for clients on a remote basis to reduce the need for branch interaction • Pre-screening of client documentation to speed up the service process	

MATERIAL MATTERS	STAKEHOLDERS	HOW MATERIAL MATTERS ARE ADDRESSED	page
IT systems (continued) Operations failure of retail payment systems, e.g. cards	All banks Clients Employees Retailers	• The operators of the national payments systems have realtime back-up systems that duplicate the production environment • The performance and operating capacity of the retail payments systems are monitored by the Payment Association of South Africa (PASA) of which Capitec Bank is a member • Capitec Bank regularly interacts with the said operators to proactively discuss the risks and the plan of action	73
Operations failure of debit collection payment systems, e.g. NAEDO	All banks Clients Employees	• The performance and operating capacity of debit collection payment systems is monitored by the Payment Association of South Africa (PASA) of which Capitec Bank is a member • Capitec Bank regularly interacts with the said operators to discuss the risks and the plan of action	73
Brand Building of brand confidence and trust in the market	Clients Employees Regulators Shareholders Suppliers	• Reliable and trustworthy service • Stability • Access through expanded retail footprint • Affordability, simplicity and transparency of product offer	16 17 70
Fraud	Clients Employees Regulators Shareholders Suppliers	• Independent hotline, Tip-Offs Anonymous • Internal monitoring of transactions on bank accounts • Continuous training of employees to recognise fraud • Industry interaction, e.g. Sabric (South African Banking Risk Information Centre), where information is exchanged such as current hot spots, etc. • Close working relationship with the South African Police Service	63 64
Growth Sustainability of significant rate of growth	Regulators Shareholders/ Investors Suppliers	• The group originated in a high-volume environment • Systems and processes are geared for expansion • Conservative management of growth elements such as liquidity and credit quality	16 - 19 30 53 - 56
Credit	Clients Regulators Shareholders	• Continuous assessment of creditworthiness, ensuring continuous improvement in book quality • Continuous search for innovation in assessment of credit quality	16 60 - 63
Competition Maintain advantage of current business model	Clients Competitors Employees Regulators Shareholders	• Continuous innovation • Timeous delivery of new products and ideas to the market • Compliance with regulatory prescription • Transparent market communication	10 68 71

Chairman's letter 02

A growth industry, but careful now

A growth industry

Unsecured lending is a growth segment of the South African banking industry. During the quarter ended September 2010 the total unsecured market, excluding credit card and furniture finance, grew by 58% compared to the same quarter of 2009. By comparison, total lending by all banks in South Africa didn't grow during 2010 (growth simply matched inflation).

Today's unsecured lending market was created in June 2007 by the National Credit Act (NCA). Before the implementation of the NCA, the maximum permissible loan in terms of the exemption to the Usury Act was R10 000 with a term of 36 months. Today there is no legal maximum for either term or loan size.

The average loan at Capitec Bank in February 2007 was R1 180, with an average outstanding term of 10 months. Today it is R2 617 and 29 months.

Since 2007 the Capitec gross loan book has grown from R950 million to R11 billion. At the same time total unsecured lending, as defined by the National Credit Regulator, in the industry grew from R29 billion to R66 billion. This market growth represents a triumph for the companies providing loans, their clients and the authorities wishing to make finance more accessible.

Careful now

We want to grow swiftly but cautiously. At the same time, a new legal dispensation, eager borrowers with little past experience of term loans and many enthusiastic lenders make us pause.

In November 2008 we tightened our lending criteria. Looking back, this proved to be exactly the right moment to start worrying. The rate of growth of new loans granted declined significantly for a few months, before we regained a strong growth path. Since that date our actual bad debt rate has been on a declining trend.

We are very selective when granting long term credit. We approve 64% of all loan applications – but the higher the risk, the shorter the term of the loans offered. Only 17.1% of our clients would qualify for a 48 month loan, should they apply for one, only 8.4% for a 60 month loan.

We are aware of the shortcomings of credit scoring, as credit models cannot reflect the future behaviour of a whole market without previous access to long-term credit. We augment credit scoring with home-grown methods.

It is challenging to understand the real changes in our arrears and provisions over time. Long-term trends can be hidden by the fact that fast growth in our book could result in an apparent decline in arrears.

The provision on a new product is higher at the beginning of the term due to the uncertainty surrounding the performance of the product over time.

We write off all loans in their entirety if a client is more than three months in arrears.

Our provisions are equal to 135% of the outstanding amount of all loans with payments in arrears (the "arrears coverage ratio"). This includes only problem loans with less than three months of arrears, otherwise the loan would have been written off.

Our net transaction fee income has grown by at least 80% in each of the last three years. This reduces our reliance on the income from loans.

"Simplicity is the ultimate sophistication"

Simplicity is our guiding principle. We want clients to understand exactly what we offer and how much it will cost. The length of queues at the information counters of banks indicate to what extent there is a difference between what clients expect and what they get. We don't offer confusing packages of services and treat all clients the same. Every consultant, whether in a branch or in a call centre, knows the detail of all our products so that clients are not referred from one consultant to another. This is the result of simplicity of product offering and proper training of staff. It is also the reason why we do not offer banking to companies and trusts, but only to individuals.

Capitec Bank delivers all its products in real time. We don't open a file and ask a client to come back later. Even if we've never seen a client before (provided the client has the necessary documents), we will open an account, issue and activate a debit card, approve a loan and pay the loan into the new account so that the client has access to its full value by the time that he or she leaves the bank.

Instant success

One of the reasons for our growth has been the success of our new branches. We opened 54 branches during the year, growing our network by 13% to 455 branches. All our existing branches are profitable.

This is impressive and indicates unmet demand for our products. Every site location is a serious decision.

Our branches are not comparable to those of traditional banks. All our branches are based on the same template: there are on average nine personnel in a branch of 200 m^2. We keep no cash on the site, which means that we can use any retail space and not only purpose-built sites. The absence of cash also means that there are no glass partitions between the consultant and a client. The majority of our consultants are fluent in the language used in the vicinity of a particular branch.

In practical management terms, it is an advantage that all branches fit into the same mould. Instead of having larger branches, we prefer more branches in a town. In Mthatha we have five branches, each serving a different retail market (clients who rely on public transport are more likely to be confined to a single retail area of even a small town). We rent all our branches, which gives us flexibility when the retail patterns in a town change.

We encourage our clients to use their cards to purchase goods and withdraw cash at the tills of supermarkets. For card purchases there is no charge and for cash withdrawals we charge only R1. During the past year cash withdrawals at supermarket tills increased by 111% when compared with the previous year.

High costs

Our total expenses grew by 33%. Over the past five years our expenses have grown by on average by 32% per year. This is an enormous rate of increase but it illustrates our willingness to back a strategy we believe in.

In the past year our personnel numbers increased by 1 177. A reduction in staff numbers – which most companies try to achieve through higher productivity – is treated as bad news in the media, whereas a growth in staff numbers is often ignored. Our society doesn't seem to understand that in any given year many jobs disappear and many new ones are created – even inside the same company. This is an inevitable consequence of progress and a healthy phenomenon. Total employment can only grow when the business opportunities in our country grow. It serves no purpose to reduce business opportunities in an attempt to freeze existing employment.

We invest heavily in training staff. We appointed 1 910 new people (this includes staff turnover) and every one of them underwent a two-week training course in Stellenbosch at a total cost of R22 million.

Our cost to income ratio declined to less than 50%. This is an important ratio for a retail bank, but should be treated with caution as it is distorted if a bank has other income (or expenditure) such as corporate banking. It ignores bad debts and benefits when a company has surplus capital – and Capitec Bank happens to have a high capital ratio.

We plan to continue our investment in growth in the coming year.

Sharing in the success

Ten years ago, when we started the bank, we had a tiny company and a strong management team. We made them a simple promise: create a success and you will share in it. The most objective way of doing that is to base a portion of the remuneration of strategic management on the value created. Although share prices can fluctuate, the fundamental trend reflects the performance and prospects of a company and the share price is the most objective measure of the value of a company. Our share options and share appreciation rights base some of the rewards for strategic management on the value created. These rights vest over a period between three and six years. They have to be exercised within six months of due date.

Our share price increased by 94% during the financial year and the participants in these share schemes received a total value of R108 million from the schemes. The total growth during the current year in the value of share options and share appreciation rights which have yet to vest was R279 million. These values will obviously materialise only if market confidence in our company is maintained.

The next level, senior managers, participate in a bonus scheme based on the profit growth of the company. Payment of these bonuses takes place over a period of three years. The total value of bonuses accrued for the year, was R17 million.

Based on our growth in headline earnings per share, all staff (apart from senior management) received a bonus equal to 142.5% of one month's salary. These bonuses are paid out in two tranches: one after the half year, the other tranche will be paid after this announcement.

Executive management committee members hold a total of almost 7 million shares between them. This holding defines the attitude of our senior management: they are owners rather than employees. It is this attitude that our various schemes try to instil in all of our 5 331 people.

Liquidity and share capital

During the past 12 months we granted 5 471 000 individual loans to a total value of R14 billion, which is 66% more than last year. The total value of loans outstanding at year-end amounted to R11 billion.

Our liquidity philosophy remains conservative. At year-end it would have been possible to repay all deposits due immediately and on an average throughout the year, within three days. We are particularly happy with the doubling of fixed retail savings to R2 billion.

In December 2010 we offered one new share to existing ordinary shareholders for every 10 they held. Our main shareholder, PSG Group, committed to take up all their rights. Practically all the rights were taken up by shareholders. Such confidence is an important element in the success of our group. In total we raised R1.1 billion new ordinary capital, including R100 million worth of shares issued to the underwriter. In addition, we issued preference shares to a value of R104 million and raised subordinated debt of R200 million.

Our capital adequacy ratio started the year at 37%, but as a result of the rapid growth of our term book it declined before our capital raising exercises restored the ratio to 38% at year-end. We will pay careful attention to our capital structure as we will endeavour to grow our loan book further.

Directors

We lost a director with valuable international experience when Tshepo Mahloele had to resign as a result of commitments to his own growing international business. We thank him for his friendship and his important contributions at board meetings.

Fortunately we gained in Markus Jooste, a new director with personal experience of building an international organisation.

During the year we paid a total remuneration of R3 million to our non-executive directors for their services as director. The chairman received a fixed sum of R960 000. The other directors received a fee of R108 000 plus additional compensation for service as a committee member or a committee chairman.

Prospects

In November 2010 we were named as the top company of the year of the Sunday Times Top 100 Companies. On 1 March 2011 Capitec Bank was 10 years old. We held no party and didn't celebrate either of these achievements. We feel that we have done little more than lay the foundations of a potentially great business. Excessive celebration of a good start can lead to a false sense of achievement. Much remains to be done, our management team is still full of ideas.

We will continue investigating opportunities during the year ahead.

Michiel le Roux
Chairman

Financial director's report 03

Relevant, transparent financial reporting

Results in brief

Capitec Bank's transparent delivery of simplified banking services continued to find resonance in the market during the year under review. The bank's 455 branches serve a client base which has grown by 33% to 2.8 million active clients.

Expansion of the branch network saw 55 new branches opening for business and one mining branch closing during the financial year and a similar increase in the number of branches is planned for the next 12 months.

During the year 5.5 million loans were advanced, increasing the value of loans advanced by 66% to R14.3 billion. Loans with terms of 12 months and longer contributed 67% of total loan sales. This contributed to a 95% increase in the gross loan book to R10.9 billion.

The significant growth in the loan book, planned expansion of the branch network as well as the need to optimise the group's capital base saw the group implement a variety of funding and capital raising strategies.

Subordinated debt funding in the amount of R200 million was procured. Preference share capital amounting to R104 million was issued and a successful rights offer of ordinary shares, which raised R1.1 billion, was undertaken. The proceeds of the rights offer include R100 million relating to shares issued to Sanlam in terms of the underwriting agreement.

The capital adequacy ratio is 38% reflecting the impact of the subordinated debt, capital raised and profit retained neutralised by the growth in the loan book.

Retail call savings deposits grew by 68% to R3.9 billion and the retail fixed savings balance grew steadily from R1.1 billion at the end of February 2010 to R2.3 billion at the end of February 2011. The average maturity of retail fixed savings as at February 2011 was 13 months. Wholesale deposits grew to R4.0 billion from R3.7 billion at the end of February 2010, due mainly to the subordinated debt procured.

Growth in the number and value of loans advanced resulted in an increase of 46% in net loan revenue to R3.8 billion.

The net loan impairment expense as a percentage of average loans and advances is 12.0% compared to 12.4% for 2010. The net loan impairment expense of R988 million grew by 80% compared to 2010, while the gross loan impairment expense increased by R468 million. The growth in the loan book contributed R698 million to this increase and the improvement in default rates from 6.2%, as at February 2010, to 5.7% decreased the charge by R231 million.

Net transaction fee income grew by 80% to R532 million, reflecting the growth in client numbers and transaction volumes. This income covered 29% of banking operating expenses compared to 22% in 2010.

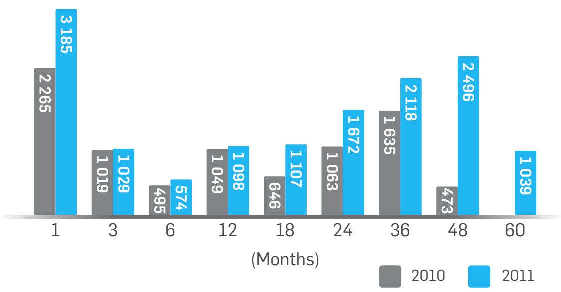
The cost to income ratio of banking activities improved from 54% for the 2010 financial year to 48% for the 2011 financial year. Income from banking increased by 46%, while operating expenses increased by 33%, chiefly due to growth in the branch network. The cost benefit of the bank's technology platform and innovative business processes continued to manifest. Employment costs, including training, comprise 54% of operating expenses compared to 51% for the 2010 financial year.

Headline earnings attributable to ordinary shareholders increased by 46% to R640 million.

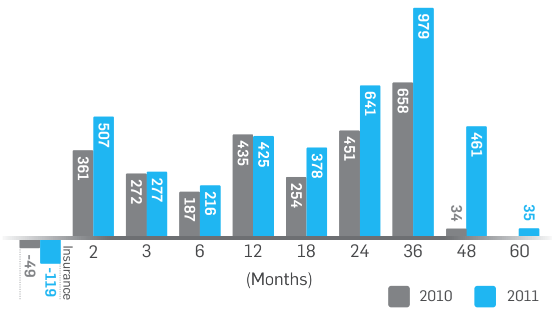
Loans advanced

Loans advanced increased by 66% and amounted to R14.3 billion

VALUE OF LOANS ADVANCED BY PRODUCT R'm



LOAN REVENUE BY PRODUCT R'm



Loans with terms of 12 months and longer contributed 67% of total loans advanced (2010: 56%) and increased by 96% to R9.5 billion.

A 60 month loan product with a maximum value of R120 000 was launched in November 2010 and contributed R1.0 billion in sales for the four months ended 28 February 2011.

Sales of the 48 month loan product which was launched in November 2009 increased to R2.5 billion for the year from R473 million for the four months ended February 2010.

Sales of loan products with terms shorter than 12 months increased by 27% and totalled R4.8 billion (2010: R3.8 billion).

The increased use by clients of functionality that allows the one month loan product to be accessed via cellphone contributed to the increase of 41% in the value of one month loans advanced, while also freeing capacity in the branch network.

Continuous analysis of the credit behaviour in the market ensures that credit granting criteria remain appropriate to the bank's risk appetite while contributing to loan book growth.

Loan revenue

Net loan revenue increased 46% to R3.8 billion

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

The loan pricing structure was consistent with previous financial years and loans were advanced at fixed interest rates. Clients are therefore not exposed to interest rate fluctuations. Progress towards price differentiation according to the risk profile of clients continues.

Loans advanced are priced in compliance with the National Credit Act (NCA) which prescribes ceiling rates. A decrease in the South African Reserve Bank's repo rates resulted in a decrease in the ceiling rates allowed on new loans. The interest rates on loans that complied with the prescribed ceiling rates applicable when the loans were advanced were not decreased when the repo rate decreased. Interest on all loan products is fixed and remains fixed regardless of whether the prescribed ceiling rates increase or decrease after the event. This treatment is in line with industry practice of the major players in the market. Uncertainty has recently arisen around this treatment. Our legal opinion supports our view and treatment. Should it become necessary to adjust the interest rates on previously advanced loans to below the revised ceiling rate, the impact on the results of the group will not be material as our products are generally priced well below the prescribed ceilings.

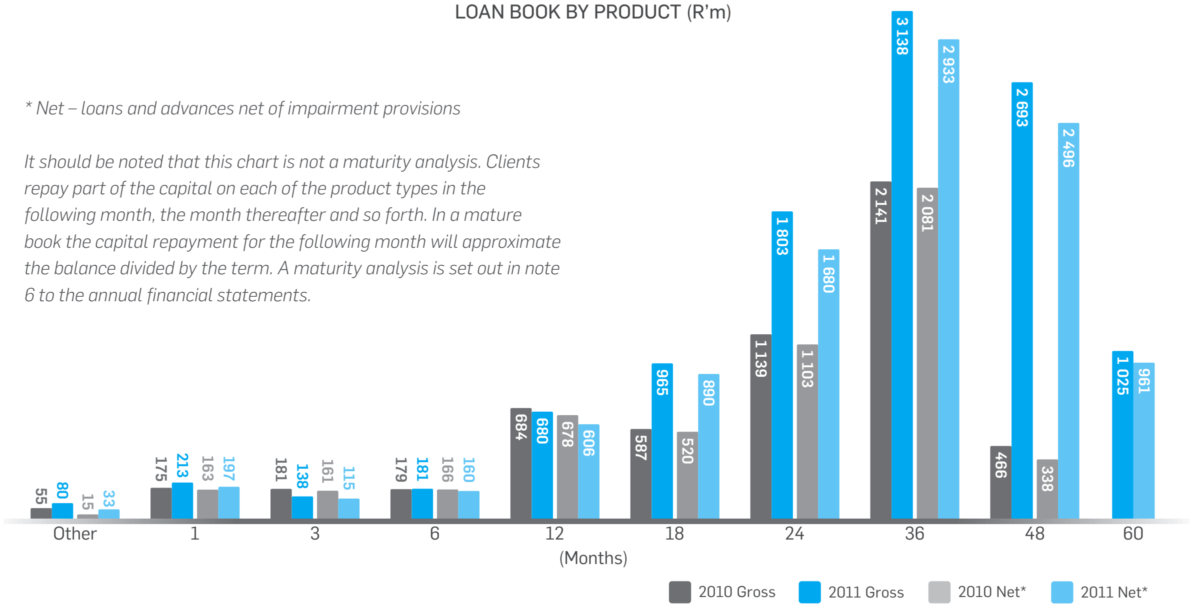
Clients do not pay extra for the credit life and retrenchment insurance which is provided on the loan products with terms of six months and longer. The cost of credit life and retrenchment insurance is carried by the bank while most of its competitors add these charges to their loan pricing. The insurance expense amounted to R119 million (2010: R49 million). The 2010 insurance expense included retrenchment insurance for the eight months from July, while the current year expense includes retrenchment insurance for 12 months.

Net loan revenue increased at a lower rate than loans advanced. As loan sales increasingly include longer-term, higher-value loans with lower yields, this trend is expected to continue. Sales of longer-term loan products do however have a positive effect on the annuity income derived from interest and monthly fees, and lower costs.

The impact of increased loan sales on interest income was tempered by declining yields on all loan products. This is a result of a total cut of 5% in repo rates by the South African Reserve Bank over the course of the last two financial years, as well as our effort to make lending more affordable to our clients. Interest received on loans however increased by 64% to R2.6 billion.

Origination and monthly administration fee income grew by 23% to R1.3 billion. Monthly administration fee income was positively impacted by the increase in the number of loans advanced and the shift in mix to longer-term products. Origination fee income is capped and increased by only 18%.

LOAN BOOK BY PRODUCT (R'm)



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

It should be noted that this 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.

Loan book, arrears and provision for doubtful debts

Gross loan book grew by 95% to R10.9 billion

Arrears as a percentage of gross loans and advances improved to 5.7%

		Aug 2009	Feb 2010	Aug 2010	Feb 2011
Gross loans and advances	Rm	3 958	5 607	7 796	**10 916**
Loans past due (arrears)	Rm	299	350	361	**626**
Arrears to gross loans and advances	%	7.6	6.2	4.6	**5.7**
Provision for doubtful debts	Rm	278	382	552	**845**
Provision for doubtful debts to gross loans and advances	%	7.0	6.8	7.1	**7.7**
Provision/arrears coverage ratio*	%	93	109	153	**135**

** 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.*

Gross loans and advances with terms of 12 months and longer totalled R10.3 billion at financial year end compared to R5.0 billion at the end of February 2010.

The 60 month loan product contributed R1.0 billion to the loan book and the 48 month product contributed R2.7 billion, up from R466 million at the end of February 2010. These longer, less mature books will build the assets on balance sheet significantly in the upcoming financial periods.

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 R5.3 billion compared to February 2010. In contrast arrears grew by R276 million.

Loans and advances more than three months in arrears which were written off amounted to R625 million compared to R494 million in 2010. The increase in the amount written off is a function of loan book growth and does not 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 6.2% at the end of February 2010 to 5.7% at February 2011. This improvement is sustainable as lower-risk, higher-income clients qualify for the longer loan products which will comprise a continuously higher proportion of the loan book.

The arrears percentage of 5.7% as at February 2011 has however deteriorated compared to the 4.6% as at August 2010. The August arrears percentage did not fully reflect the impact of government and other labour union strikes which occurred around that time. Management had however addressed this by strengthening the incurred but not reported (IBNR) impairment assumptions at the time.

Furthermore, arrears deteriorated from December 2010 to February 2011. In line with historical trends default rates deteriorated during December and January, the traditional vacation months. A deterioration in the default rates of government employees also occurred in January and February 2011 when contract teachers and medical staff were not paid. The impairment provision model is very sensitive to even the smallest deterioration in arrears, and the impairment expense reflects this sensitivity. The arrears percentage recovered slightly in March 2011, following better performance by these government employees.

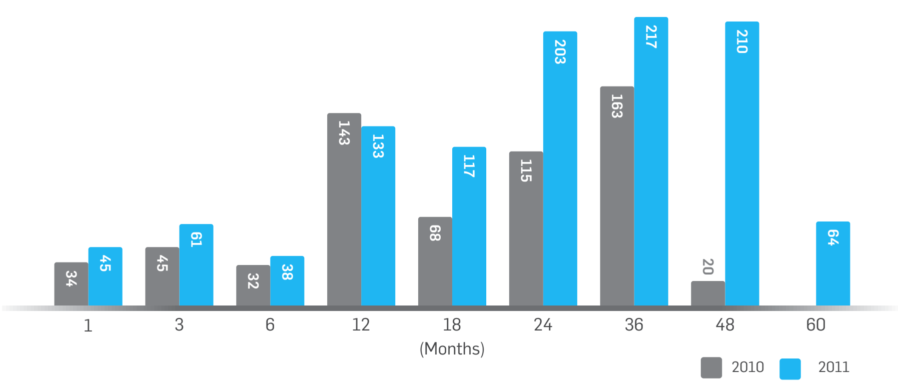
The increase in the provision for doubtful debts as a percentage of gross loans and advances from 7.1% at the end of August

2010 to 7.7% can be attributed mainly to the above as well as the launch of the 60 month loan product and the 48 month loan product which is only 16 months old and not mature. The provision on a new product is higher at the beginning of the term due to the uncertainty surrounding the performance of the product over time. The effect is compounded on longer-term products where the period of uncertainty is greater. The provision percentage is expected to decrease as the longer-term books of recently launched products mature.

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 annual financial statements.

The weighted average outstanding term of the 12 month and longer loan books as at February 2011 is 31 months. The outstanding term of the loan books with terms shorter than 12 months is two months, and the outstanding term of the total book is 29 months.

GROSS LOAN IMPAIRMENT EXPENSE (BEFORE RECOVERIES) R'm



Loan impairment expense

Net loan impairment expense to average gross loans and advances at 12%

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.

The net loan impairment expense of R988 million for the year increased by R440 million compared to last year and represents 12.0% of average gross loans and advances compared to 12.4% in 2010.

Recoveries increased by R28 million to R100 million. Growth in recoveries has slowed from 57% for the 2010 financial year to 39% for the 2011 year. The recovery process is lengthy and as longer-term, higher-value loans are handed over, the recovery period lengthens further.

The gross loan impairment expense (before recoveries) increased by R468 million. This includes an increase of R698 million due to loan book growth and an increase of R1 million due to a decrease in the expected future cash flows on handed over loans. The gross loan impairment expense before book growth decreased by R231 million due to an improvement in default rates.

	6 months to Aug* 2010	6 months to Feb** 2011	12 months to Feb*** 2011
Loan book growth	222	156	698
Default rates	(96)	28	(231)
Expected future cash flows on handed over loans	(5)	10	1
	121	194	468

* *Six months ended August 2010 compared to the six months ended February 2010*

** *Six months ended February 2011 compared to the six months ended August 2010*

*** *12 months ended February 2011 compared to the 12 months ended February 2010*

The table above compares the increase in the expense for each period to the immediately preceding period.

The gross loan impairment expense in the second half of the financial year increased by R194 million compared to the first half of the year. The net increase consisted of an increase of R156 million due to loan book growth, an increase of R28 million due to the deterioration in default rates and an increase of R10 million due to a decrease in the expected future cash flows on handed over loans.

In order to account for the expected cash flows from handed over loans a valuation is placed on these loans and fluctuations in the valuation are included in the gross impairment expense. The valuation discounts the expected cash flows based on historical collections at contractual interest rates. The main drivers of the valuation are the recovery rate curve, the rate at which loans are handed over as well as the maturity of the loans at handover. Fluctuations in the valuation are linked to the growth in, and lengthening of the terms of handed over loans. As larger balances are handed over, the time required to make recoveries lengthens.

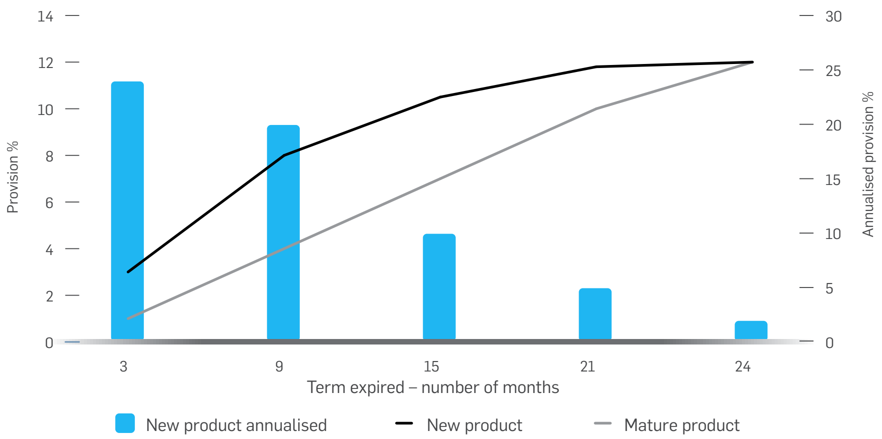
The loan impairment expense as a percentage of repayments, by product, compared as follows against last year:

	2011 %	2010 %
1 month	1.2	1.4
3 month	4.8	3.8
6 month	5.4	5.2
12 month	9.5	10.9
18 month	11.2	10.8
24 month	12.9	11.5
36 month	11.4	14.4
48 month	30.3	50.8
60 month	153.8	–
Weighted average	9.0	7.5
Recoveries	(0.8)	(0.9)
Net bad debts	8.2	6.6

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

The impairment expense percentages on the more mature 18 and 24 month loan products have increased from 2010 to 2011. As new longer-term products are launched and clients have more choices those that qualify migrate to better priced, longer-term products. The clients who do

PROVISIONING PROFILES OF NEW AND MATURE PRODUCTS



In the example to the left, there are five reporting periods for a 24 month loan. Every period's impairment charge as a percentage of instalments is annualised and is displayed in bar form in the chart. Although the chart to the left displays information from month 3, impairment calculations are performed from the day the loan is advanced. From the example it is clear that although the write-off/ impairment charge over time equates to 12%, the first period's charge is 24% followed by 20%, then 10%, then 5%, and finally 2%. The expense, which equates the time value of money, matches the loan income which is recorded similarly.

not qualify and therefore remain in the shorter-term loan books are higher risk and the quality of these loan books is diluted. The vintage graphs of the 18 and 24 month loan products also reflect this trend.

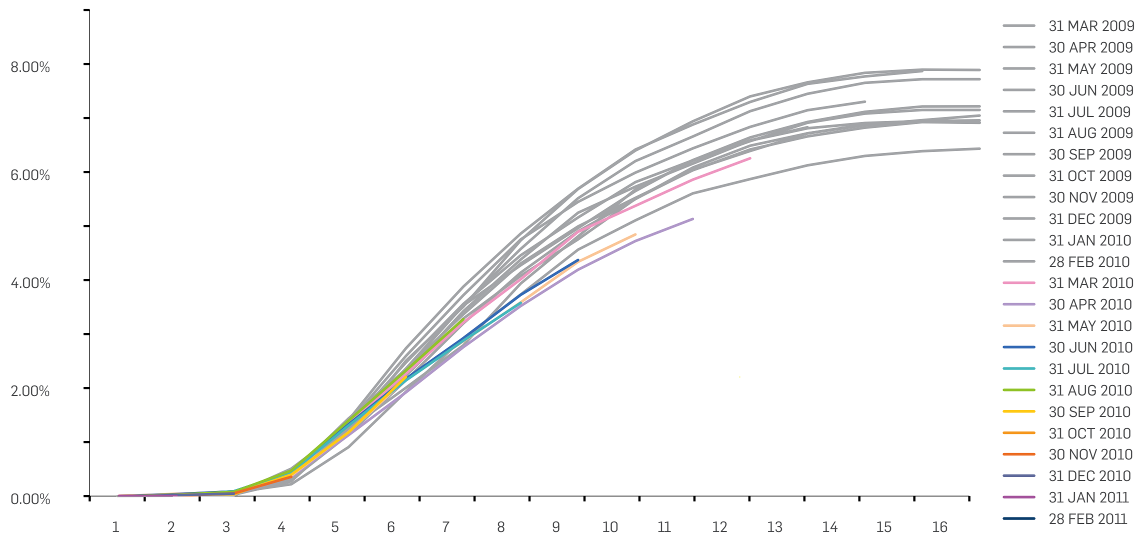
The impairment charge has been impacted by the high proportion of new longer-term products that are currently included in the loan book. The provisioning profile on these products differs from the provisioning profile of a mature product over time as illustrated by the chart above.

For new products, for example the 48 and 60 month products, history on which to base the impairment calculation is not available. The impairment is thus calculated by using the historical data that is available on other longer-term loan products. The impact of a missed instalment on a longer-term loan is more severe at the beginning of a loan repayment period, as the full loan amount may be at risk. Therefore the impairment provision is higher for a new and growing loan book.

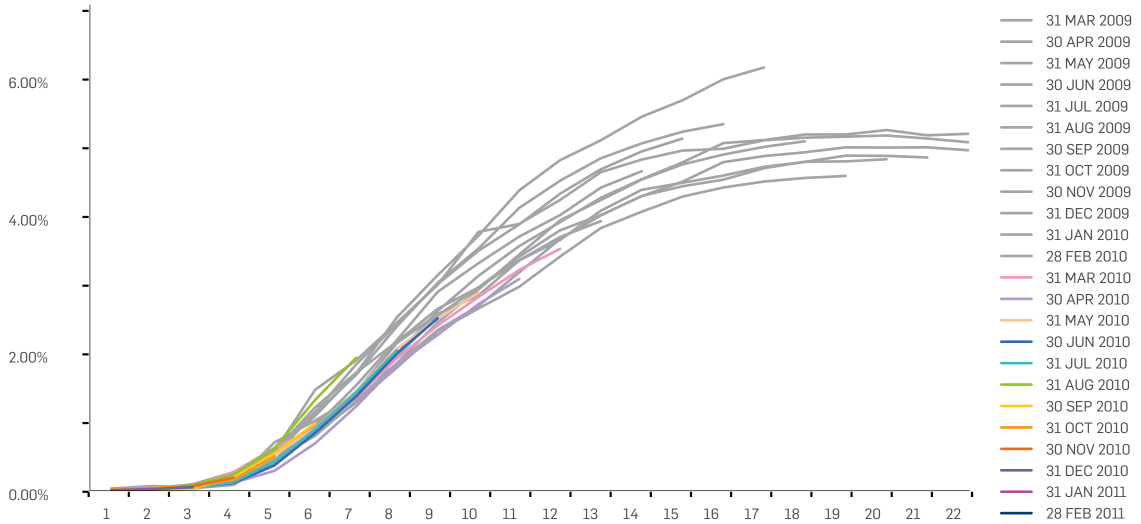
The 48 month product is only 16 months old and the 60 month loan product is four months old and the level of impairment on these products is therefore very high. Over time every new product reverts to a distribution that is comparable to other mature products. The impairment expenses of the 36 and 48 month loans indicate this trend.

The net loan impairment expense as a percentage of loan revenue has increased to 26% from 21% for the 2010 financial year, due to the impact of the higher impairment provision on the 36 to 60 month loan books. The rate of provisioning on these products exceeds the rate at which income is recognised at the beginning of the term of the loans.

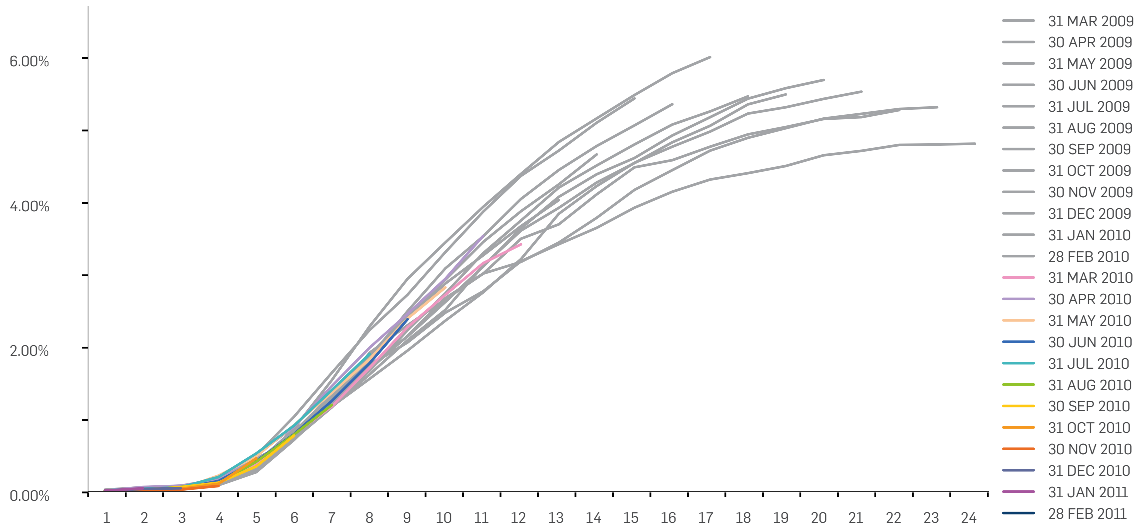
12 MONTH LOAN



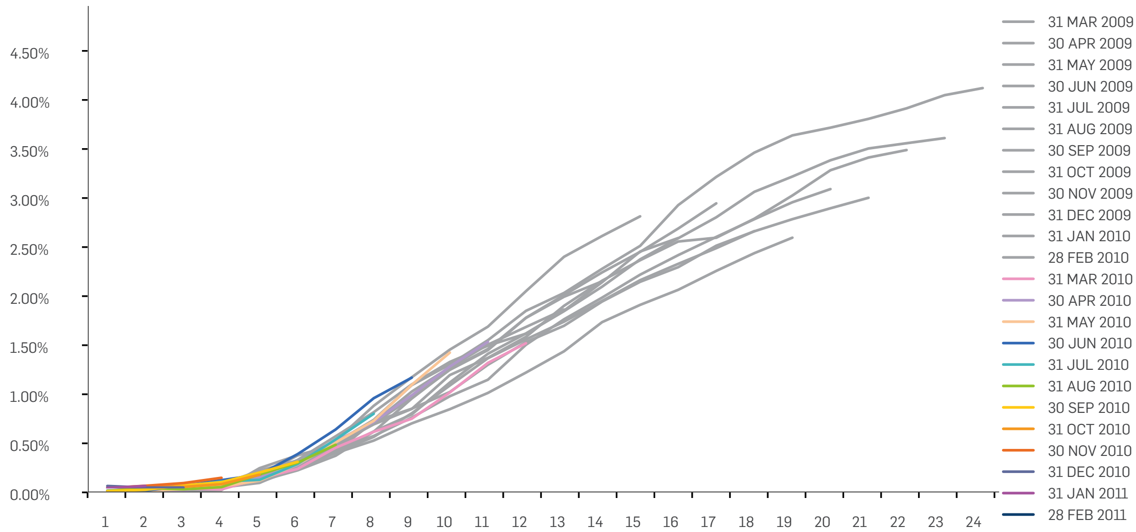
18 MONTH LOAN



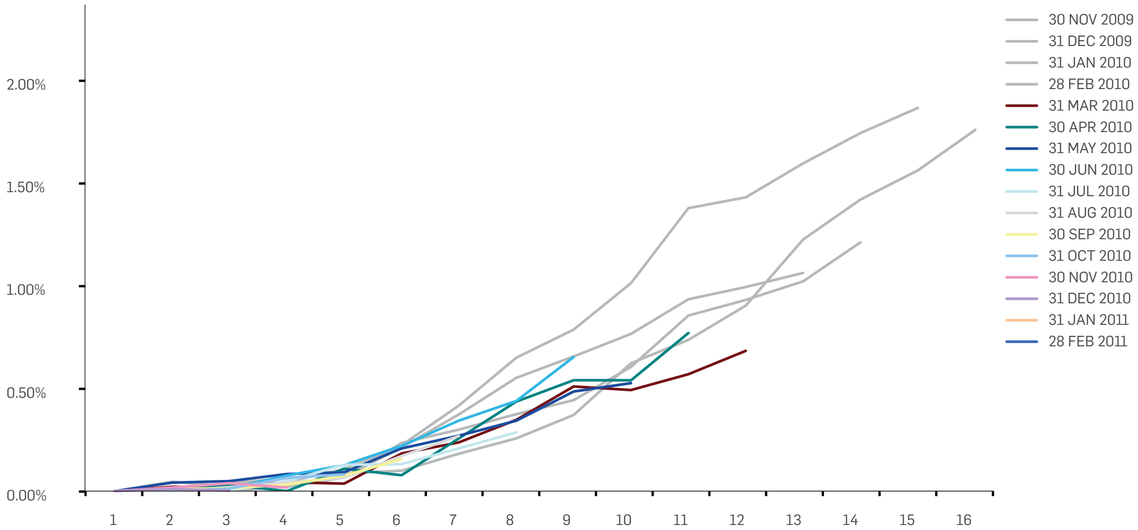
24 MONTH LOAN



36 MONTH LOAN



48 MONTH LOAN



Transacting services

Net transaction fee income grew by 80% to R532 million

Gross transaction fee income grew by 74% to R883 million due to increased client numbers and transaction volumes. Transaction fee expenses grew by 66% to R351 million.

From May to December 2010 clients paid zero fees for cash drawn at point-of-sale terminals. This promotion formed part of the continuing effort to encourage clients to utilise debit cards instead of cash for transacting.

Net transaction fee income covered 29% of banking operating expenses compared to 22% in 2010, and progress is being made towards the target of 40%.

The implementation of our acquiring strategy is progressing well and will continue.

Funding

Retail funding comprises 61% of total funding

Retail funding has reached the target of 60% of total funding and comprises 61% of funding compared to 49% as at February 2010.

Retail call savings deposits grew by 68% to R3.9 billion. The increase is a result of both the growth in client numbers and the average savings balance which grew by 21%.

Retail fixed savings products, with a maturity of up to 60 months, grew steadily from R1.1 billion at the end of February 2010 to R2.3 billion at the end of February 2011.

As at 28 February 2011 retail fixed savings comprised 37% (2010: 24%) of term funding. It remains management's goal to grow this percentage to at least 40%.

Fixed-term retail funding remains an attractive source of funding for the bank, specifically due to the lower pricing and refinancing risk, and the bank will enhance this offering by improving service functionality during the first half of the 2012 financial year. The average maturity of retail fixed savings as at February 2011 was 13 months.

Wholesale deposits grew R285 million to R4.0 billion. Two subordinated bilateral funding agreements for R100 million each, with a maturity of twelve years and an option to exit after seven years, were signed in August and September 2010. This funding qualifies as secondary capital at a 100% inclusion rate for seven years. Thereafter the inclusion rate will decrease by 20% per annum on funds not yet repaid.

Changes to the definitions of instruments that qualify as regulatory capital incorporated in the Basel III regulations, as discussed in the risk and capital management report, made it inefficient to issue subordinated debt after September 2010 and contributed to management's decision to issue preference and ordinary share capital.

Bonds issued under the Domestic Medium Term Note (DMTN) programme in the amount of R490 million mature in May 2011. These bonds will be refinanced and further amounts will be issued in terms of the registered R4 billion bond programme at this stage. In the latter half of the year further bond and listed short-term corporate paper issues are anticipated.

Liquidity

Immediate repayment of all savings deposits due possible

Management's liquidity philosophy remains cautious and conservative even though the bank's paper is well accepted in the wholesale funding market. The liquidity position as at 28 February 2011 is set out in note 27.6 to the annual financial statements.

At year-end it would have been possible to repay all deposits due immediately and throughout the year, on average within three days.

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.

Investments decreased by 24% to R989 million because more funds were invested in debentures and money market instruments as at February 2011. These instruments are included in cash and cash equivalents which increased by 11% to R2.8 billion.

Capital

Successful rights offer on ordinary shares raised R1.1 billion

The significant growth in the loan book, planned expansion of the branch network as well as the need to optimise the group's capital base made it imperative for the group to raise capital.

An issue of additional non-redeemable, non-cumulative, non-participating preference shares in September 2010 raised R104 million from a number of investors.

A partially underwritten renounceable rights offer to the ordinary shareholders of Capitec was finalised on 31 January 2011 and raised R1.1 billion in equity. In terms of the offer, 8 420 462 new ordinary shares were issued in the ratio of one rights offer share for every 10 Capitec shares held at a subscription price of 12 500 cents per rights offer share. As part of the underwriting agreement ordinary shares to the value of R100 million were issued to Sanlam Capital Management at 13 202 cents per share.

The return on ordinary shareholders' equity for 2011 is 34% compared to 32% for 2010. The ordinary shares issued in January 2011 will have the effect of reducing the return to shareholders in the coming financial year. The target return on equity remains 25%.

The risk-weighted capital adequacy ratio is 38% compared to 37% at the end of February 2010, reflecting the impact of the subordinated debt, capital raised and profit retained neutralised by the growth in the loan book.

Credit rating

Outlook remains stable

The long-term and short-term national scale credit ratings for Capitec Bank determined by Moody's Investors Services remain unchanged at A2.za and P-1.za respectively.

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

The outlook for these ratings remains stable.

Cost structure

Cost-to-income ratio of banking activities improved from 54% to 48%

Capitec Bank's branch network expanded from 401 branches at the end of February 2010 to 455 branches at the end of February 2011. A similar increase in the number of branches is planned for the next 12 months.

The ATM network has grown to 1 661 from 1 238 at February 2010.

Capital expenditure for the year grew to R235 million compared to R149 million in 2010 and is expected to increase in line with plans for expansion of the branch network during 2012.

Banking operating expenses increased by R445 million, mainly due to growth in the branch network, an increase in the staff complement at existing branches and the strengthening of support services. The cost benefit of the bank's technology platform and innovative business processes continued to manifest.

The group currently employs 5 331 people, an increase of 28% on 2010. Employment costs, including training and incentives, comprise 54% of operating expenses and contributed R278 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.

Management incentive schemes contributed R93 million to the increase in remuneration costs.

In financial years prior to 2009 executive and senior management participated in a share option scheme that was equity-settled. Since the 2009 financial year the scheme consists of cash-settled share appreciation rights and share options in equal proportions, and from the 2010 financial year the scheme is restricted to strategic management.

The inclusion of share appreciation rights in the scheme contributed significantly to the increase in costs because the expense associated with cash-settled share appreciation rights fluctuates based on the Capitec share price. The share price increased from R82.00 as at 28 February 2010 to R159.01 as at 28 February 2011, thereby increasing the expense for the year by R90 million.

The expense related to equity-settled share options which does not fluctuate with the share price remained stable at R12 million.

Senior management no longer participate in the scheme but qualify for a cash-settled performance bonus scheme. This scheme rewards managers based on the growth in headline earnings per share, and in order to foster a long-term approach by management the amount is paid out over a three-year period.

Training costs increased by 38% to R28 million. All new employees undergo an intensive period of in-house training before being deployed into the branch network. In order to meet the staffing requirements created by the growing branch network, training capacity was increased significantly during the financial year.

Continued emphasis on cost management reflects in the cost-to-income ratio of banking activities, which improved from 54% for the 2010 financial year to 48% for the 2011 financial year.

THE COST OF THE VARIOUS INCENTIVE SCHEMES RECOGNISED IN THE INCOME STATEMENT AND THE NUMBER OF PARTICIPANTS ARE DISPLAYED IN THE TABLE BELOW

		Strategic management	Senior management	Other employees	Total
Employees	**Number**	**10**	**74**	**5 247**	**5 331**
Share appreciation rights	R'm	86	35	–	121
Share options	R'm	5	7	–	12
Senior management performance bonus	R'm	–	17	–	17
Staff performance bonus	R'm	4	1	68	73
Total		**95**	**60**	**68**	**223**

Taxation

The total tax contributions paid over to government for the year amounted to R698 million compared to R432 million in 2010. 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. 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.

Dividend

No specific dividend policy exists as the board of directors considers the capital and funding requirements of the business before declaring dividends. The dividend cover for the past four years ranged from 2.6 to 2.5. Although capital was raised in January 2011, a dividend was recommended because the board believes that the shareholders should be rewarded for their support of the business.

André du Plessis
Financial director

The board believes the shareholders should be rewarded for their support of the business

Board of directors of Capitec and Capitec Bank

04

Non-executive

Michiel Scholtz du Pré le Roux *(61)*
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.

Markus Johannes Jooste (50)
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.

Tshepo Daun Mahloele (43)
BProc
Due to a very demanding schedule which made it difficult to devote sufficient attention to Capitec group matters, Tshepo decided to tender his resignations from the boards of Capitec and Capitec Bank. He resigned effective 18 January 2011.

Reitumetse Jacqueline Huntley (48)
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 Investements.

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

Petrus Johannes Mouton (34)
BComm (Maths)
Piet is the chief executive officer of PSG Group. He serves as a non-executive director on the boards of various PSG Group companies, including Paladin Capital, Thembeka Capital and Curro Holdings. He has been active in the investment and financial services industry since 1999.

Chris Adriaan Otto (61)
BComm LLB
Chairman of the remuneration and human resources 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 and Capevin Investments.

Independent non-executive

Merlyn Claude Mehl (68)
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.

Nonhlanhla Sylvia Mjoli-Mncube (52)
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 Hulletts and WBHO Construction.

Jan Georg Solms (56)
BAcc, CTA, CA(SA)
Johnnie has been a member of the JSE since 1981 and is a stockbroker and executive director of stockbrokers Independent Securities.

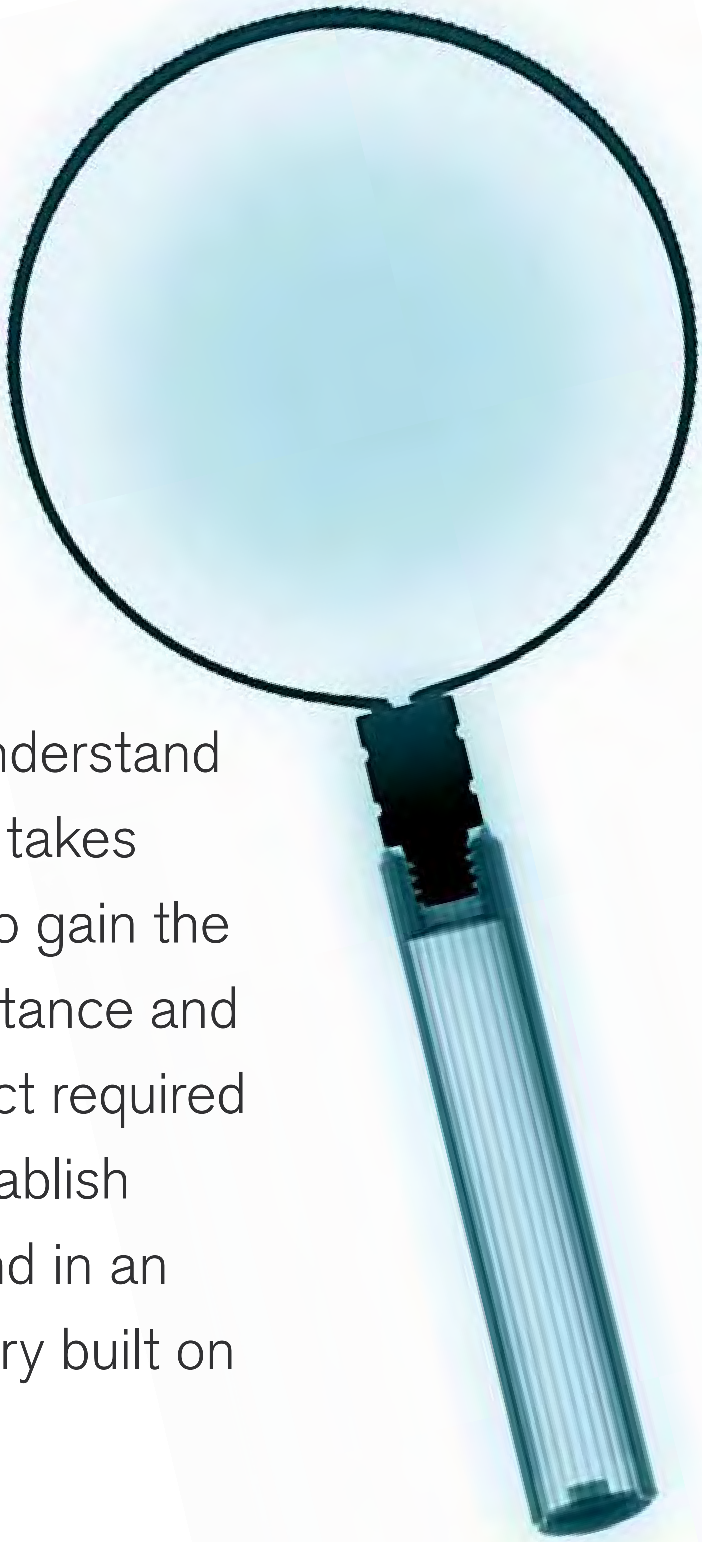
Jacobus Pieter van der Merwe (62)
BA, CTA, CA(SA)
Chairman of the audit committee
Pieter is an experienced retail banker. He commenced his career in banking as chief accountant at Boland Bank in 1974 after which he joined Volkskas Merchant Bank as general manager of finance in 1983. He joined Trustbank in 1990 and after the amalgamation of Bankorp and Absa he was appointed general manager of Commercial Bank, a division of Absa, responsible for Absa Western Cape (1995 – 1999). In 2000 he was appointed operating executive of this division. From 2001 to his retirement in 2006 he was an executive director of Absa, the last two and a half years of which he was responsible for group administration, information management, IT, credit and risk.

Executive

Riaan Stassen (57)
BComm (Hons), CA(SA)
Chief executive officer
Riaan joined Capitec Bank as the managing director in 2000 and was appointed chief executive officer of Capitec and Capitec Bank effective March 2004. He gained extensive experience in retail and banking and held senior positions in both environments. Riaan was awarded the Cape Times/ KPMG Business Personality of the Year award in 2007. The nomination criteria for this award included business and entrepreneurial excellence and outstanding company performance.

André Pierre du Plessis (49)
BComm (Hons), CA(SA)
Financial director
André joined Capitec Bank in 2000 as the executive: financial management and was appointed financial director of Capitec and Capitec Bank in May 2002. He has extensive experience in business advisory services, financial consulting and strategic and financial management. He was the chief executive of financial management of Boland PKS and NBS Boland Group from 1996 to 2000 and a partner at Arthur Andersen where he was employed from 1986 to 1996.

Executive management committee 05



We understand that it takes time to gain the acceptance and respect required to establish a brand in an industry built on trust

Riaan Stassen (57)
BComm (Hons), CA(SA)
Chief executive officer
See board of directors.

André Pierre du Plessis (49)
BComm (Hons), CA(SA)
Financial director
See board of directors.

Jacobus Everhardus Carstens (42)
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 (54)
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 (47)
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 (44)
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 (43)
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 (56)
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.

Ronel Prinsloo* (39)
BComm LLM
Head: complaint management
Ronel joined Capitec Bank in 2004 as head of employee relations and has since September 2010 been appointed as head: complaint management to launch Capitec Bank's complaint management department. During 2008 Ronel (and Capitec Bank) was awarded the Ombudsman for Banking Services Award of Excellence in recognition of the individual (and bank) that has excelled at dispute resolution for 2008. Before joining Capitec Bank, Ronel practised law as an advocate of The High Court in Cape Town.

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

Leonardus Venter (49)
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).

Craig Lester Williams* (32)
ND (Environmental health)
Senior training consultant
Craig joined Capitec Bank in 2001 as a trainer and is currently responsible for the sales consultant induction programme known as Firm Foundations. Previous positions include training officer at BoE Bank (2000 – 2001) and sales consultant at Pep Bank (1999 – 2000).

** There are two development seats on the executive management committee to allow suitable senior employees the opportunity to develop and gain experience at executive level. The incumbents rotate annually. In 2010 these positions were filled by Jennifer Coetzee and Gavin Roman. These individuals confirmed that they had gained valuable experience through their exposure at executive level. Ronel Prinsloo and Craig Williams were appointed to the committee on 15 February 2011.*

Corporate governance review 06

Capitec builds its corporate existence with emphasis on good governance

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 annual 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. The companies in the Capitec group and their respective boards and employees act in a disciplined manner, with transparency and independence. Emphasis has always fallen on substance rather than form.

Existing as a registered bank as well as a credit provider, the Capitec group is highly regulated. The group benefits from this as compliance with standards such as those set by King Code II and III follow 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 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.

Performance assessment

The board, as well as directors individually, and the various board committees are 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.

Corporate governance framework

Board of directors of Capitec and Capitec Bank

Risk and capital management* committee

Merlyn Mehl *(Chairman)*

Piet Mouton

Chris Otto

Pieter van der Merwe

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

Directors' affairs committee

Michiel le Roux *(Chairman)*

Jackie Huntley

Markus Jooste

Merlyn Mehl

Nonhlanhla Mjoli-Mcube

Piet Mouton

Chris Otto

Johnnie Solms

Pieter van der Merwe

Executive management committee

Audit committee

Pieter van der Merwe *(Chairman)*

Merlyn Mehl

Nonhlanhla Mjoli-Mcube

Johnnie Solms

Remuneration and human resources committee

Chris Otto *(Chairman)*

Michiel le Roux

Johnnie Solms

Internal audit

Compliance

Management committees reporting to the risk and capital management committee

ALCO

Capital adequacy

Liquidity

Interest rate

Market

Currency

Counterparty

Credit

Counterparty

Credit

Operational risk

Compliance

Human resources

Legal

Operational

Regulatory

Reputational

Business

Technology

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** MC Mehl NS Mjoli-Mncube JG Solms JP van der Merwe **Two executive directors** AP du Plessis (FD) R Stassen (CEO)	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 R Prinsloo* CG van Schalkwyk L Venter CL Williams*	Majority of members, including at least three of the following: CEO, FD, exec: risk management and exec: operations	Three times a week and an extended meeting once a month
3. Directors' affairs committee	Responsible for evaluation of board effectiveness, senior management and board succession planning and corporate governance	All non-executive directors	Majority of members	Twice a year
4. Audit committee	Oversees financial controls, reporting and disclosure	JP van der Merwe (Chairman) MC Mehl NS Mjoli-Mncube JG Solms **Independent attendee** HD Nel (external audit partner – PricewaterhouseCoopers) **Management attendees** J-HC de Beer (Compliance officer) AP du Plessis JJ Gourrah (Internal audit) R Stassen CG van Schalkwyk	50% but not less than two members	Three times a year

	Committee	Purpose	Composition	Quorum	Frequency of meetings
5.	Remuneration and human resources committee	Determines directors' and senior executives' remuneration. Levels of remuneration of all employees, adjustment thereof and, when applicable, additional remuneration such as bonuses and incentives, including share option incentives, are determined	CA Otto (Chairman) MS du P le Roux JG Solms **Management attendees** NST Motjuwadi R Stassen	Majority of members	Once a year
6.	Risk and capital management committee	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** JE Carstens J-HC de Beer 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

** Appointed on an annual rotation basis to the executive management committee from 15 February 2011*

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

ATTENDANCE BY BOARD MEMBERS OF MEETINGS HELD DURING THE YEAR UNDER REVIEW IS SET OUT BELOW

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

* *Attendance by invitation*
** *Mr Jooste was appointed on 28 January 2011*
*** *Mr Mahloele resigned on 18 January 2011*

Company secretary

The company secretary acts as conduit between the board and the group. Board administration, liaison with the Companies and Intellectual Property Registration Office and the JSE Limited 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 is dormant, with management officiating as directors (AP du Plessis and R Stassen).

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

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

The group governance framework permeates all subsidiaries.

Remuneration of directors and senior executives

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

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

- basic salary;
- an annual bonus to all employees based on the principle of 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.

Remuneration paid to executive directors is detailed in paragraph 7.4 of the directors' report in the annual financial statements. Non-executive board remuneration is based on a fixed fee structure, not related to attendance of meetings. The fees proposed for the 2012 financial year are set out in the notice of the annual general meeting and are subject to shareholder approval. Fees paid to the non-executive directors in the 2011 financial year are detailed in paragraph 7.4 of the directors' report in the annual financial statements.

Conflict of interest

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

Dealing in securities

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

Audit committee

The audit committee comprises four 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 on invitation.

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

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

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

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

Independent assurance

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

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.

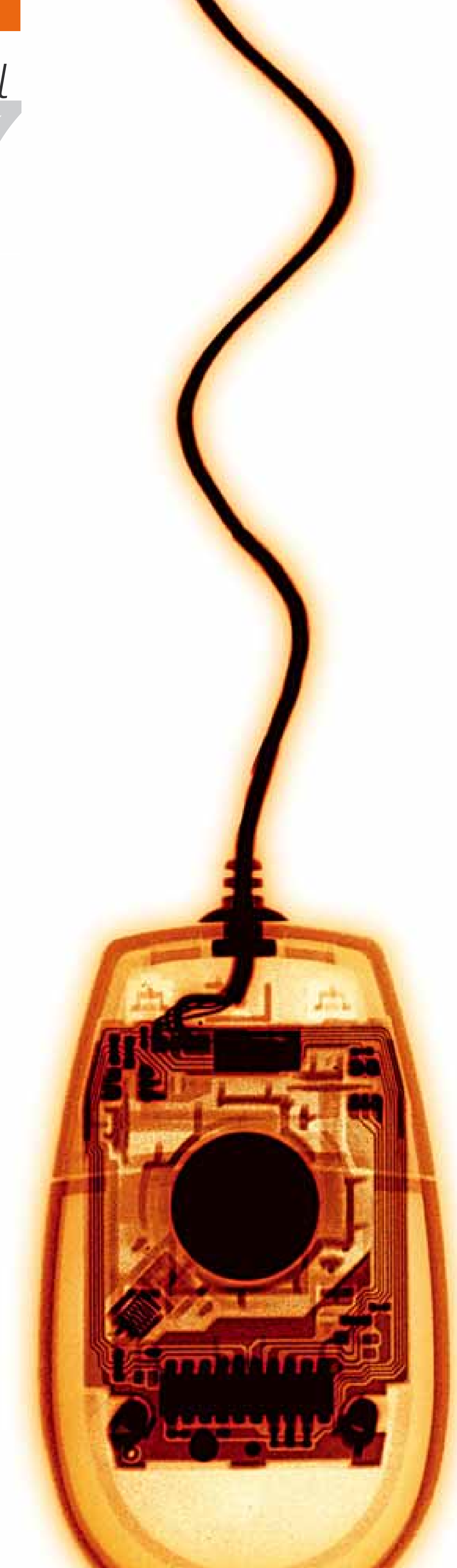
Scope of internal audit

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. In the developing environment of Capitec Bank, 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.

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

Risk and capital management review 07

Strong capital position, solid hands on risk management and effective internal risk reporting



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

Risk and capital management committee

The risk and capital management committee, chaired by an independent non-executive director, oversees risk management. The committee has a 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

Operational risk committee (ORCO)

– 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 39.

The biggest risks reside in liquidity, credit extension, information technology and human resources. Emphasis is thus placed on these areas.

However, to enhance shareholders' and other stakeholders' interests, all risks are mitigated to an acceptable level relative to the return generated by the activity concerned. This remains a central theme of the manner in which the business is conducted. The 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 the group 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. These new requirements followed a worldwide, comprehensive, quantitative impact survey of the effect on 263 banks. Capitec participated in this survey. The main changes on banks 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
- Minimum disclosures on remuneration practices.

The changes must be phased in over a period beginning in 2013 and ending in 2019.

These changes complement those issued by Basel in July 2009. The July 2009 changes have been incorporated in the draft amendment bill to the Banks Act, and demand more capital from banks with trading books and complex securitisation exposures as well as introducing minimum disclosure requirements for these items and other off-balance sheet exposures.

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 Accord 2010 changes	Impact	Comment
Tighter regulatory capital definitions	Minor	The impact on the current capital position is minimal as Capitec is well capitalised with high-quality capital instruments.
New minimum capital percentages and buffers	Minor	The impact on the current capital position is minimal as 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 easy compliance with the new liquidity standards.
Enhancing capital requirements specifically for derivatives, repurchase and securities financing transactions	None	These changes impact banks using the Internal Models Method (IMM) for market risk and who are active in financial market trading and market-making activities in derivatives, repurchase agreements and securities financing transactions. Capitec does not conduct financial market trading activities and does not apply the IMM for market risk.
Minimum disclosure on remuneration practices	Minor	We substantially comply with the new requirements under the existing IFRS reporting framework.

Basel Accord 2009 changes	Impact	Comment
Enhanced capital requirements for securitisations and financial market trading activities	None	Capitec does not conduct financial market trading activities or securitisations.
New disclosure requirements for securitisations, off-balance sheet exposures and financial market trading activities	None	Capitec does not conduct financial market trading or securitisation activities. All material off-balance sheet items are disclosed.

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.

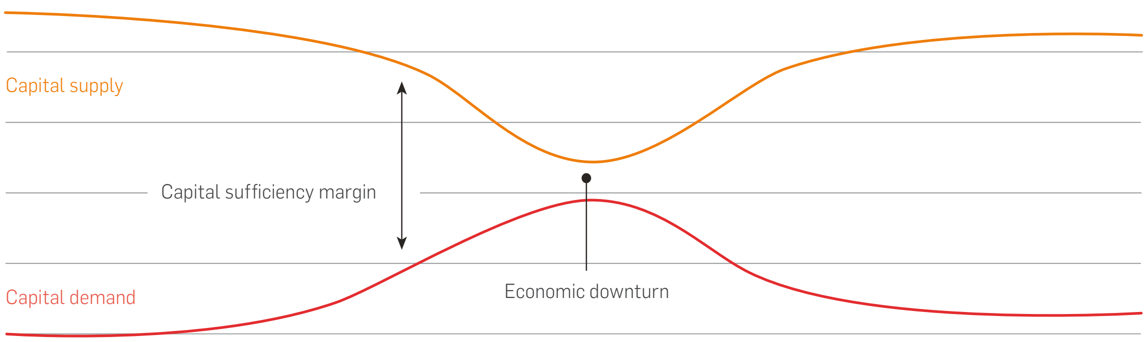
The group's principal policies when managing capital are:

- 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 responsible approach is compliance with the capital requirements of the Banks Act and the maintenance of a strong capital base to support the development and growth of the business.

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

CAPITAL SUFFICIENCY IN AN ECONOMIC DOWNTURN



Capital risk governance

ALCO considers reports on capital adequacy on a monthly basis. ALCO reports to the risk and capital management committee in terms of the risk management framework. Capital adequacy and the use of regulatory capital are reported monthly to the 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.

THE TOTAL REGULATORY CAPITAL REQUIREMENT REFLECTED IN TERMS OF THE BANKS ACT IS AS FOLLOWS:

	GROUP	
	2011	2010
	R'000	R'000
Total regulatory capital requirement	**2 602 586**	1 337 194
Credit risk – on balance sheet	**2 160 521**	1 080 536
Operational risk	**312 311**	160 463
Equity risk	**4 084**	4 186
Other assets	**125 670**	92 009
Property and equipment	**101 120**	76 667
Other receivables	**24 550**	15 342

Capitec internal capital adequacy assessment process (CICAAP)

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

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

Risk management is an integral element of the CICAAP given the interrelationship between capital and risk management.

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

Basel II calculation methods for credit and operational risk capital

The CICAAP involves assessing capital from a business and regulatory perspective. The regulatory capital requirement is calculated using a percentage applied on a base; that base being the risk-weighted assets of the business. There are various methods used for the calculation of risk 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.

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. Reporting of the ratio to the regulator is expected to commence mid 2011. Mandatory public disclosure 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.

Restrictions on the transfer of capital

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

Consolidation for purposes of determining group regulatory capital

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

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

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

New capital definitions

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"). 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 definitions have an immaterial impact on the Capitec capital position.

Other Tier 1 and Tier 2 instruments must now be "loss absorbent" not only on liquidation but also in the event of a bank bail-out by public state institutions. New capital instruments will need to make provision for this requirement to qualify as regulatory capital. This is a mimimum requirement for "internationally active" banks. However, we have taken a prudent view of this development in our capital planning activities, to allow for more stringent local application.

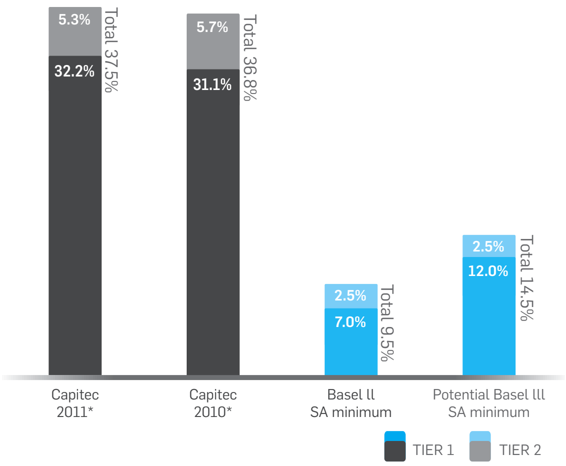
Basel has also enhanced the Pillar III disclosure requirements around capital instruments.

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 on page 53, Capitec is well positioned for compliance with Basel III capital rules.

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 minimums exclude 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 credit extention 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 28 February 2011.*

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.

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

ALCO receives reports on a monthly basis of daily balances on ATMs and funds in transit with cash management service providers, teller cash, call and fixed deposits and money market funds. Other reports include a cash flow forecast, 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.
- Utilisation of short-term retail deposit funding is limited to funding net short-term cash flows.
- Capitec has a very low appetite for risk as regards the investment of surplus funds awaiting application in the high-yielding retail loan portfolio. 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.

DIVERSIFICATION OF FUNDING SOURCES

2011	2010	
29%	26%	Demand deposits – retail
23%	18%	Equity – ordinary shareholders (listed)
17%	13%	Fixed-term deposits – retail
15%	22%	Fixed-term deposits – wholesale (listed)
7%	12%	Fixed-term deposits – wholesale (other)
4%	4%	Fixed-term deposits – wholesale (negotiable instruments)
3%	3%	Fixed-term deposits – wholesale (subordinated debt)
2%	2%	Equity – preference shareholders (listed)

- *Capitec has no exposure to institutional or corporate call accounts.*
- *Wholesale (listed) comprises domestic medium term notes listed on the Bond Exchange of South Africa. 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.*

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.

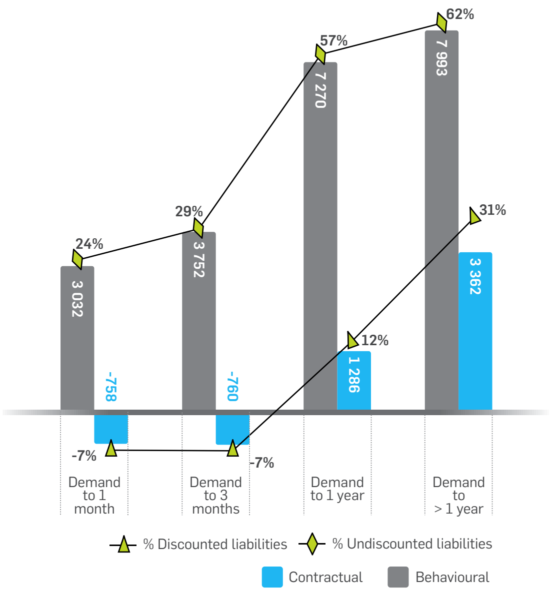
Daily rollovers and withdrawals by the retail market, growth in the loan book, inflows from settlements adjusted for expected default and cash-in-transit items are forecast. These are combined with the scheduled contractual cash inflows and outflows in terms of the wholesale funding programme, retail 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

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. 93% 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.*

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 treasury management and ALM policy to ensure a coordinated approach to liquidity management.

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, but reporting to the regulator is expected to start mid 2011.

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 that it complies comfortably with both new standards.

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. Equity investments at the 2011 year-end are a consequence of historical operational payment participation transactions. They are limited to investments in Visa and MasterCard. All unrealised gains and losses were included in the income statement. There are no latent unrealised gains or losses on equities not recognised in the income statement or statement of financial position. During the financial year ended 28 February 2011, the group did not invest in any listed equities.

Currency risk

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

REGULATORY SENSITIVITY ANALYSIS

	2011		2010	
	R'000	%	R'000	%
Sensitivity of equity				
200 basis points shift				
Increase	**(70 455)**	**(1.8)**	22 963	1.8
Decrease	**95 192**	**2.4**	(31 044)	(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.

Hedging

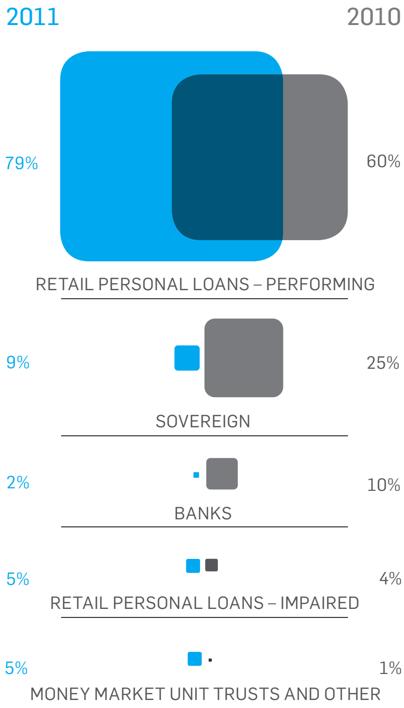
The authorised use of derivative instruments is restricted to their use in risk mitigation applications.

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

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]
	2011	2010	2011	2010	2011	2010	
Basel II exposure categories	R'000	R'000	R'000	R'000	R'000	R'000	%
Corporate [6]	135 251	188 814	616 875	75 472	616 875	75 472	100
Sovereign [7]	1 573 073	1 606 284	1 210 609	2 200 249	1 210 609	2 200 249	0
Banks (claims < 3 months original maturity) [8]	290 957	729 287	670 635	829 080	208 065	829 080	20
Banks (claims > 3 months original maturity)	–	20 062	–	–	–	–	50
Retail personal loans							
– performing[6]	8 872 841	4 530 663	10 253 849	5 236 428	10 253 849	5 236 428	75
– impaired [9]	461 227	314 763	625 831	350 001	625 831	350 001	100
On balance sheet	11 333 349	7 389 873	13 377 799	8 691 230	12 915 229	8 691 230	

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.

(6) 96% (2010: 73%) 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.

(8) Quantifying collateral in the form of highly liquid securities, arising from resale transactions, is deducted to arrive at post risk mitigation values. Most 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.

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

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

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

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

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

CREDIT RISK MANAGEMENT APPROACH

ACCEPT	**Credit assessment**	
	Granting policy:	Application processing with Sales and Services System
	Referrals policy:	Central assessment team (CAT)
	Economic reviews:	External publications and internal analyses
CONTROL	**Credit monitoring**	
	Regional support:	Investigations and adherence
	Pay date management:	Central and branch control
	Arrears follow-up with arrears web and Tallyman Central collections policy	
RECOVER	**Capitec collections service (CCS)**	
	• Hand over to collection agents (legal)	
	• Debt review and under administrations/ sequestrations	
	• Deceased and retrenchment claims	
	• Collection and agent management	
	• Court orders	
LEARN	**Decision support**	
	• Decision analytics	
	• Reporting, modelling and forecasting	
	• Scoring and rule validations	
CHANGE	**Development and change management**	
	• Coordinate projects	
	• Systems development and implement credit policy changes	
	• System optimisation, accuracy and efficiency	

Credit policies

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

Risk acceptance – Wholesale credit granting criteria

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 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.

Risk acceptance – Retail credit granting criteria

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 by bureau enquiry data and internal repayment records. Fraud checks are included.

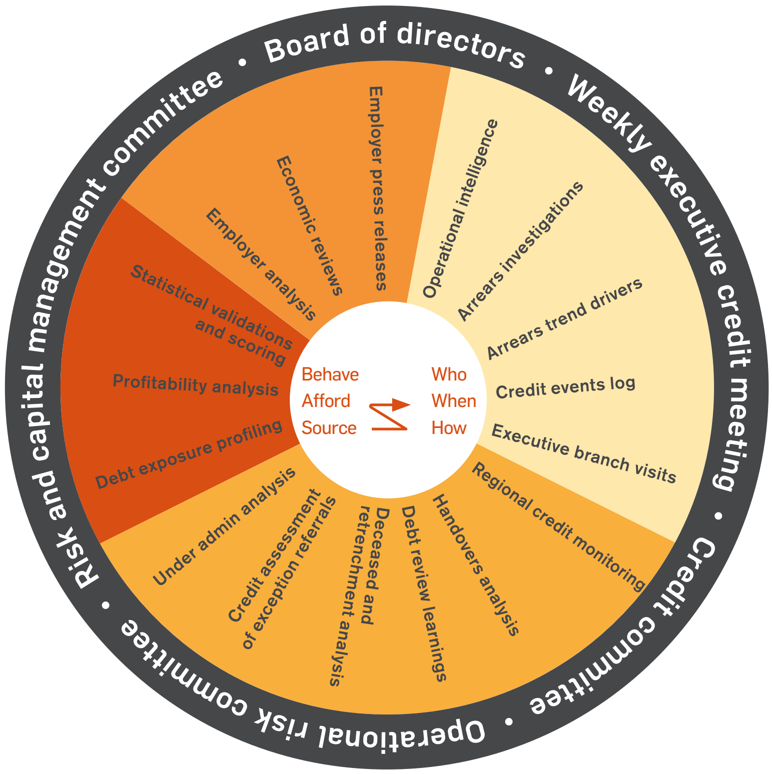
- *Affordability (ability to pay)*
  The ability to pay is assessed after authentication and capturing of the client's income, expenditure and financial obligation information, as prescribed by the NCA.

- *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.

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.

CREDIT RISK MANAGEMENT GOVERNANCE



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

Cumulative arrears figures for each tranche are tracked at 90 days or until the point of handover (deceased, retrenched, under administration, debt review, etc.) and divided into the total original instalments payable (late delinquency).

First-payment-default indicators and early delinquency trends are also tracked per tranche in the form of cascade matrices and graphs (same as vintage graphs but also for arrears categories earlier than 90 days plus arrears).

Risk control

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

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

- *Roll rate analysis*
  Arrears trends are monitored using observed roll rates, derived from payment profiles, generated by the loans system (the same payment profiles are submitted to the National Loans Register). These payment profiles form the basis of the loan impairment models and the unexpected loss 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.

Credit control

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

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

- *Late-stage collection*
  Late-stage collections are mostly performed centrally from our internal call centre, run on a best-of-breed collection system and predirective dialler.

Loss recovery

Legal collections are outsourced to various external debt collectors (EDCs)/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.

Provisions/Impairment recommendations

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

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 39). The operational risk committee (ORCO) has been established to oversee the operational risk profile of the group. The role of ORCO is to direct, govern and coordinate operational risk management processes in accordance with an approved policy that sets out the expectations and responsibilities relating to operational risk management. All divisional heads are members of the ORCO. 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 (including money-laundering control, financial advice and the new credit legislation awareness);
- safety and security services; and
- an insurance programme.

Operational risk trends are monitored and reported to the ORCO 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
- 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 at the ORCO. Risk and control self-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 rate due to occupational injuries and number of work-related fatalities per region are insignificant as the working environment is mostly office based.

At the Stellenbosch and Bellville campuses where on average 700 employees are aggregated, health and safety coordinators arrange the appointment and training of 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 the operational risk committee.

Reputational risk is managed on an ongoing basis through compliance with disclosure and communication policies.

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

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.

THE POLICY LIFE CYCLE

Business risk management

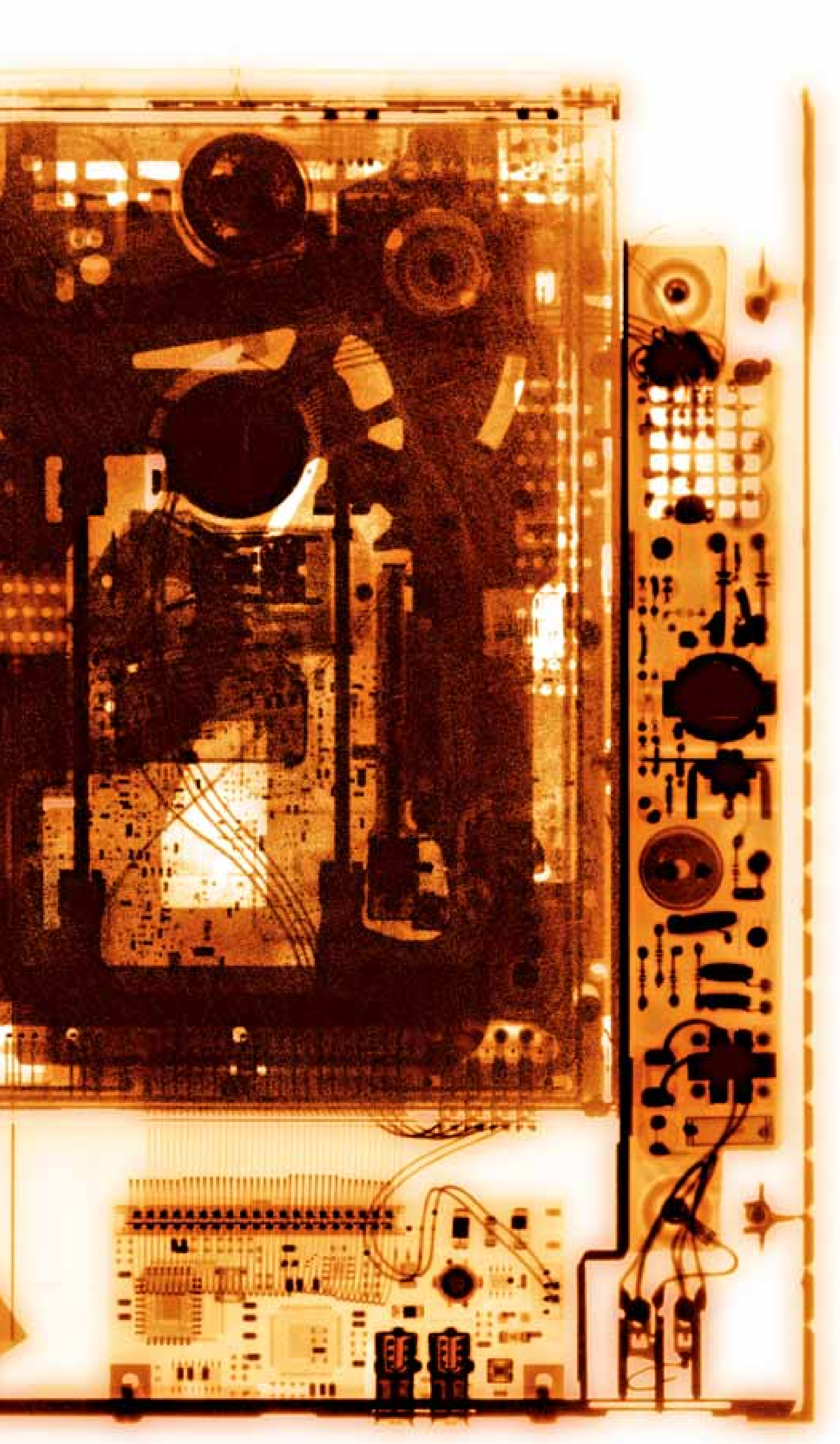
Business risk is the impact that fluctuations in earnings, driven by volume and pricing variances against historical and budgeted benchmarks, have on the group. Both positive and negative variances impact the business in various ways and must be managed. Business risk is impacted most significantly by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

Governance

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.



Basel III – Disclosures on remuneration practices

Basel is seeking greater alignment of remuneration practices with the quantum of risk and the risk emergence period of transactions concluded by bank employees. This is to avoid rewarding employees in the short term for transactions that have downside consequences in the longer term. Therefore Basel will in future issue minimum disclosure standards for bank remuneration practices.

Capitec has always adopted a conservative approach to the remuneration of key decision-makers. For key decision-makers, share options only vest over a four- year period, which only begins after a three-year period of uninterrupted service. Senior management on the senior management bonus plan have their annual bonuses vesting over a three-year period. This bonus is dependent on achieving earnings targets set by the remuneration and human resources committee. The deferred or non-vested bonus amount is subject to downward adjustment in future periods if negative growth in these earnings targets is experienced.

Further details of remuneration awards are included in the annual financial statements, specifically in notes 22 and 29.

Information technology

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 2010 showed that Capitec Bank managed to complete a successful switch of all critical and essential systems to the disaster recovery site, within the timelines that were agreed with the board and the industry. These tests were completed quarterly and are audited annually.

IT risk management, in cooperation with the operational risk manager, frequently review 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. During 2010 a lot of emphasis was placed on formalising and improving the card association compliance processes, and improving the effectiveness of the internal card compliance forum. This forum meets once a quarter with representatives from the card associations to discuss new compliance requirements and the status of compliance within the bank.

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 2010 Capitec Bank completed the process of formalising and improving the existing risk assessment and reporting processes, as well as aligning these processes with the operational risk reporting structures and models.

Key accounting policies relevant to the interpretation of risk exposures

The key accounting policies relevant to the interpretation of risk exposures are contained in the annual financial statements on pages 101 to 112.

Compliance officer's report 08

The compliance universe consists of all statutory and regulatory requirements of relevant legislation, regulations and industry codes applicable to the business and sound management of the group

Capitec has established a dedicated compliance function in the bank as prescribed by regulation 49 of the Banks Act, 1990 (Act 94 of 1990), as amended (the Banks Act). The compliance function manages 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 compliance function consists of a team of seven individuals. The head of compliance reports directly to the chief executive officer.

A compliance management system, which consists of a combination of a compliance champion structure and dedicated compliance management software, is in place and functioning. The compliance champions are senior managers who report to the executives of the different divisions of the bank. The compliance management software contains a core selection of legislation that is considered the most relevant for the bank. The software is utilised to assist with the identification of compliance objectives and assessment of compliance risks as well as 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 compliance officer reports to the audit committee at every meeting of this committee, and submits compliance reports to the audit and directors' affairs committees 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.

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

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

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

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

Head: compliance

Stakeholder review 09

The bank for all individuals that insist on simplified, affordable bank products

WHAT IS AT STAKE?

CLIENTS

Simplified solution to money management
• Lowest pricing in the market
• Real saving

EMPLOYEES

Empowerment through employment and professional development via skills training and access to tertiary training
• Employees trained – 5 903
• Value of training – R24.4 million • Bursaries granted – 81 • Employees promoted – 457

REGULATORS

Healthy banking system

SOCIETY

Access to an **alternative banking** offer
Global One – simplified money management
Multiple access points – 455 branches • 1 661 ATMs
• Point of sales at retailers • Internet • Cellphone
• Number of jobs created – 1 177 • Responsible, affordable lending – 5 471 000 loans granted

SUPPLIERS

Business opportunities
Value created – R806.2 million

SHAREHOLDERS AND INVESTORS

Wealth creation
• ROE – 34% • Annual dividends – 290 cents
• Shareholders' funds – R3.5 billion
Market capitalisation – R14.9 billion

GOVERNMENT

Economic welfare – increased employment
• Responsible credit granting
• Taxes – R698 million

Life consists of a network of interactions. Similarly, business exists because of a continuous interaction between demand and supply. Therefore business success is reliant on the well-being of stakeholders. It follows that we must know who our stakeholders are, what their needs are, their expectations with respect to Capitec Bank and how they perceive the bank. If we focus on these matters we are on a path to sustainable success.

Who are Capitec Bank stakeholders and how do we engage with them?

Clients

Simplified –

Through the Global One account Capitec Bank's clients have a single entry point through which they can transact, save and obtain credit. Similarly, a single gold debit card allows the client access to all these functionalities.

Affordable –

Capitec Bank is well known for the fact that it offers clients the best prices in the market. In 2011 the bank announced that it will not be increasing its transaction fees.

Accessible –

The Capitec Bank maestro debit card is a transaction card that can be used to withdraw cash at any ATM or point of sale at Pick n Pay, Pep Stores and Shoprite/Checkers. Capitec Bank has 455 branches throughout the country. Internet bank services ensures that the Global One account is accessible even from home.

Personalised –

At Capitec Bank it is all about knowing the client and giving him/her the personal service he/she deserves. Because any retail business is driven by service, great emphasis is placed on it during training sessions. The

2011 drive of the business is service to enhance the Capitec Bank offer to its clients.

Emphasis is put on two-way communication – increasing public awareness of the Capitec Bank offer and finding out what clients want, like and dislike.

Media output

- Our TV, print, radio and billboard advertising communicates brand benefits to the public and clients.
- We use social media like Facebook and Twitter to push and stimulate discussions around brand benefits. Topics raised by clients and the general public are answered and steered in a positive direction. Relevant queries and concerns are taken into senior management discussions.

Research

- Research is done by ACNielsen on an annual basis to measure awareness levels and understanding of the brand and specific benefits.
- Research by Millward Brown is used to measure the effectiveness of TV campaigns in terms of recall and message take-out.

Queries and complaints at BSC

- Our call centre at BSC (Business Support Centre) handles all queries and complaints, including those from the ombudsman and the Hello Peter complaints website. Regular reporting is done and serious issues are escalated to senior management.

Call centre and service monitoring

- An outsourced call centre monitors our service delivery in-branch and at BSC on a continuous basis.
- This call centre also phones clients with sales offers and records client feedback on our offer.

Business intelligence

- The business intelligence department does in-depth data analysis on all clients, their banking profiles and behaviour.

Capitec Bank launched a dedicated complaint management department on 1 December 2010, with the brief to deal with client complaints that could not be solved in the normal course of Capitec Bank's business processes. The team consists of complaint management officers who are equipped to find alternative solutions for frustrations that clients may experience when dealing with Capitec Bank. The goal is to improve service and avoid time-consuming and costly legalities. The department is also tasked with reporting on the full picture of Capitec Bank complaints received with the aim of identifying opportunities to improve our overall service delivery.

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 R1 million and is only available to natural persons, which form the basis of Capitec Bank's clientele.

Capitec Bank aims to provide each and every client with an excellent client 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

Employee health, wealth and happiness is an important driver in business success. Employees are thus actively engaged on various levels to enhance understanding of their needs.

Employee concerns

- The 2010 Employment Equity Forum dealt with:
  - employment equity targets;
  - concerns regarding benchmarking of salaries;
  - frustrations experienced regarding recruitment and selection;
  - matters pertaining to gender and religion; and
  - skills development requirements of employees.
- C.Connect – a Facebook-styled in-house blog platform has been implemented to allow employees 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.
- Summit – a financial well-being project is currently being piloted at our business support centre (BSC). No results are as yet available.
- A helpdesk facility at the BSC provides realtime assistance to branch employees who have queries or difficulties while serving 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.
- Employees have the opportunity, through a user input invitation process, to make enquiries about, and submit comments on, company policies and procedures. A dedicated email address has been established to facilitate this procedure.
- Managers from the operations department as well as Riaan Stassen, the chief executive officer and Gerrie Fourie, the operations executive, regularly visit branches to interact with branch employees. During these visits they invite employees to discuss matters of concern with them.

Employer communication

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

- *C.Facts* – facts and newsworthy information.
- *C.Alert* – mainly 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.
- *Service newsletters* such as *Ecobuzz* are used to educate and inform employees on environmental issues.

Other platforms for two-way communication include –

- National branch manager conference where 665 employees (2010: 540) gathered and interacted with line managers and senior management. This event is used to keep the branch network informed about the strategy for the coming year.
- Biannual results presentations by the chief executive officer and financial director to employees at the main office in Stellenbosch as well as at the regional offices. At these events employees have opportunities to raise issues and discuss issues with management either on a one-on-one basis or during the presentations.

Regulators

Regulators play an integral role in the continued sustainability of the financial services industry.

The South African Reserve Bank (SARB) is one of the most significant regulators of the Capitec group and more specifically the bank. Management and the board endeavour to maintain a transparent relationship with the bank supervision department and regular meetings are held to facilitate clear understanding of Capitec expectations on the one hand and regulatory expectations on the other.

Since Capitec Bank became a member of the Payment Association of South Africa (PASA) in 2001, the bank has participated actively to facilitate the creation of an effective payment environment to be able to provide appropriate payment services to our clients. The bank appointed a councillor to the PASA council and the current chairman of PASA is also from Capitec Bank.

To provide payment products to our clients we have to be a member of PASA. The SARB through its national payment system department, is the overseer of the payment system and the bank liaises regularly with the regulator on payment industry matters. Capitec Bank also regularly engages with the financial surveillance department regarding exchange control matters.

The bank's interaction with the Banking Association of South Africa has been concentrated on dealing with the recommendations arising from the Competition Commission's banking enquiry into competition in retail banking which included items such as the drafting of a new Code of Banking Practice which is due early in 2011.

After the said banking enquiry we experienced that the banking industry found itself in a state of paralysis and in our opinion was being overly cautious in dealing with each other. To avoid seeking continuous external legal council on competition matters, Capitec Bank made a decision to engage directly with the Competition Commission in open debate and through the Commission's process of giving advisory opinions. We believe this engagement will provide the bank with clarity that will enable it to engage with the other retail banks to bring about affordable and better service to our mutual clients.

The credit industry is regulated by the National Credit Regulator (NCR). As a participant in this industry, Capitec Bank, similar to other credit providers, prepares regulatory reports for the NCR. This information is used by the NCR to compile valuable credit industry reports and statistics. The NCR also performs site visits from time to time to assess Capitec Bank's credit processes.

Society

Communities as a whole were not engaged. This does not infer, however, that communities are not recognised as important stakeholders of Capitec Bank.

Through the Capitec Bank offer, communities have access to affordable bank products

All individuals need easy access to everyday banking facilities at affordable prices. This is Capitec Bank's offer to society and as such supports sustainable existence of communities and therefore the continued existence of Capitec Bank. All individuals have easy access to the facilities offered by Capitec Bank, be that by internet, debit card at transaction points or positioning of its branches that are located where the majority of the Capitec Bank client base live, shop, work or commute. Capitec Bank's mobile banking offer is aimed at alleviating the frustration full-time workers experience to do their banking during normal business hours. This service brings the bank to the worker at his workplace, thereby negating absenteeism resulting from workers having to go to a bank that is frequently not close by. The efficient systems and processes employed at Capitec Bank ensure that transacting, saving and credit products have become more affordable and convenient. Individuals can now save even small amounts and earn interest that will actually grow that saving. A balance in excess of R900 will return more interest than the monthly fee which is better than any comparable product at competitors.

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

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

Capitec has and continues to create a significant number of jobs

Due to significant organic growth since inception in 2001, employee numbers in the group have grown from 1 265 individuals to 5 331 at 28 February 2011 (2010: 4 154). Capitec has contributed 4 066 jobs to the South African economy during this period, and 1 177 over the period under review. On average, 160 new employees were appointed per month. Remuneration paid to employees in the 2011 financial year amounted to R948 million (2010: R677 million). Strategy strongly promotes that branch employees be recruited from the communities or from as close as possible surrounding areas that the branches serve to ensure that employees are fluent in the language spoken in the communities that they serve. Remuneration earned can thus be ploughed back into the communities where clients and employees of Capitec Bank live.

Suppliers

We strive to maintain close relationships with suppliers so that issues that may arise can be dealt with immediately. Suppliers are appointed in accordance with a formal procurement policy. There were no significant issues raised by suppliers in the period under review that may have required management intervention.

Business opportunities increase significantly for suppliers as Capitec Bank continues to grow. Capitec Bank's procurement spend in 2011 was R806.2 million (2010: R589.1 million). BEE spend in 2011 amounted to R639.8 million (2010: R407.3 million).

Capitec Bank achieved a broad-based black economic empowerment preferential procurement recognition level of 80% in 2010.

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.

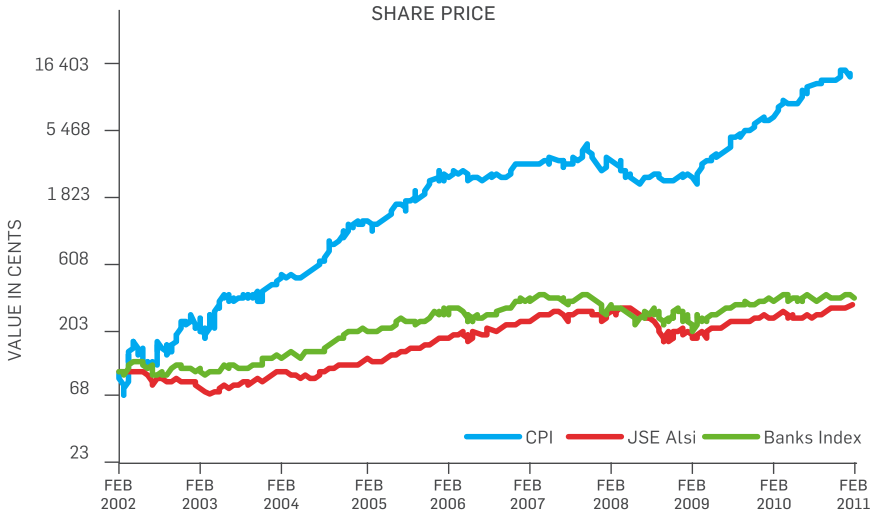
Shareholders and investors

Capitec was rated number one in the annual Sunday Times Business Times Top 100 Companies survey for 2010. The ranking was based on JSE-listed companies that have earned the most wealth for their shareholders through means of share price increases and dividends paid out.

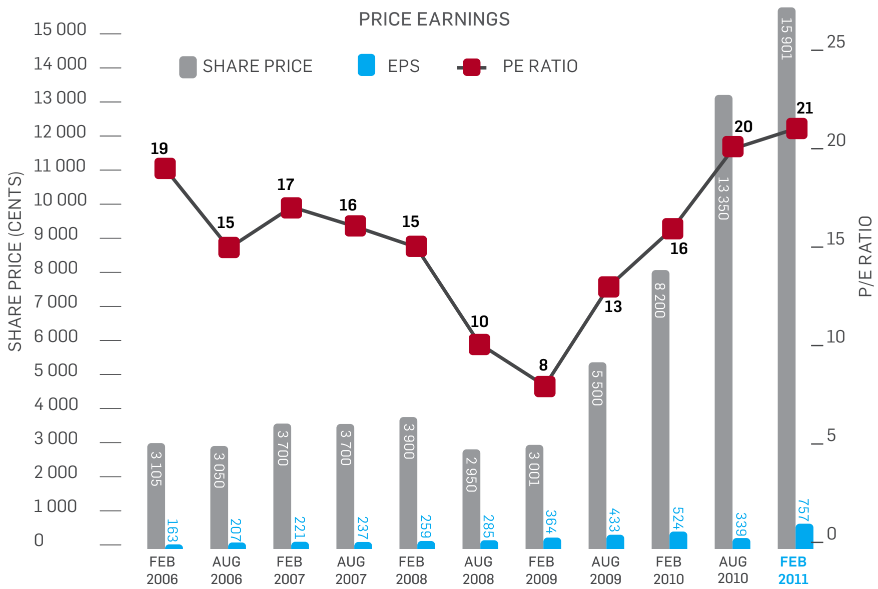
Investor engagement and communication

- Annual and interim results are published on the JSE SENS and in the media, generally within 35 days of the half-year and year-end. Relevant financial statements are distributed to shareholders within the regulatory timeframe.
- The capital adequacy of Capitec Bank is reported, as required in terms of regulation 43 of the Banks Act, to the public on a quarterly basis via SENS and the Capitec website (www.capitecbank.co.za).
- To ensure transparency, information pertinent to Capitec's business and relevant to shareholders and the general public is announced on SENS as and when deemed prudent. As an example, Capitec issued trading updates in August 2010, leading up to the interim results announcement at the end of September 2010, and similarly at the beginning of February 2011, prior to the year-end results announcement on 30 March 2011 so as to ensure that shareholders are kept informed as regards earnings expectancy.
- After the year-end and half-year results announcements, presentations are made to the media, funders and financial analysts. In addition, one-on-one discussions are held with analysts, asset managers and other market leaders. These presentations serve to inform and update the investment community and funding providers with recent and relevant information pertaining to the company and afford them the opportunity to raise concerns. Capitec has open communication channels with funders and regular informal contact is made with funding providers during the year.
- Salient details of dividends are published on SENS and in the media and when not included in the annual and interim reports, a leaflet detailing this information is posted to all shareholders.
- A wealth of information is available on the Capitec website (www.capitecbank.co.za) that covers issues of interest to stakeholders. Enquiries are lodged via the contact email address, enquiries@capitecbank.co.za. An employee has been tasked with the responsibility to direct any queries received via this email address to the relevant department.
- Shareholder queries are dealt with one-on-one by the secretarial department.
- Annual general meetings – In addition to distributing the notice of the annual general meeting (AGM) to shareholders, all beneficial holders of ordinary shares in Capitec are personally invited to attend this meeting. As a result, the AGM has grown from strength to strength with 197 attendees, including 100 members, present at the 2010 annual general

Performance on the JSE



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



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 2011.

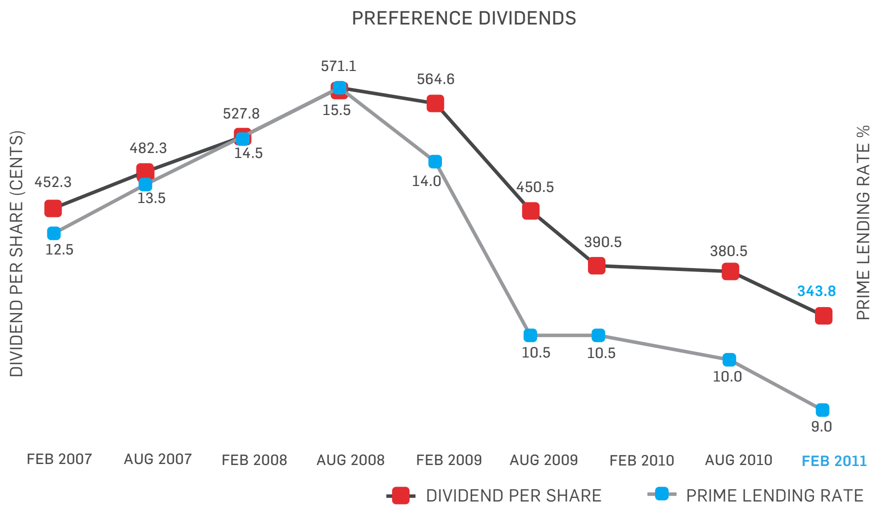
meeting. These members represented 80% of the issued ordinary share capital of Capitec and proxies to the chairman represented 6%. The event is used to present shareholders with an update on the activities of Capitec and its performance over the past year. Directors and members of management are approached more freely on a one-on-one basis after the closing of the meeting with questions; in the past shareholders seemed to prefer not to ask questions from the floor.

Broad-based black economic empowerment

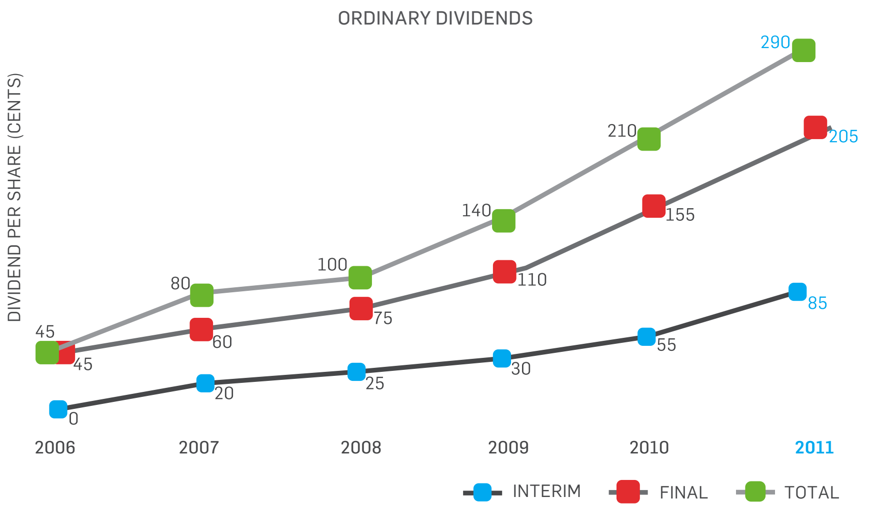
The Capitec group subscribes to the Codes of Good Practice issued under the Broad-Based Black Economic Empowerment Act (Act 53 of 2003) (BBBEE Act). The Capitec Bank scorecard has been verified by Emex Trust and in terms of the verification, the bank is a level 5 contributor and received a BEE preferential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

Ownership

BEE partners of Capitec (refer to the organogram on page 4 to identify these shareholders) have been empowered through agreements in 2004 and 2007 respectively in terms of which Capitec issued ordinary shares to them.



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.



The graph above shows the steady growth in dividends paid on Capitec ordinary shares over the past six years. The board has deliberately not set a dividend policy as it considers the capital and funding requirements of the bank before declaring dividends. The dividend cover over the past four years has ranged from 2.6 to 2.5.

Thembeka Capital

In 2004 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 R229.9 million.

Coral Lagoon

In 2007 Capitec issued 10 million shares in its ordinary share capital to Coral Lagoon at R30 per share. At year-end, this investment was worth R1.6 billion.

Employee share purchase scheme

In 2003 the board of Capitec Bank established the employee share purchase scheme in terms of which all permanent employees are enabled to become co-owners in Capitec. In terms of the scheme, the bank subsidises share purchases by participating employees with 20%. In addition, the bank carries the transaction cost for share purchases as well as the monthly carry cost. As many as 1 128 employees have acquired 0.69% of issued Capitec ordinary shares through this scheme to date. At year-end 644 employees held shares in the ordinary share capital of Capitec through this scheme.

Employee empowerment trust

At the time of the above stated Coral Lagoon issue, the board of Capitec approved the establishment of the Capitec Bank Group Employee Empowerment Trust. This trust holds a 5% interest in Coral Lagoon. Participating employees, i.e. employees that were in the employment of Capitec Bank at the time of the issue, have to date received in aggregate R14.1 million in proceeds resulting from the growth of the value in the Capitec shares.

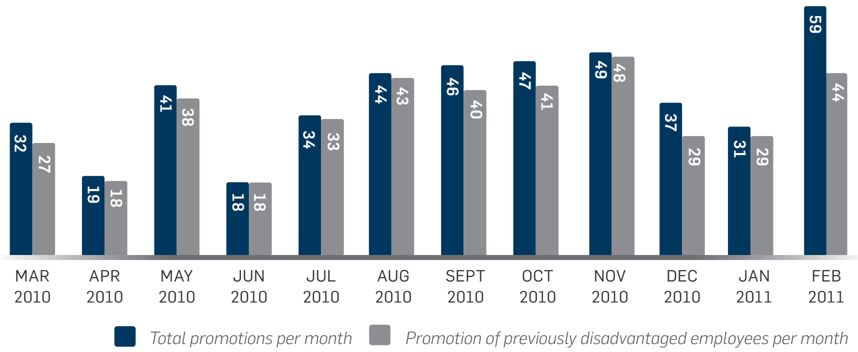
Management and control

Capitec Bank has since its inception in 2001 focused on empowering employees through a process of leadership training and performance management. All employees' performance is managed formally on an annual basis, and in the operations division, branch employees' performance is monitored on a quarterly basis.

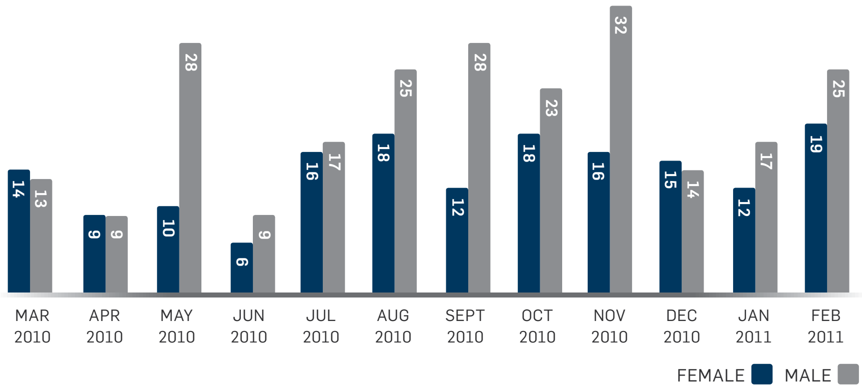
In 2008 a development programme was introduced in terms of which two employees are appointed to the executive management committee on an annual rotation basis. At least one of these employees is a previously disadvantaged individual. All the individuals that have been appointed in this position have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

Emphasis is placed on promoting employees that show potential within the bank. Those performing suitably are identified and fast-tracked for promotion. The performance management system forms a key part of the bank's philosophy of continuous employee development and improvement. During the year under review, 457 employees were promoted.

TOTAL PROMOTIONS DURING THE YEAR UNDER REVIEW



PREVIOUSLY DISADVANTAGED PROMOTIONS PER GENDER



Employment equity

Capitec Bank takes employment equity seriously and has contributed significantly to the employment of women and other previously disadvantaged individuals since its inception.

Current Capitec Bank permanent employee corps that is considered previously disadvantaged	**85.6% (2010: 86.2%)**
Total women	61.8% (2010: 60.5%)
Previously disadvantaged women	55.3% (2010: 40.6%)
Previously disadvantaged men	30.3% (2010: 22.4%)
Percentage of individuals that are appointed every month that are considered previously disadvantaged	85.9% (2010: 88.7%)

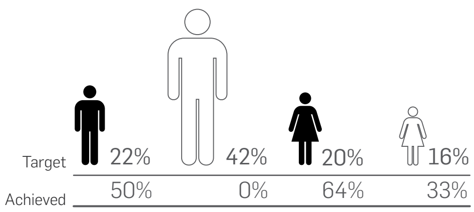
CAPITEC BANK WORKFORCE

	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	5	0	51	2	1	0	5	2	0	**69**
Middle management	29	22	7	119	16	10	2	45	2	0	**252**
Junior management	209	107	22	112	234	123	24	146	1	2	**980**
Semi-skilled	757	222	33	57	1 585	427	50	91	3	2	**3 227**
Unskilled	19	2	0	0	27	3	0	0	0	0	**51**
Total permanent	1 018	359	62	351	1 864	564	76	288	8	4	**4 594**
Temporary employees	2	5	0	3	3	5	0	12	0	0	**30**
	1 020	**364**	**62**	**354**	**1 867**	**569**	**76**	**300**	**8**	**4**	**4 624**

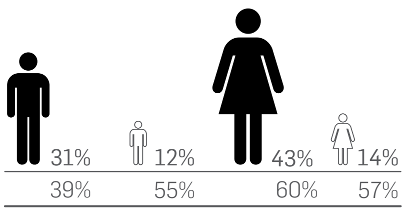
The Capitec Bank workforce per occupational level according to gender and race as at 31 August 2010 as required in terms of section 22 of the Employment Equity Act, 1998 (Act 55 of 1998).

Targets have been set for 31 August 2011 for growth in employee base in line with the growth of the bank and to ensure increased compliance with the employment equity requirements of labour legislation. By year-end, the bank was satisfied that it was well on its way to achieve these targets as submitted to the department of labour. Management positions are filled through both external recruitment and internal promotion, with emphasis on the latter. At 28 February 2011 appointment at managerial level was to a greater extent on target.

Middle management



Junior management



BREAKDOWN OF BANK WORKFORCE ACCORDING TO GENDER AND AGE GROUP

	< 30		30 – 50		> 50		Grand Total
Level	Female	Male	Female	Male	Female	Male	
Top management	–	-	1	9	–	5	15
Senior management	–	1	8	60	1	15	85
Middle management	13	22	66	159	4	6	270
Junior management	262	207	345	283	9	8	1 114
Semi-skilled	2 024	972	466	225	10	7	3 704
Unskilled	26	18	–	1	–	–	45
Grand total	2 325	1 220	886	737	24	41	5 233

In the various occupational levels, employees are treated equally and fairly. Employees are entitled to a number of benefits offered by the bank.

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

Skills development

Altogether 5 903 employees were engaged during 2010 in learning and development through electronic, classroom and in-branch training. This was spread through all departments and at every job level in Capitec Bank.

Learning intervention	2010	2011
Firm Foundations	1 217	**1 700**
Operations	666	**303**
BSC	468	**1 895**
Campus	529	**528**
Sales	207	**304**
Projects	526	**1 173**
Total	3 613	**5 903**

Distance learning		
E-learning	73	**51**
Coaching for Competence	37	**36**
Total	110	**87**

Rand value invested in training employees (R million)	R17.6	**R24.4**

Bursaries		
Enrolled	51	**81**

Preferential procurement
Refer to page 75.

Enterprise development
Capitec Bank is satisfied that it has been able to maintain a full score for enterprise development on its BEE scorecard. This has been achieved through financial support extended to empowered suppliers.

Socio-economic development
Unfortunately the BEE scorecard does not take into account the significant upliftment made possible by the Capitec Bank business model (refer to the exposé under society above). As detailed under corporate social investment below, Capitec Bank continues to focus on financial education as it is clear that there are shortcomings in South Africans' attitude towards personal finance.

Corporate social investment programmes (CSI)

Capitec Bank's CSI initiatives are aligned with South Africa's transformational challenges which include job creation through investment in further education and skills development programmes.

The main focus of the Capitec Bank CSI programme is financial literacy.

Financial skills programme
A percentage of the bank's CSI budget is allocated to its financial skills programme which is offered to businesses and communities. The bank believes that, regardless of a person's technical skills, everyone needs budgeting skills, a financial and retirement plan, etc. There is a critical need for ancillary educational life skills, and the workshops are suited for all people. The theory is backed with practical and relevant examples covering daily issues.

The financial skills programme consists of a short course in personal financial skills and workshops that are based on the short course.

The short course is presented by the Centre for Business Management at the University of South Africa (Unisa) on NQF level 5, and students earn 12 SAQA credits.

The workshop is a structured, targeted education and learning programme intended to support national initiatives such as the National Skills Development Strategy.

Community projects in 2010
Expanded Public Works Financial Literacy programme
Capitec Bank was the co-sponsor for the Expanded Public Works Financial Literacy programme (EPWP). The EPWP is one of the South African government's short-to-medium-term programmes aimed at reducing unemployment through the provision of additional work opportunities and skills training.

The literacy programme's objective was to equip Women in Construction participants with the financial literacy tools needed to run their business better and become profitable. More than 160 women from the Overberg and Cape Winelands region benefited from this initiative.

Teach Children to Save
Capitec Bank supported the national Teach Children to Save (TCTS) initiative. Representatives from the bank gave interactive presentations on money and saving to Grade 4 – 7 learners at schools across the country.

Donations
A percentage of the bank's CSI budget is allocated towards donations for social and community development initiatives as well as health initiatives. Organisations that we supported last year include the Carel du Toit Centre for hearing-impaired children, Kos vir skole (Food for

schools) and MaAfrika Tikkun, a non-governmental non-profit organisation that cares for vulnerable children and orphans in townships ranging from one to 19 years of age, as well as their guardians.

No donations were made to political parties in the 2011 financial year.

The environment

All companies have an impact on the environment, however limited that may be. Capitec Bank's impact on the environment is limited because it provides credit to individuals only. The bank does not own the properties it operates from. Branches are located in previously built-up areas so that biodiversity is not impinged upon. Its consumer-driven approach and dependence on supplier products, however, do result in an indirect impact on the environment.

The Capitec Bank environmental policy as more fully disclosed in the 2010 annual report dictates conservative use of natural resources and recycling. A process has been set in motion to calculate Capitec Bank's carbon footprint; the calculations are currently based on assumptions. The process to extract the data required for the calculations needs to be streamlined to ensure reliable data before the results can be published.

Use of natural resources	2009	2010	2011
Paper usage (reams per annum) measured per employee	24.5	21.5	**23.6**
Fuel consumption* measured per employee (l)	142.5	138.5	**127.2**

** Fuel consumption is calculated based on employee claims for business kilometres travelled using own vehicles, company vehicles, car rentals for business travel and generator fuel.*

Paper usage increased by 10% during the year under review; however, this must be seen against the following background:

- Increase in number of branches: 13%
- Increase in number of clients: 33%
- Increase in number of employees: 32%

Fuel consumption has reduced by 8%.

Availability of electricity is a major concern to Capitec Bank. As a result, the main environmental focus is on energy conservation.

An energy audit at the end of 2009 indicated a number of ways to save energy. Not all suggestions were feasible; however, a programme has been set in place at the Stellenbosch campus to reduce energy consumption. Once proved successful, similar programmes will follow at other major Capitec Bank centres. We continuously seek new technology and proven methods of achieving this end.

All incandescent lighting at the Stellenbosch campus has been replaced with CFL (compact fluorescent light) luminaries to achieve savings.

Modern technology is applied in the server environment to minimise energy consumption. The continued deployment of virtualisation technology in the enterprise server environment created an average saving of 57%[(1)(2)] in cooling requirements and energy consumption during 2010. Due to limitations and additional infrastructure deployed to fulfil requirements, this saving is lower than the projected 68% saving in cooling requirements and 80% saving in electricity consumption that was anticipated in the previous year. The current estimation for 2012 is that this saving will grow to 63%.

Notes:

[1.] *A standard server configuration was used as a benchmark for calculation.*

[2] *Percentages are based on maximum utilisation of server hardware.*

A feasibility study is currently in progress to determine whether the following measures will indeed reduce power consumption.

- Replacing geysers with instant water heaters or in certain cases fitting timers on geysers as well as thermal blankets.
- Building management control realtime reporting and management of power consumption.
- Circuit breakers with ethernet ports that will interface with the building management software to provide realtime data on power usage, allowing Capitec Bank to shed load as required.
- It is calculated that LED (light emitting diode) lighting changes can save approximately 14kWh per month or a saving of 73% of the current lighting demand, which accounts for 28% of the total kWh used at the facility, therefore achieving an overall saving of approximately 15% of the total power consumption.
- PLC (programmable logic controller) load shedding of air conditioners, specifically programmed to shed demand to ensure the availability of power to the data centre and cost saving overnight.

The target is to reduce energy consumption by 19% over the next three years using the above measures. Unfortunately, as employee numbers continue to grow in line with business growth, this figure may come under pressure. In a business such as Capitec Bank there is very limited scope to reduce electricity use.

Recycling

Employees are required to recycle paper in special paper bins and are encouraged to use special bins provided for recyclable materials. Agreements are in place with various companies to facilitate recycling of discarded equipment and materials:

Lexmark – printer cartridges

Desco – redundant PCs, printers and laptops

Nampak – paper

EPS – polystyrene cups, tins, etc.

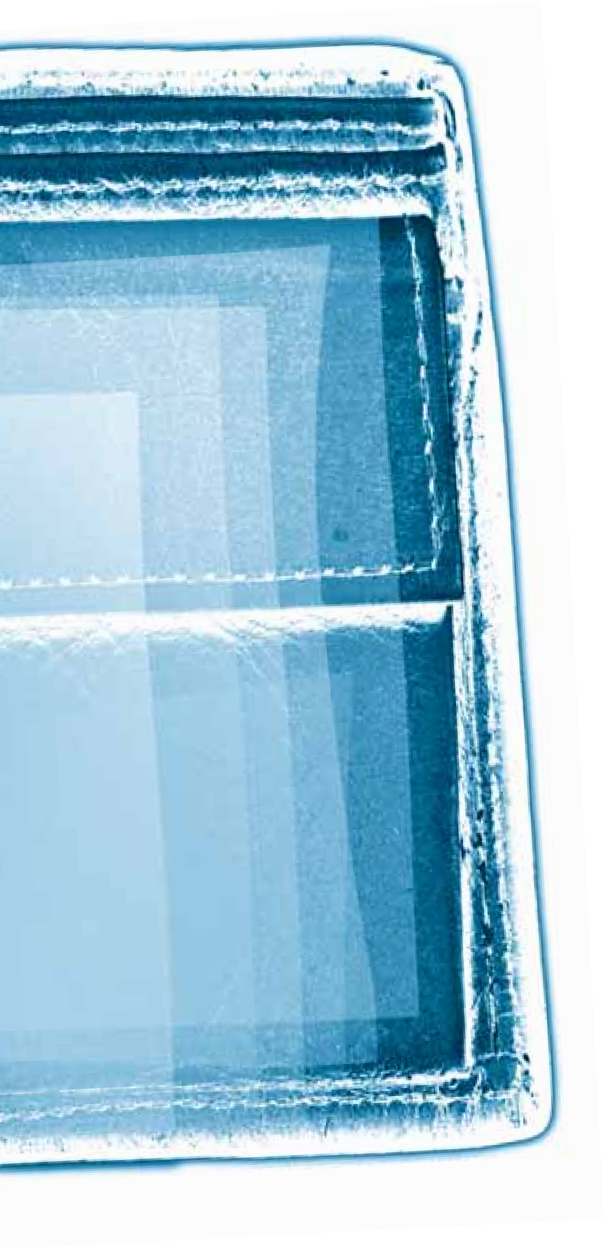
PAPER RECYCLED

	NET MASS (KG)		
	2009	2010	2011
Total	**6 140**	**23 420**	**11 860**

Education of employees

An effort is made to educate employees in eco-friendly practices through the staff magazine, C.Inside and the monthly Ecobuzz.

Annual financial statements 10



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 page 89 to 156 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 88.

The financial statements were approved by the board of directors on 29 March 2011 and are signed on its behalf by:

Michiel le Roux
Chairman

Riaan Stassen
Chief executive officer

Certificate by the company secretary

I hereby certify, in terms of section 268G of the Companies Act (Act 61 of 1973) ("the Act"), that to the best of my knowledge, for the year ended 28 February 2011, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act and that all such returns are true, correct and up to date.

Christian van Schalkwyk
Stellenbosch
29 March 2011

Audit committee report

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

The Capitec Bank group audit committee ("the committee") is composed of independent non-executive directors. The committee derives its authority and responsibilities from a board-approved charter with which it has complied during the year ended 28 February 2011. The committee met four 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 undertakes the prescribed functions (in terms of section 270A(1) of the Companies Act (Act 61 of 1973) ("the Act") on behalf of the subsidiary companies of the group.

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

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

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

The committee has evaluated the group financial statements for the year ended 28 February 2011 and, based on the information provided to the committee, considers that the group complies, in all material respects, with the requirements of the Act, the King III Code and International Financial Reporting Standards (IFRS).

Pieter van der Merwe
Chairman
29 March 2011

Independent auditor's report

To the members of Capitec Bank Holdings Limited

We have audited the group annual financial statements and annual financial statements of Capitec Bank Holdings Limited, which comprise the consolidated and separate balance sheets as at 28 February 2011, 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 89 to 156.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa, 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 28 February 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc
Director: Hennie Nel
Registered Auditor
Cape Town
29 March 2011

Directors' report

Year ended 28 February 2011

The directors present their annual report, which forms part of the audited financial statements of the company, for the year ended 28 February 2011.

1. Nature of business

The main business of the company is that of a bank controlling company as envisaged in the Banks Act, 1990. The company's subsidiaries 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 R656.0 million (2010: R449.2 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:

2011	DPS	Rand	Declared	LDT	Date paid
Ordinary dividend					
Interim	**85.0**	**71 573 930**	**29 Sep 2010**	**26 Nov 2010**	**6 Dec 2010**
Final*	**205.0**	**191 444 728**	**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**
2010					
Ordinary dividend					
Interim	55.0	45 640 395	1 Oct 2009	27 Nov 2009	7 Dec 2009
Final	155.0	130 307 901	30 Mar 2010	10 Jun 2010	21 Jun 2010
Preference dividend					
Interim	450.41	7 585 855	31 Aug 2009	15 Sep 2009	25 Sep 2009
Final	390.51	6 577 012	28 Feb 2010	12 Mar 2010	23 Mar 2010

** An ordinary dividend of 205 cents per share was recommended by the directors on 29 March 2011 (2010: 155 cents). In line with IFRS, no accrual was made for this dividend.*

4. Share capital

Ordinary shares: 10 405 135 shares were issued this financial year (2010: 184 625) and share issue costs of R43 777 068 (2010: R25 000) were allocated against share premium.

8 420 462 shares were issued in a partially underwritten renounceable rights offer which was finalised on 31 January 2011. The offer entitled ordinary shareholders to 1 rights offer share for every 10 Capitec shares held at a subscription price of 12500 cents per share. In terms of the underwriting agreement 757 461 shares were issued at a subscription price of 13202 cents per share.

Preference shares: 1 184 803 (2010: Nil) shares were issued this financial year and share costs of R788 087 (2010: Rnil) were allocated against share premium.

Settlement of share options

The group settled 1 270 826 options (2010: 1 250 625 options) relating to the share incentive scheme.

5. Directors and secretary

Information relating to the directors and secretary of the company is presented on pages 34 to 37 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 18 716 809 (2010: 18 813 113) Capitec Bank Holdings Limited shares, equivalent to 20.04% (2010: 22.67%) of the issued share capital of Capitec Bank Holdings Limited. The individual interests of the directors were as follows:

2011	Number of shares held					
	Beneficial		Non-beneficial		Total	
	Direct	Indirect**	Direct	Indirect**	shares	%
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(1)	–	–	–	–	–	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	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	–	17 088 522	18 716 809	20.04
2010						
AP du Plessis*	–	1 013 125	–	–	1 013 125	1.22
MS du P le Roux (Chairman)	–	–	–	13 061 674	13 061 674	15.74
TD Mahloele(2)	–	–	–	1 592 500	1 592 500	1.92
MC Mehl	90 713	–	–	–	90 713	0.11
NS Mjoli-Mncube	100 000	–	–	–	100 000	0.12
PJ Mouton	–	10 000	–	–	10 000	0.01
CA Otto	967	–	–	459 539	460 506	0.56
JG Solms	33 779	–	–	–	33 779	0.04
R Stassen*	389 288	–	–	2 061 528	2 450 816	2.95
JP van der Merwe	–	–	–	–	–	0.00
	614 747	1 023 125	–	17 175 241	18 813 113	22.67

* *Executive*
** *Includes shareholding through associates as defined in terms of the JSE Listings Requirements*
(1) *Appointed 28 January 2011*
(2) *Resigned 18 January 2011*

7.2 At year-end the directors were participants in the Capitec Bank Holdings Limited share incentive scheme in respect of 1 258 250 (2010: 1 515 375) Capitec Bank Holdings Limited share options.

2011

				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 10	12 Apr 06	30.73	13 125	(13 125)	99.10	21 Apr 10	–
(direct beneficial)	26 Apr 10	26 Apr 07	35.82	19 000	(19 000)	97.00	10 May 10	–
	20 May 10	20 May 05	14.05	17 500	(17 500)	97.25	26 May 10	–
	12 Apr 11	12 Apr 06	30.73	13 125	–	–		13 125
	21 Apr 11	21 Apr 08	35.54	31 250	–	–		31 250
	26 Apr 11	26 Apr 07	35.82	19 000	–	–		19 000
	20 May 11	20 May 05	14.05	17 500	–	–		17 500
	12 Apr 12	12 Apr 06	30.73	13 125	–	–		13 125
	15 Apr 12	15 Apr 09	31.23	18 750	–	–		18 750
	23 Apr 12	21 Apr 08	35.54	31 250	–	–		31 250
	26 Apr 12	26 Apr 07	35.82	19 000	–	–		19 000
	14 Apr 13	14 Apr 10	97.30	–	3 125	–		3 125
	15 Apr 13	15 Apr 09	31.23	18 750	–	–		18 750
	22 Apr 13	21 Apr 08	35.54	31 250	–	–		31 250
	26 Apr 13	26 Apr 07	35.82	19 000	–	–		19 000
	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
	14 Apr 15	14 Apr 10	97.30	–	3 125	–		3 125
	15 Apr 15	15 Apr 09	31.23	18 750	–	–		18 750
	14 Apr 16	14 Apr 10	97.30	–	3 125	–		3 125
(indirect beneficial)	29 Apr 10	29 Apr 04	5.73	25 000	(25 000)	97.99	28 May 10	–
				375 375	(62 125)			313 250
R Stassen								
(direct beneficial)	12 Apr 10	12 Apr 06	30.73	50 000	(50 000)	100.50	03 Jun 10	–
	29 Apr 10	29 Apr 04	5.73	100 000	(100 000)	100.50	03 Jun 10	–
	20 May 10	20 May 05	14.05	70 000	(70 000)	100.50	03 Jun 10	–
	12 Apr 11	12 Apr 06	30.73	50 000	–	–		50 000
	21 Apr 11	21 Apr 08	35.54	125 000	–	–		125 000
	20 May 11	20 May 05	14.05	70 000	–	–		70 000
	12 Apr 12	12 Apr 06	30.73	50 000	–	–		50 000
	15 Apr 12	15 Apr 09	31.23	62 500	–	–		62 500
	23 Apr 12	21 Apr 08	35.54	125 000	–	–		125 000
	14 Apr 13	14 Apr 10	97.30	–	6 250	–		6 250
	15 Apr 13	21 Apr 09	31.23	62 500	–	–		62 500
	22 Apr 13	21 Apr 08	35.54	125 000	–	–		125 000
	14 Apr 14	21 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
	14 Apr 15	14 Apr 10	97.30	–	6 250	–		6 250
	15 Apr 15	15 Apr 09	31.23	62 500	–	–		62 500
	14 Apr 16	14 Apr 10	97.30	–	6 250	–		6 250
				1 140 000	(195 000)			945 000
Total				1 515 375	(257 125)			1 258 250

The directors were also participants in the Capitec Bank Holdings Limited share incentive scheme in respect of 987 500 (2010: 950 000) share appreciation rights (SAR) as follows:

2011				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
(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
	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
	14 Apr 15	14 Apr 10	97.30	–	3 125	–		3 125
	15 Apr 15	15 Apr 09	31.23	18 750	–	–		18 750
	14 Apr 16	14 Apr 10	97.30	–	3 125	–		3 125
				200 000	12 500	–		212 500
R Stassen	21 Apr 11	21 Apr 08	35.54	125 000	–	–		125 000
(direct beneficial)	15 Apr 12	15 Apr 09	31.23	62 500	–	–		62 500
	21 Apr 12	21 Apr 08	35.54	125 000	–	–		125 000
	15 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
	14 Apr 14	14 Apr 10	97.30	–	6 250	–		6 250
	14 Apr 14	15 Apr 09	31.23	62 500	–	–		62 500
	21 Apr 14	21 Apr 08	35.54	125 000	–	–		125 000
	14 Apr 15	14 Apr 10	97.30	–	6 250	–		6 250
	15 Apr 15	15 Apr 09	31.23	62 500	–	–		62 500
	14 Apr 16	14 Apr 10	97.30	–	6 250	–		6 250
				750 000	25 000			775 000
Total				950 000	37 500			987 500

7.3 At year-end, the directors, in aggregate, were indirectly non-beneficially interested in 21 000 (2010: 21 000) Capitec Bank Holdings Limited non-redeemable, non-cumulative, non-participating preference shares, equivalent to 0.73% (2010: 1.25%) of the issued preference share capital of Capitec Bank Holdings Limited.

The individual interest of the directors were as follows:

	2011		2010	
Non-beneficial indirect	Number of shares	%	Number of shares	%
R Stassen	21 000	0.73	21 000	1.25
	21 000	0.73	21 000	1.25

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

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*

The total share option expense relating to directors amounted to R2 236 166 (2010: R3 182 053) and share appreciation rights expense amounted to R46 172 105 (2010: R12 207 580). This expense includes the movement on all tranches and is not limited to only the tranche granted in the current financial year as disclosed in the 2010 report.

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

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. Laws and regulations

Loans advanced are priced in compliance with the National Credit Act (NCA) which prescribes ceiling rates. A decrease in the South African Reserve Bank's repo rates resulted in a decrease in the ceiling rates allowed on new loans. The interest rates on loans that complied with the prescribed ceiling rates applicable when the loans were advanced were not decreased when the repo rate decreased. Interest on all loan products are fixed and remain fixed regardless of whether the prescribed ceiling rates increase or decrease after the event. This treatment is in line with industry practice of the major players in the market. Uncertainty has recently arisen around this treatment. Our legal opinion supports our view and treatment. Should it become necessary to adjust the interest rates on previously advanced loans to below the revised ceiling rate, the impact on the results of the group will not be material as products are generally priced well below the prescribed ceilings.

Balance sheets

As at 28 February 2011

		GROUP		COMPANY	
		2011	2010	2011	2010
	Notes	R'000	R'000	R'000	R'000
Assets					
Cash and cash equivalents	4	2 841 918	2 566 588	13	1
Investments designated at fair value	5	988 664	1 306 298	–	–
Loans and advances to clients	6	10 071 466	5 225 139	–	–
Inventory	7	30 847	26 067	–	–
Other receivables	8	48 177	41 127	9 355	6 577
Interest in subsidiaries	9	–	–	2 196 440	854 531
Property and equipment	10	375 185	281 610	–	–
Intangible assets	11	34 357	22 211	–	–
Deferred income tax assets	12	48 903	19 183	–	–
Total assets		14 439 517	9 488 223	2 205 808	861 109
Liabilities					
Loans and deposits at amortised cost	13	10 449 883	7 360 325	–	–
Trade and other payables	14	489 685	358 352	10 533	6 625
Current income tax liabilities		35 033	34 452	–	–
Provisions	15	14 403	7 117	–	–
Total liabilities		10 989 004	7 760 246	10 533	6 625
Equity					
Capital and reserves					
Ordinary share capital and premium	16	1 918 677	682 219	1 918 677	682 219
Cash flow hedge reserve	17	(3 469)	(15 839)	–	–
Retained earnings		1 276 336	906 991	17 629	17 659
Share capital and reserves attributable to ordinary shareholders		3 191 544	1 573 371	1 936 306	699 878
Non-redeemable, non-cumulative, non-participating preference share capital and premium	16	258 969	154 606	258 969	154 606
Total equity		3 450 513	1 727 977	2 195 275	854 484
Total equity and liabilities		14 439 517	9 488 223	2 205 808	861 109

Income statements

Year ended 28 February 2011

		GROUP		COMPANY	
		2011	2010	2011	2010
	Notes	R'000	R'000	R'000	R'000
Interest income	18	**2 808 543**	1 763 966	**–**	–
Interest expense	18	**(751 360)**	(490 636)	**–**	–
Net interest income		**2 057 183**	1 273 330	**–**	–
Loan fee income		**1 273 574**	1 038 905	**–**	–
Loan fee expense		**(121 710)**	(52 706)	**–**	–
Transaction fee income		**883 040**	507 438	**–**	–
Transaction fee expense		**(351 309)**	(212 064)	**–**	–
Net fee income		**1 683 595**	1 281 573	**–**	–
Dividend income	19	**571**	519	**217 636**	151 084
Net impairment charge on loans and advances to clients	20	**(988 177)**	(547 731)	**–**	–
Net movement in financial instruments designated at fair value	21	**(210)**	1 011	**–**	–
Other income		**251**	43	**702**	622
Non-banking income		**22 258**	20 750	**–**	–
Sales		**219 298**	208 604	**–**	–
Cost of sales		**(197 040)**	(187 854)	**–**	–
Income from operations		**2 775 471**	2 029 495	**218 338**	151 706
Banking operating expenses		**(1 812 499)**	(1 368 324)	**(732)**	(622)
Non-banking operating expenses		**(22 672)**	(18 815)	**–**	–
Operating profit before tax	22	**940 300**	642 356	**217 606**	151 084
Income tax expense	23	**(284 276)**	(193 132)	**–**	–
Profit for the year		**656 024**	449 224	**217 606**	151 084
Earnings per share (cents)					
Basic	24	**757**	525		
Diluted	24	**730**	509		

Statements of comprehensive income

Year ended 28 February 2011

		GROUP		COMPANY	
		2011	2010	2011	2010
	Notes	R'000	R'000	R'000	R'000
Profit for the year		656 024	449 224	217 606	151 084
Other comprehensive income for the year net of tax	17	12 370	8 034	–	–
Cash flow hedge before tax		17 181	11 158	–	–
Income tax relating to cash flow hedge		(4 811)	(3 124)	–	–
Total comprehensive income for the year		668 394	457 258	217 606	151 084

Statements of changes in equity

Year ended 28 February 2011

	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
GROUP					
Balance at 28 February 2009	674 369	154 606	(23 873)	601 099	1 406 201
Total comprehensive income for the year	–	–	8 034	449 224	457 258
Ordinary dividend	–	–	–	(136 921)	(136 921)
Preference dividend	–	–	–	(14 163)	(14 163)
Employee share option scheme: Value of employee services	–	–	–	12 186	12 186
Shares issued and acquired for employee share options at cost	7 875	–	–	(20 466)	(12 591)
Proceeds on settlement of employee share options	–	–	–	16 538	16 538
Tax effect on settlement of share options	–	–	–	(506)	(506)
Share issue expenses	(25)	–	–	–	(25)
Balance at 28 February 2010	682 219	154 606	(15 839)	906 991	1 727 977
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 settlement of 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**
Notes	16	16	17		

Statements of changes in equity (continued)

Year ended 28 February 2011

	Ordinary share capital and premium R'000	Preference share capital and premium R'000	Retained earnings R'000	Total R'000
COMPANY				
Balance at 28 February 2009	674 369	154 606	17 659	846 634
Total comprehensive income for the year	–	–	151 084	151 084
Ordinary dividend	–	–	(136 921)	(136 921)
Preference dividend	–	–	(14 163)	(14 163)
Shares issued	7 875	–	–	7 875
Share issue expenses	(25)	–	–	(25)
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**
Notes	16	16		

Statements of cash flows

Year ended 28 February 2011

	Notes	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
Cash flow from operating activities					
Cash flow from operations	30	**(537 593)**	2 688 959	**214 828**	144 636
Income taxes paid	31	**(290 639)**	(184 324)	**–**	–
		(828 232)	2 504 635	**214 828**	144 636
Cash flow from investing activities					
Purchase of property and equipment	10	**(203 170)**	(128 481)	**–**	–
Proceeds from disposal of property and equipment	10	**3 107**	2 161	**–**	–
Purchase of intangible assets	11	**(32 193)**	(20 744)	**–**	–
Investment in subsidiaries		**–**	–	**(1 341 909)**	1 530
Disposal/(acquisition) of investments designated at fair value		**317 425**	(1 155 243)	**–**	–
		85 169	(1 302 307)	**(1 341 909)**	1 530
Cash flow from financing activities					
Dividends paid	32	**(214 092)**	(153 651)	**(213 728)**	(154 015)
Preference shares issued	16	**104 363**	–	**104 363**	–
Oridinary shares issued	16	**1 236 458**	7 850	**1 236 458**	7 850
Realised loss on settlement of employee share options less participants' contributions	33	**(108 336)**	(3 928)	**–**	–
		1 018 393	(149 729)	**1 127 093**	(146 165)
Net increase in cash and cash equivalents		**275 330**	1 052 599	**12**	1
Cash and cash equivalents at the beginning of the year		**2 566 588**	1 513 989	**1**	–
Cash and cash equivalents at the end of the year	4	**2 841 918**	2 566 588	**13**	1

Notes to the annual financial statements

Year ended 28 February 2011

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

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

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

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

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

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

(b) Loans and advances

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

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

(c) *Held-to-maturity investments*
The group currently has no held-to-maturity investments. Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. Were the group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and 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 rate method. Any differences (other than transaction charges) between net proceeds and the redemption value are recognised in the income statement over the period of the borrowing using the effective 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 ["reverse repurchase ("repo") agreements"] are recorded as cash and cash equivalents and are recognised at amortised cost.

The difference between the purchase and resale price is treated as interest and is accrued over the life of the 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 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

(a) Goodwill

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

(b) Computer software

Acquired computer software 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

(a) Categories of share capital

Authorised share capital consists of

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

(b) Share issue costs

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

(c) Dividends declared

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

(d) Treasury shares

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

(e) Unissued shares

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

1.14 Employee benefits

(a) Pension obligations

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

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

(b) Share-based compensation

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

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

(c) Performance incentive scheme

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

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

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

1.15 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in South African 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.

(b) Transactions and balances

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

1.16 Revenue recognition

1.16.1 Interest income and expense

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

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

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

1.16.2 Fee income

Transaction fees are recognised on an accrual basis in the period in which the services are rendered. The portion of loan origination fees that 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

(a) Where a group company is the lessee

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

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

(b) Where a group company is the lessor

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

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

- IFRS 1 and IAS 27 Cost of an investment in a subsidiary, jointly controlled entity or associate (effective 1 March 2010)
- Amendments to IFRS 2 Group cash-settled share-based payment transactions (effective 1 March 2010)
- IFRS 3 Business combinations – revised (effective 1 March 2010)
- IAS 27 Consolidated and separate financial statements – revised (effective 1 March 2010)
- Amendment to IAS 32 Classification of rights issue (effective 1 March 2010)
- IAS 39 Financial instruments: Recognition and measurement – eligible hedged items (effective 1 March 2010)
- IFRIC 17 Distribution of non-cash assets to owners (effective 1 March 2010)
- IFRIC 18 Transfers of assets from customers (effective 1 March 2010)

- Improvements to IFRSs 2008 (effective 1 March 2010)
- Improvements to IFRSs 2009 (early adopted 1 March 2010)
- Amendments to IFRS 7 Financial instruments: Disclosure (early adopted 1 March 2010)
- Improvements to IFRSs 2010 issued in September 2010 – IAS 1 Presentation of financial statements (early adopted 1 March 2010)

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 2011 or later periods but which the group has not early adopted, as follows:

- IFRS 9 Financial instruments (effective 1 March 2013)
- Amendment to IAS12 Income taxes (effective 1 March 2012)
- Amendment to IAS 24 Related party disclosures (effective 1 March 2011)
- Improvements to IFRSs 2010 issued in September 2010 except as disclosed in 1.19 (effective 1 March 2011)
- Amendment to IFRIC 14 – prepayments of a minimum funding requirement (effective 1 March 2011)
- IFRIC 19 Extinguishing financial liabilities with equity instruments (effective 1 March 2011)

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

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.

	2011	2010
Expected default rates	R'000	R'000
Increase by 5%	**16 548**	15 517
Decrease by 5%	**(16 514)**	(15 046)

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.

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 R'000	Wholesale distribution R'000	Adjustment for intra-segment items R'000	Total R'000
2011				
Segment revenue	**4 966 768**	**219 298**	**(789)**	**5 185 277**
Segment earnings after tax	**657 273**	**(1 249)**	**–**	**656 024**
2010				
Segment revenue	3 311 532	208 604	(661)	3 519 475
Segment earnings after tax	448 205	1 019	–	449 224

Refer to Notes 18 and 22 regarding depreciation, amortisation, interest expenses and other non-cash items. The wholesale distribution portion of these expenses is not material.

4. Cash and cash equivalents

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
Cash on hand	**710 166**	448 017	–	–
Bank balances	**631 075**	1 152 543	13	1
Resale agreements with banks	**669 827**	–	–	–
Money market unit trusts	**592 570**	55 334	–	–
Treasury bills	**–**	655 777	–	–
Central bank balances				
Debentures	**–**	101 033	–	–
Mandatory reserve deposits with central bank	**238 280**	153 884	–	–
	2 841 918	2 566 588	13	1
Maximum exposure to credit risk	**2 841 918**	2 566 588	13	1

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 are not available for use in the group's day-to-day operations and are non-interest bearing.

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.

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000

5. Investments designated at fair value

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
Unlisted equity investments at fair value				
Balance at the beginning of the year	**16 742**	14 704	–	–
Amortised cost	**3 125**	3 135	–	–
Cumulative fair value adjustment – other market risk	**13 617**	11 569	–	–
(Disposals)/additions	**(3 092)**	(10)	–	–
Fair value adjustment	**2 685**	2 048	–	–
Exchange rate risk	**(1 605)**	(3 180)	–	–
Other market risk	**1 190**	5 228	–	–
Realised on disposals	**3 100**	–	–	–
Balance at the end of the year	**16 335**	16 742	–	–
Amortised cost	**33**	3 125	–	–
Cumulative fair value adjustment – other market risk	**16 302**	13 617	–	–
Interest-bearing debt instruments[1]				
Balance at the beginning of the year	**1 289 556**	135 340	–	–
Amortised cost	**1 289 773**	134 520	–	–
Cumulative fair value adjustment	**(217)**	820	–	–
(Disposals)/additions	**(317 433)**	1 155 253	–	–
Fair value adjustment	**206**	(1 037)	–	–
Interest rate risk	**206**	(1 037)	–	–
Credit risk	**–**	–	–	–
Balance at the end of the year	**972 329**	1 289 556	–	–
Amortised cost	**972 340**	1 289 773	–	–
Cumulative fair value adjustment	**(11)**	(217)	–	–
Total investments at fair value	**988 664**	1 306 298	–	–
Credit risk for financial assets designated at fair value[2]:				
Maximum exposure to credit risk	**972 329**	1 289 556	–	–
Amount by which credit mitigation or derivatives offset credit risk	**–**	–	–	–
Credit risk exposure after taking into account credit mitigation or derivatives	**972 329**	1 289 556	–	–

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 (2010: government instruments).*

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

	GROUP		COMPANY	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

6. Loans and advances to clients

Maturity analysis of loans and advances				
Demand to one month	895 717	587 298	–	–
One to three months	953 143	723 265	–	–
Three months to one year	3 419 393	2 272 105	–	–
More than one year	6 017 098	2 187 536	–	–
Maximum exposure to credit risk	11 285 351	5 770 204	–	–
Deferred loan fee income	(369 159)	(162 732)	–	–
Gross loans and advances	10 916 192	5 607 472	–	–
Allowance for impaired loans and advances	(844 726)	(382 333)	–	–
Net amount [(1)(2)]	10 071 466	5 225 139	–	–
Credit quality of performing loans and advances[(3)]				
Top two grades of the internal rating system	1 125 112	2 573 709		
Percentage of total performing loans	11%	49%		
Bottom two grades of the internal rating system	51 478	11 019		
Percentage of total performing loans	0.5%	0.2%		
Impairment of loans and advances				
Not past due	9 778 279	5 075 300	–	–
Gross	10 290 361	5 257 471	–	–
Impairment	(512 082)	(182 171)	–	–
Past due	293 187	149 839	–	–
Gross	625 831	350 001	–	–
Impairment	(332 644)	(200 162)	–	–
Net	10 071 466	5 225 139	–	–

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 R22.2 million (2010: R20.5 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 R58.6 million (2010: R35.0 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 a higher-risk product. This differs from the 2010 financial year where we used a simplified 21 grade system. The comparative figures were not restated.

	GROUP		COMPANY	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

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

Movement on provision for impaired advances				
Opening balance	**382 333**	256 433	**–**	–
Unidentified losses	**182 171**	87 655	**–**	–
Identified losses	**200 162**	168 778	**–**	–
Movement	**462 393**	125 900	**–**	–
Unidentified losses	**329 911**	94 516	**–**	–
Identified losses	**132 482**	31 384	**–**	–
Closing balance	**844 726**	382 333	**–**	–
Unidentified losses	**512 082**	182 171	**–**	–
Identified losses	**332 644**	200 162	**–**	–

Ageing of impaired advances				
< 60 days	**558 682**	306 416	**–**	–
60 – 90 days	**67 149**	43 585	**–**	–
	625 831	350 001	**–**	–

7. Inventory

Finished goods	**30 847**	26 067	**–**	–

The cost of obsolete inventories recognised as an expense and included in cost of sales amounted to R124 496 (2010: R15 000).

8. Other receivables

Rental deposits	**2 931**	2 016	**–**	–
Accrued income	**13 967**	8 627	**9 355**	6 577
Receivables at fair value through profit or loss (Note 27.10)	**4 662**	8 419	**–**	–
Derivative (Note 40)	**–**	9	**–**	–
Prepayments	**26 617**	22 056	**–**	–
	48 177	41 127	**9 355**	6 577
Current	**46 041**	39 026	**9 355**	6 577
Non-current	**2 136**	2 101	**–**	–

	GROUP		COMPANY	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

9. Interest in subsidiaries

Investment in unlisted subsidiaries at cost	–	–	**2 191 362**	819 724
Loans to subsidiaries	–	–	**5 078**	34 807
	–	–	**2 196 440**	854 531

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

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

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

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

The holding company's interest in the aggregate income earned and losses incurred after tax by the subsidiaries amounted to R473.4 million (2010: R356.1 million) and R2.7 million (2010: R0.1 million) respectively.

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

10. Property and equipment

	Land and buildings[1] R'000	Equipment R'000	Office equipment and vehicles R'000	Total R'000
GROUP				
2011				
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**
2010				
Opening net book value	32 653	74 209	133 272	240 134
Cost	32 843	206 482	276 689	516 014
Accumulated depreciation	(190)	(132 273)	(143 417)	(275 880)
Additions	295	61 506	66 680	128 481
Disposals	–	(272)	(1 511)	(1 783)
Depreciation charge	(49)	(38 286)	(46 887)	(85 222)
Net book value at the end of the year	32 899	97 157	151 554	281 610
Cost	33 139	236 948	331 588	601 675
Accumulated depreciation	(240)	(139 791)	(180 034)	(320 065)
Net book value at the end of the year	32 899	97 157	151 554	281 610

[1] *Land and buildings with a book value of R1.6 million (2010: R1.6 million) are encumbered in terms of a mortgage bond (Note 13).*

	GROUP		COMPANY	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

11. Intangible assets

Computer software				
Opening net book value	**22 211**	27 669	–	–
Cost	**70 800**	147 121	–	–
Accumulated amortisation	**(48 589)**	(119 452)	–	–
Additions	**32 193**	20 744	–	–
Disposals	**(476)**	(2 665)	–	–
Amortisation charge	**(19 571)**	(23 537)	–	–
Net book value at the end of the year	**34 357**	22 211	–	–
Cost	**98 294**	70 800	–	–
Accumulated amortisation	**(63 937)**	(48 589)	–	–
Net book value at the end of the year	**34 357**	22 211	–	–

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% (2010: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised.

The movement on the deferred income tax account is as follows:				
Balance at the beginning of the year	**19 183**	13 667	–	–
Cash flow hedge	**(4 811)**	(3 124)	–	–
Income statement charge	**34 531**	8 640	–	–
Balance at the end of the year	**48 903**	19 183	–	–
Deferred income tax assets are attributable to the following items:				
Provisions and accruals	**70 366**	29 626	–	–
Cash flow hedge	**1 349**	6 160	–	–
Capital allowances	**(15 929)**	(11 167)	–	–
Prepayments	**(6 883)**	(5 436)	–	–
	48 903	19 183	–	–
Deferred tax assets to be recovered within 12 months	**343**	(4 912)	–	–
Deferred tax assets to be recovered after more than 12 months	**48 560**	24 095	–	–

	GROUP		COMPANY	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

13. Loans and deposits at amortised cost

By maturity				
Within one month	**4 414 990**	2 873 037	**–**	–
One to three months	**955 228**	361 871	**–**	–
Three months to one year	**1 368 723**	793 689	**–**	–
More than one year	**3 710 942**	3 331 728	**–**	–
	10 449 883	7 360 325	**–**	–
By nature				
Retail savings	**3 933 098**	2 346 350	**–**	–
Retail fixed deposits	**2 315 659**	1 147 597	**–**	–
Wholesale[(1)]	**928 293**	1 040 473	**–**	–
Subordinated debt[(2)]	**454 646**	252 960	**–**	–
Domestic Medium Term Note Programme[(3)]	**1 993 708**	1 995 285	**–**	–
Negotiable instruments	**577 067**	380 300	**–**	–
Reserve Bank settlement balance	**247 412**	197 360	**–**	–
	10 449 883	7 360 325	**–**	–
Amounts payable on maturity of the funding	**12 308 648**	8 890 712	**–**	–

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 R0.6 million (2010: R0.8 million) that is secured as stated in Note 10.*

(2) *Subordinated debt comprises 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) *Domestic medium term notes (nominal value R380 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.

	GROUP		COMPANY	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

14. Trade and other payables

	2011 R'000	2010 R'000	2011 R'000	2010 R'000
Trade payables	**163 996**	134 640	**48**	48
Dividends payable	**10 485**	6 941	**10 485**	6 577
Accruals	**154 200**	160 431	**–**	–
Share appreciation rights (Note 38)	**154 735**	33 231	**–**	–
Derivatives (Note 40 and 41)	**6 269**	23 109	**–**	–
	489 685	358 352	**10 533**	6 625
Current	**312 046**	275 841	**10 533**	6 625
Non-current	**177 639**	82 511	**–**	–

15. Provisions

	2011 R'000	2010 R'000	2011 R'000	2010 R'000
Performance incentive scheme				
Balance at the beginning of the year	**7 117**	–	**–**	–
Addition	**10 923**	7 117	**–**	–
Release	**(3 637)**	–	**–**	–
Balance at the end of the year	**14 403**	7 117	**–**	–
Current	**–**	–	**–**	–
Non-current	**14 403**	7 117	**–**	–

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 2013, 2014 and 2015 financial years are included in provisions. The bonus to be paid in the 2012 financial year is included in accruals.

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000

16. Share capital and premium

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
Authorised				
Ordinary shares				
100 000 000 shares of R0.01 each	**1 000**	1 000	**1 000**	1 000
Non-redeemable, non-cumulative, non-participating preference shares[1]				
100 000 000 shares of R0.01 each	**1 000**	1 000	**1 000**	1 000
	2 000	2 000	**2 000**	2 000
Issued				
Ordinary share capital and premium	**1 918 677**	682 219	**1 918 677**	682 219
93 387 672 (2010: 82 982 537) shares of R0.01 each at par	**934**	830	**934**	830
Share premium	**1 917 743**	681 389	**1 917 743**	681 389
Non-redeemable, non-cumulative, non-participating preference share capital and premium[1]	**258 969**	154 606	**258 969**	154 606
2 869 014 (2010: 1 684 211) shares of R0.01 each at par	**29**	17	**29**	17
Share premium	**258 940**	154 589	**258 940**	154 589
Total issued share capital and premium[2][3]	**2 177 646**	836 825	**2 177 646**	836 825

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. In addition to these shares, 8 420 462 shares were issued in a partially underwritten renounceable rights offer which was finalised on 31 January 2011. The offer entitled ordinary shareholders to one rights offer share for every 10 Capitec shares held. In terms of the underwriting agreement, 757 461 shares were issued.
[3] A total of 2 905 912 (2010: 3 911 796) of the unissued ordinary shares and 100% of the non-redeemable, non-cumulative, non-participating preference shares were placed under the control of the directors until the next annual general meeting 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 R108.3 million (R80.7 million after tax) (2010: R4.0 million, R1.0 million after tax) was realised on settlement of share options as reflected in the statement of changes in shareholders' equity.

	GROUP		COMPANY	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

17. Cash flow hedge reserve

Cash flow hedge reserve/(loss)[1]				
Balance at the beginning of the year	(15 839)	(23 873)	–	–
Movement for the year before taxation	17 181	11 158	–	–
Amount recognised in comprehensive income during the year	(4 822)	(4 759)	–	–
Amount reclassified from comprehensive income and included in profit and loss for the year	22 003	15 917	–	–
	1 342	(12 715)	–	–
Deferred tax recognised in comprehensive income during the year	(4 811)	(3 124)	–	–
Balance at the end of the year	(3 469)	(15 839)	–	–

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

Interest income				
Loans and advances to clients	2 648 588	1 617 263	–	–
Interest-bearing instruments	86 882	32 689	–	–
Cash and cash equivalents	73 073	114 014	–	–
Non-bank money market placements	38	61	–	–
Money market funds	30 480	71 119	–	–
Treasury bills	12 892	23 647		
Bank balances	436	451	–	–
Resale agreements with banks	22 393	–	–	–
Central bank balances	6 834	18 736	–	–
	2 808 543	1 763 966	–	–
Interest expense				
Retail savings	(162 700)	(110 704)	–	–
Retail fixed deposits	(153 173)	(82 672)	–	–
Wholesale	(107 585)	(109 444)	–	–
Subordinated debt	(43 922)	(2 960)		
Domestic Medium Term Note	(240 023)	(143 795)	–	–
Negotiable deposits	(43 888)	(40 808)	–	–
Forward foreign exchange contracts	(69)	(253)	–	–
	(751 360)	(490 636)	–	–
Net interest income	2 057 183	1 273 330	–	–

Included in interest income is R30.0 million (2010: R1.9 million) with respect to interest income accrued on impaired financial assets.

	GROUP		COMPANY	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

19. Dividend income

Subsidiaries	–	–	217 636	151 084
Ordinary dividends	–	–	201 882	136 921
Preference dividends	–	–	15 754	14 163
Investments at fair value through profit or loss	571	519	–	–
	571	519	217 636	151 084

20. Net impairment charge on loans and advances to clients

Bad debts	625 199	493 976	–	–
Movement in impairment allowance	462 393	125 900	–	–
Bad debts recovered	(100 415)	(72 145)	–	–
Net impairment charge	988 177	547 731	–	–

21. Net movement in financial instruments designated at fair value

Financial assets designated at fair value	(210)	1 011	–	–
Change in fair value due to changes in credit risk	–	–	–	–
Change in fair value due to other factors	(210)	1 011	–	–

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.

	GROUP		COMPANY	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

22. Operating profit before tax

The following items have been included in arriving at operating profit before tax:

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
(Profit) on disposal of equipment	**(638)**	(378)	–	–
Loss on disposal of intangibles	**476**	2 665	–	–
Depreciation on fixed assets	**107 126**	85 222	–	–
Amortisation of computer software	**19 571**	23 537	–	–
Foreign exchange (gains)/losses	**(1)**	7	–	–
(Excludes change in fair value of financial assets through profit or loss as per Note 5)				
Operating lease rentals				
Land and buildings	**127 054**	98 885	–	–
Office equipment	**3 076**	2 712	–	–
	130 130	101 597	–	–
Income from subletting	**(2 086)**	(1 522)	–	–
Auditors' remuneration				
Audit fees – current year	**2 622**	2 628	–	–
Audit fees – prior year (over)/underprovision	**(584)**	–	–	–
Other services	**205**	106	**85**	–
Less: Other services accounted for in equity	**(85)**	–	**(85)**	–
	2 158	2 734	–	–
Directors' emoluments (included in employee costs below)				
Executive				
Salaries	**10 876**	9 784	–	–
Fringe benefits	**420**	454	–	–
Bonuses	**4 169**	2 627	–	–
Share appreciation rights	**46 172**	12 208	–	–
Share options	**2 236**	3 182	–	–
Non-executive				
Fees	**2 585**	2 330	–	–
Employee costs				
Salaries and wages	**796 680**	617 984	–	–
Equity-settled share-based payment	**11 706**	12 186	–	–
Cash-settled share appreciation rights	**121 503**	31 734	–	–
Social security cost	**18 181**	14 654	–	–
Training cost	**27 729**	20 104	–	–
Training refund	**(3 318)**	(2 473)	–	–
	972 481	694 189	–	–
Consultancy fees relating to non-employees comprise:				
Managerial services	**646**	589	–	–
Secretarial services	**891**	578	**439**	282
Technical	**7 637**	6 546	–	–
Administrative	**4 904**	1 277	–	–
	14 078	8 990	**439**	282

	GROUP		COMPANY	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

23. Income tax expense

	2011 R'000	2010 R'000	2011 R'000	2010 R'000
Current tax	318 807	201 772	–	–
Normal company tax	297 044	186 710	–	–
Secondary tax on companies	21 763	15 062	–	–
Deferred tax	(34 531)	(8 640)	–	–
Normal company tax	(34 531)	(8 640)	–	–
	284 276	193 132	–	–
The tax on the profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:				
Profit before tax	940 300	642 356	217 606	151 084
Tax calculated at a tax rate of 28%	263 284	179 860	60 930	42 304
Secondary tax on companies	21 763	15 062	–	–
Adjustments for prior periods	(238)	(552)	–	–
Income not subject to tax	(613)	(1 213)	(60 930)	(42 304)
Expenses not deductible for tax purposes	3	233	–	–
Withholding tax	6	3	–	–
Movement in unutilised tax losses	71	(261)	–	–
Income tax expense	284 276	193 132	–	–
Estimated tax losses at year-end available for utilisation against future taxable income	14 703	14 732	238	238
Less: Applied in raising a deferred tax asset	–	–	–	–
Net calculated tax losses carried forward	14 703	14 732	238	238
Tax relief calculated at current tax rates	5 512	5 563	67	67

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

	GROUP 2011 R'000	GROUP 2010 R'000

24. Earnings per share

Basic earnings per share

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

	2011 R'000	2010 R'000
Net profit after tax	**656 024**	449 224
Preference dividend	**(15 754)**	(14 163)
Net profit after tax attributable to ordinary shareholders	**640 270**	435 061
Weighted average number of ordinary shares in issue (thousands)	**84 565**	82 935
Basic earnings per share (cents)	**757**	525

Diluted earnings per share

Diluted earnings per share is calculated using the weighted average number of ordinary shares in issue, adjusted to assume conversion of all potentially dilutive ordinary shares. For 2011 and 2010 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).

	2011 R'000	2010 R'000
Net profit used to determine diluted earnings per share	**640 270**	435 061
Weighted average number of ordinary shares in issue (thousands)	**84 565**	82 935
Adjustment for:		
Exercise of share options	**3 088**	2 536
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**87 653**	85 471

25. Headline earnings per share attributable to ordinary shareholders

	GROUP 2011 R'000	GROUP 2010 R'000
Basic headline earnings per share		
Net profit attributable to ordinary shareholders	**640 270**	435 061
Non-headline items		
Profit on disposal of property and equipment	**(638)**	(378)
Loss on disposal of intangible assets	**476**	2 665
Income tax charge	**60**	(640)
Headline earnings	**640 168**	436 708
Headline earnings per share (cents)	**757**	527
Diluted headline earnings per share		
Headline earnings	**640 168**	436 708
Diluted headline earnings per share (cents)	**730**	511

26. Dividend per share

The directors recommended a final dividend in respect of 2011 of 205 cents per share (2010: 155 cents per share) amounting to a dividend of R191.4 million (2010: R130.3 million) on 29 March 2011.

The secondary tax on companies in respect of this dividend will amount to R19.1 million (2010: R13 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 2012, which is in line with recommended accounting practice.

An interim dividend of 85 cents per share (2010: 55 cents per share) was declared on 29 September 2010 and paid on 06 December 2010.

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 R120 000 (2010: R100 000). At balance sheet date the number of outstanding loans was 1 203 807 (2010: 825 460).

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 name concentration credit risk exists principally in cash and cash equivalents and interest bearing instruments (Notes 4 and 5). Name concentration credit risk is controlled using ALCO approved limits which are monitored and enforced by the Credit Committee. This ensures that the financial assets that the group may place with any one counterparty are limited, by reference to the long-term and short-term credit ratings assigned for that counterparty by Fitch.

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

	Notes	AAA-A R'000	BBB R'000	Below BBB R'000	Not rated R'000	Total carrying amount R'000
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
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
2010						
Cash on hand	4	448 017	–	–	–	448 017
Bank balances	4	403 032	749 482	–	29	1 152 543
Money market instruments	4	–	–	–	55 334	55 334
Treasury bills (< 3 months)	4	655 777	–	–	–	655 777
Central bank balances	4	254 917	–	–	–	254 917
Treasury bills (> 3 months)	5	1 289 556	–	–	–	1 289 556
		3 051 299	749 482	–	55 363	3 856 144

The bank balances were with 10 institutions (2010: 8), with the maximum exposure to one institution being R1 096 million (2010: R1 989 million). This exposure consists of government instruments.

Money market instruments consist of money market unit trusts. Money market unit trust placements were with eight institutions (2010: 3). The maximum exposures were to two institutions each in the amount of R149 million. These institutions both had local short-term Fitch ratings ratings of AAA/V1(zaf). The remaining placements were in unrated funds that had underlying assets that were rated almost entirely either F1+ or F1. These ratings are local short-term Fitch ratings.

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:

	2011	2010
Eastern Cape	**55**	50
Free State	**27**	23
Gauteng	**123**	104
KwaZulu-Natal	**74**	63
Limpopo	**31**	26
Mpumalanga	**44**	40
North West	**28**	27
Northern Cape	**13**	12
Western Cape	**60**	56
	455	401

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 borrowing from floating rates to fixed rates. Under the terms of the interest rate swaps, the group agrees with other banking entities to exchange, quarterly, the difference between fixed contractual rates and floating rate interest amounts calculated by reference to the agreed notional amounts. The group has discretion over the rates offered on its demand savings deposits. Retail advances are only offered in fixed rate terms. The maturity breakdown of the advances book is set out in Note 6 and Note 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)*

Two sensitivity analyses are presented below:

- Sensitivity 1 is a run-off analysis.
- Sensitivity 2 assumes continuity for the ensuing year of cash on call and that element of the retail demand savings that could potentially be subject to change.

The sensitivity analyses below reflect the impact 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			
	2011		2010		2011		2010	
200 basis points	Pre-tax R'000	Post-tax R'000	Pre-tax R'000	Post-tax R'000	Pre-tax R'000	Post-tax R'000	Pre-tax R'000	Post-tax R'000
Sensitivity 1								
Increase	**(65 331)**	**(47 038)**	(35 128)	(25 292)	**(63 517)**	**(46 664)**	(31 673)	(23 359)
Decrease	**65 330**	**47 038**	35 128	25 292	**63 516**	**46 664**	12 901	9 843
Sensitivity 2								
Increase	**(57 354)**	**(41 295)**	1 786	1 286	**(55 540)**	**(40 921)**	5 241	3 219
Decrease	**57 354**	**41 295**	(1 786)	(1 286)	**55 540**	**40 921**	(24 012)	(16 734)

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

27.6 Liquidity risk

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

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

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

Maturities of financial assets and financial liabilities (discounted cash flows)	Note	Demand to one month R'000	One to three months R'000	Three months to one year R'000	More than one year R'000	Adjustment R'000	Total R'000
2011							
Undiscounted assets							
Cash and cash equivalents	4	2 841 918	–	–	–	–	2 841 918
Investments designated at fair value	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 excess/(shortfall)		(758 290)	(1 235)	2 045 123	2 076 498	(427 492)	2 934 604
Cumulative liquidity excess/(shortfall)		(758 290)	(759 525)	1 285 598	3 362 096	2 934 604	2 934 604

27.6 Liquidity risk *(continued)*

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

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

The cumulative liquidity shortfall up to three months results from the investment of excess cash in treasury bills and SARB debentures with maturities in excess of one month. These instruments are highly liquid and can be converted to cash should the need arise.

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	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000
Primary (Tier 1) capital				
Ordinary share capital	1 918 677	682 219	2 384 427	1 117 671
Accumulated profit	1 276 336	906 991	577 213	321 773
Qualifying preference share capital	258 969	154 606	258 969	154 606
Intangible assets in terms of IFRS	(34 357)	(22 186)	(34 357)	(22 186)
Specified advances	(22 153)	(20 536)	(22 153)	(20 536)
Unappropriated profit	(47 842)	(37 405)	(47 842)	(37 405)
Regulatory adjustments	(104 352)	(80 127)	(104 352)	(80 127)
	3 349 630	1 663 689	3 116 257	1 513 923
Secondary (Tier 2) capital				
Unidentified impairments	108 441	54 399	108 441	54 399
Subordinated debt	450 000	250 000	450 000	250 000
	558 441	304 399	558 441	304 399
Total qualifying regulatory capital	3 908 071	1 968 088	3 674 698	1 818 322
Total capital adequacy %	37.5	36.8	35.1	33.9
Primary %	32.1	31.1	29.8	28.2
Secondary %	5.4	5.7	5.3	5.7
Required capital adequacy %	25.0	25.0	25.0	25.0
Required regulatory capital	2 602 586	1 337 194	2 618 843	1 341 025
Risk-weighted assets				
Credit risk				
On balance sheet	8 642 086	4 322 145	8 674 003	4 350 926
Off balance sheet	–	–	1 283	1 023
	8 642 086	4 322 145	8 675 286	4 351 949
Operational risk	1 249 243	641 853	1 257 045	643 692
Equity risk in the banking book	16 335	16 742	16 335	16 742
Other assets	502 681	368 035	526 707	351 715
Total risk-weighted assets	10 410 345	5 348 775	10 475 373	5 364 098
Total assets based on IFRS	14 439 517	9 488 223	14 498 054	9 506 801
Total risk-weighted assets – adjustments	(4 029 172)	(4 139 448)	(4 022 681)	(4 142 703)
Total risk-weighted assets – regulatory	10 410 345	5 348 775	10 475 373	5 364 098

27.7 Capital management *(continued)*

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

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

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

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**
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 designated at fair value	21	**–**	**(210)**	**–**	**–**	**(210)**
2010						
Interest income	18	–	32 689	1 731 277	–	1 763 966
Interest expense	18	(253)	(281)	–	(490 142)	(490 636)
Loan fee income		–	–	1 038 905	–	1 038 905
Loan fee expense		–	8 419	(61 125)	–	(52 706)
Transaction fee income		–	–	–	507 438	507 438
Transaction fee expense		–	–	–	(212 064)	(212 064)
Dividend income	19	–	519	–	–	519
Net impairment on loans and advances to clients	20	–	–	(547 731)	–	(547 731)
Net movement in financial instruments designated at fair value	21	–	1 011	–	–	1 011

27.9 Classification of financial assets and financial liabilities

	Note	Held for trading R'000	Held at fair value R'000	Loans and receiv-ables R'000	Available for sale R'000	Financial liabilities at amortised cost R'000	Total R'000	Fair value R'000
2011								
Financial assets								
Cash and cash equivalents	4	–	–	2 841 918	–	–	2 841 918	2 841 918
Investments designated at fair value	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
2010								
Financial assets								
Cash and cash equivalents	4	–	–	2 566 588	–	–	2 566 588	2 566 588
Investments designated at fair value	5	–	1 306 298*	–	–	–	1 306 298	1 306 298
Loans and advances to clients	6	–	–	5 225 139	–	–	5 225 139	5 248 299
Other receivables	8	9	8 419	10 643	–	–	19 071	18 596
Financial liabilities								
Loans and deposits at amortised cost	13	–	–	–	–	7 360 325	7 360 325	7 474 973
Trade and other payables	14	–	23 109#	–	–	335 243	358 352	358 352
Provisions	15	–	–	–	–	7 117	7 117	7 117

* *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 R0.5 (2010: R0.6 million) on the fair value of the receivable.

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

These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices in active markets for identical assets and liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly by derivation from prices.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

The group considers relevant and observable market prices where possible.

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
2011				
Investments designated at fair value	**–**	**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**
2010				
Investments designated at fair value	–	1 306 298	–	1 306 298
Receivables at fair value through profit or loss	–	–	8 419	8 419
Total assets	–	1 306 298	8 419	1 314 717
Trade and other payables	–	23 109	–	23 109
Total liabilities	–	23 109	–	23 109

Reconciliation of receivables at fair value through profit or loss

	2011 R'000	2010 R'000
Balance at the beginning of the year	**8 419**	–
Gains and losses recognised in profit or loss	**(3 757)**	8 419
Settlements	**–**	–
Balance at the end of the year	**4 662**	8 419

28. Retirement benefits

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 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.	**38 978**	29 190	**–**	–

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.

	GROUP		COMPANY	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

29. Related-party transactions

Transactions with subsidiaries				
Investments in subsidiaries are disclosed in Note 9.				
Dividend received				
Capitec Bank Limited	–	–	217 636	151 084
Ordinary dividend	–	–	201 882	136 921
Preference dividend	–	–	15 754	14 163
Management fees received:				
Capitec Bank Limited	–	–	702	622
Loans due from:				
Capitec Bank Limited	–	–	5 079	34 808
Loans due to:				
Keymatrix (Pty) Limited	–	–	1	1
PSG Group and subsidiaries[2]				
Brokers' fees	63	78	–	–
Sponsor fees	63	59	63	59
Commitment fees	16 844	–	16 844	–

Guarantees[1]

Key Distributors received a guarantee from a fellow subsidiary, Capitec Bank Limited. The value guaranteed is R4.4 million (2010: R6.5 million).

The balance outstanding at year-end that is covered amounted to R2.6 million (2010: R2.0 million). A market-related guarantee fee of R83 182 (2010: R73 307) 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 R0.7 million (2010: R1.6 million).
- A suretyship limited to R0.6 million (2010: R0.6 million) in favour of a financial institution with which Key Distributors (Pty) Limited has a mortgage bond.

	GROUP		COMPANY	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

29. Related-party transactions *(continued)*

	2011 R'000	2010 R'000	2011 R'000	2010 R'000
Loans and advances to directors and other key management employees included in loans and advances to clients				
Loans outstanding at the beginning of the year	**2 742**	1 231	**–**	–
Loans advanced during the year	**6 043**	3 407	**–**	–
Interest charged on loans during the year	**400**	202	**–**	–
Loan repayments during the year	**(3 471)**	(2 098)	**–**	–
Loans outstanding at the end of the year	**5 714**	2 742	**–**	–
Less advanced by subsidiaries	**(5 714)**	(2 742)	**–**	–
Retail deposits from directors and other key management employees[3]				
Deposits at the beginning of the year	**4 001**	3 591	**–**	–
Interest earned during the year	**284**	488	**–**	–
Deposits/(withdrawals) made during the year	**(1 111)**	(78)	**–**	–
Deposits at the end of the year	**3 174**	4 001	**–**	–
Key management compensation[4]				
Salaries and other short-term benefits	**23 413**	18 016	**–**	–
Post-employment benefits	**1 866**	1 465	**–**	–
Share-based payments	**42 293**	14 707	**–**	–
Key management compensation paid by subsidiaries	**67 572**	34 188	**–**	–

(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 compensation excludes directors' remuneration. Refer to the directors' report for details regarding directors' remuneration.*

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

Directors

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

	GROUP		COMPANY	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

30. Cash flow from operations

	2011 R'000	2010 R'000	2011 R'000	2010 R'000
Net profit before tax	**940 300**	642 356	**217 606**	151 084
Adjusted for non-cash items				
Fair value adjustments on financial assets	**209**	(1 011)	**–**	–
Loan impairment charge	**462 393**	125 900	**–**	–
Depreciation	**107 126**	85 222	**–**	–
Amortisation	**19 571**	23 537	**–**	–
Movements in provisions	**7 286**	7 117	**–**	–
Share-based employee costs	**11 706**	12 186	**–**	–
(Profit)/loss on disposal of assets	**(162)**	2 287	**–**	–
Receivables at fair value through profit or loss	**3 757**	(8 419)	**–**	–
Movements in current assets and liabilities				
Loans and advances to clients	**(5 308 720)**	(2 369 354)	**–**	–
Inventory	**(4 780)**	(3 947)	**–**	–
Other receivables	**(10 807)**	(12 594)	**(2 778)**	(6 496)
Deposits	**3 089 558**	4 043 512	**–**	–
Trade and other payables	**144 970**	142 167	**–**	48
Cash flow from operations	**(537 593)**	2 688 959	**214 828**	144 636

31. Income taxes paid

	2011 R'000	2010 R'000	2011 R'000	2010 R'000
Balance at the beginning of the year	**34 452**	16 498	**–**	–
Income statement charge	**284 276**	193 132	**–**	–
Movement in deferred tax	**34 531**	8 640	**–**	–
Tax effect on settlement of share options taken to equity	**(27 587)**	506	**–**	–
Balance at the end of the year	**(35 033)**	(34 452)	**–**	–
Income tax paid	**290 639**	184 324	**–**	–

32. Dividends paid

	2011 R'000	2010 R'000	2011 R'000	2010 R'000
Balance at the beginning of the year	**6 941**	9 508	**6 577**	9 508
Dividend declared during the year:				
Ordinary dividend	**201 882**	136 921	**201 882**	136 921
Preference dividend	**15 754**	14 163	**15 754**	14 163
Balance at the end of the year	**(10 485)**	(6 941)	**(10 485)**	(6 577)
Dividends paid	**214 092**	153 651	**213 728**	154 015

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000

33. Realised loss on settlement of employee share options less participants' contributions

	2011 R'000	2010 R'000	2011 R'000	2010 R'000
Fair value of shares utilised to settle share options	(131 591)	(20 466)	–	–
1 227 212 (2010: 184 625) ordinary shares issued	(127 169)	(7 875)	–	–
Shares acquired	(4 422)	(12 591)	–	–
Proceeds on settlement of options	23 255	16 538	–	–
	(108 336)	(3 928)	–	–

34. Commitments and contingent liabilities

Property operating lease commitments

The future aggregate minimum lease payments under non-cancellable leases are as follows:

	2011 R'000	2010 R'000	2011 R'000	2010 R'000
Within one year	129 070	103 479	–	–
From one to five years	357 702	265 789	–	–
After five years	54 331	18 566	–	–
Total future cash flows	541 103	387 834	–	–
Straight-lining accrued	(25 354)	(19 778)	–	–
Future expenses	515 749	368 056	–	–
Other operating lease commitments				
Within one year	1 988	1 607	–	–
From one to five years	5 093	2 178	–	–
	7 081	3 785	–	–
Capital commitments – approved by the board				
Contracted for				
Property and equipment	29 609	39 454	–	–
Intangible assets	–	2 056	–	–
Not contracted for				
Property and equipment	417 556	227 759	–	–
Intangible assets	88 212	60 202	–	–
	535 377	329 471	–	–

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 R0.7 million (2010: R1.6 million).
- A suretyship limited to R0.6 million (2010: 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).

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 20.00% (2010: 20.00%) of their monthly salary.

The purchase price includes a subsidy of 20.00% (2010: 20.00%) and the transaction costs are borne by the company.

The shares are held by the trustees on behalf of the participants for as long as required to save the holding expenses of a broker account for participants.

The share incentive scheme prescribes that European type options, with durations ranging from three to six years, should be allocated at the market value, 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.

	2011 Number	2010 Number
Options issued to personnel of Capitec Bank Limited		
Balance at the beginning of the year	**5 322 184**	5 712 679
Options granted	**182 736**	903 880
Options cancelled and /or lapsed	**(12 500)**	(43 750)
Options exercised	**(1 270 826)**	(1 250 625)
Balance at the end of the year	**4 221 594**	5 322 184

	2011		2010	
Analysis of outstanding share options by year of maturity	**Weighted average strike price R**	**Number**	**Weighted average strike price R**	**Number**
Financial year				
2010/2011	**–**	**–**	18.25	1 275 826
2011/2012	**29.95**	**1 255 826**	28.02	1 257 701
2012/2013	**34.14**	**1 096 796**	33.79	1 098 671
2013/2014	**44.47**	**874 977**	34.79	831 171
2014/2015	**47.66**	**676 651**	34.41	632 845
2015/2016	**63.52**	**271 657**	32.56	225 970
2016/2017	**93.81**	**45 687**	–	–
	35.10	**4 221 594**	28.88	5 322 184

	2011 Number	2010 Number

36. Share incentive scheme (continued)

	2011 Number	2010 Number
Shares available for settlement of options	–	–
Shares purchased/ issued during the year	1 270 826	1 250 625
Shares utilised for settlement of options	(1 270 826)	(1 250 625)
Options exercised	(1 270 826)	(1 250 625)
Settled in cash	–	–
Settled in shares	(1 270 826)	(1 250 625)

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 vesting proportion %	Value taking into account expected vesting proportion R'000
2005/2006	14.05	13.90	36.0	2.1	2011/2012	8.1	366 250	2 051	97.7	2 004
	17.64	18.90	35.4	2.1	2011/2012	7.6	18 750	148	95.7	141
2006/2007	30.20	31.00	36.1	1.4	2011/2012	7.5	12 500	151	99.1	150
		31.00	36.1	1.4	2012/2013	7.6	12 500	165	89.2	147
	30.73	34.00	36.3	1.3	2011/2012	7.5	255 000	3 653	98.8	3 608
		34.00	36.3	1.3	2012/2013	7.6	255 000	3 952	88.9	3 513
2007/2008	35.82	38.30	34.0	1.6	2011/2012	7.9	159 250	2 165	98.4	2 130
		38.30	34.0	1.6	2012/2013	7.8	159 250	2 384	88.5	2 111
		38.30	34.0	1.6	2013/2014	7.7	159 250	2 571	79.7	2 048
	36.00	35.60	34.1	1.7	2011/2012	8.0	13 889	160	98.8	158
		35.60	34.1	1.7	2012/2013	7.9	13 889	179	88.9	159
		35.60	34.1	1.7	2013/2014	7.8	13 889	194	80.0	156
	36.07	36.00	34.2	1.7	2011/2012	8.0	7 500	89	99.1	88
		36.00	34.2	1.7	2012/2013	7.9	7 500	99	89.2	88
		36.00	34.2	1.7	2013/2014	7.9	7 500	108	80.2	86
	41.46	38.00	34.1	1.7	2011/2012	8.8	5 125	60	91.2	55
		38.00	34.1	1.7	2012/2013	8.6	5 125	68	82.0	56
		38.00	34.1	1.7	2013/2014	8.5	5 125	74	73.8	55
2008/2009	28.96	29.05	37.1	3.0	2011/2012	8.1	6 250	48	91.4	44
		29.05	37.1	3.0	2012/2013	8.1	6 250	55	82.3	45
		29.05	37.1	3.0	2013/2014	8.0	6 250	60	74.0	45
		29.05	37.1	3.0	2014/2015	8.0	6 250	65	66.6	43
	35.54	33.10	34.1	2.3	2011/2012	9.8	398 750	3 433	98.5	3 381
		33.10	34.1	2.3	2012/2013	9.6	398 750	4 036	88.6	3 578
		33.10	34.1	2.3	2013/2014	9.4	398 750	4 527	79.8	3 612
		33.10	34.1	2.3	2014/2015	9.3	398 750	4 936	71.8	3 545
	35.82	38.90	33.9	0.6	2011/2012	8.6	12 562	201	97.0	195
		38.90	33.9	0.6	2012/2013	8.4	12 562	223	87.3	194
		38.90	33.9	0.6	2013/2014	8.3	12 562	241	78.5	189
2009/2010	31.23	36.50	37.9	2.9	2012/2013	7.8	209 375	2 622	88.8	2 328
		36.50	37.9	2.9	2013/2014	8.1	209 375	2 898	79.9	2 316
		36.50	37.9	2.9	2014/2015	8.3	209 375	3 118	71.9	2 243
		36.50	37.9	2.9	2015/2016	8.4	209 375	3 289	64.7	2 130
	45.49	61.50	36.5	0.9	2012/2013	9.3	12 500	157	84.1	132
		61.50	36.5	0.9	2013/2014	9.3	12 500	173	75.7	131
		61.50	36.5	0.9	2014/2015	9.4	12 500	186	68.2	127
		61.50	36.5	0.9	2015/2016	9.7	12 500	196	61.3	120
	61.05	64.00	36.4	0.9	2012/2013	8.2	4 095	51	83.8	43
		64.00	36.4	0.9	2013/2014	8.5	4 095	57	75.4	43
		64.00	36.4	0.9	2014/2015	8.7	4 095	61	67.9	41
		64.00	36.4	0.9	2015/2016	8.8	4 095	64	61.1	39

37. Share option expense *(continued)*

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 vesting proportion %	Value taking into account expected vesting proportion R'000
2010/2011	97.30	100.20	37.9	2.9	2013/2014	7.8	42 497	532	79.9	425
		100.20	37.9	2.9	2014/2015	8.1	42 497	588	72.0	423
		100.20	37.9	2.9	2015/2016	8.3	42 503	633	64.8	410
		100.20	37.9	2.9	2016/2017	8.4	42 503	668	58.3	389
	117.79	129.00	37.9	2.9	2013/2014	7.8	3 184	40	77.5	31
		129.00	37.9	2.9	2014/2015	8.1	3 184	44	69.7	31
		129.00	37.9	2.9	2015/2016	8.3	3 184	47	62.8	30
		129.00	37.9	2.9	2016/2017	8.4	3 184	50	56.5	28
Grand total							4 221 594	51 570	83.5	43 084

(1) *Average South African executive staff turnover of 10% p.a. (2010: 10%) was used to estimate likelihood of vesting conditions realising. This will be 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 R'000	Portion of term expired %	Expected vesting proportion[2] %	Liability at year end R'000
2008/2009	35.54	2011/2012	5.6	398 750	48 108	95.3	98.5	45 141
		2012/2013	6.0	398 750	47 868	71.4	88.6	30 291
		2013/2014	6.7	398 750	47 780	57.1	79.8	21 774
		2014/2015	7.3	398 750	47 753	47.6	71.8	16 324
	28.96	2011/2012	5.9	6 250	790	71.6	91.4	517
		2012/2013	6.6	6 250	786	53.7	82.3	347
		2013/2014	7.2	6 250	782	42.9	74.0	249
		2014/2015	7.6	6 250	778	35.8	66.6	186
2009/2010	31.23	2012/2013	6.0	209 375	25 980	62.4	88.8	14 397
		2013/2014	6.7	209 375	25 871	46.8	79.9	9 680
		2014/2015	7.3	209 375	25 790	37.5	71.9	6 949
		2015/2016	7.6	209 375	25 696	31.2	64.7	5 194
	45.49	2012/2013	6.4	12 500	1 387	45.3	84.1	529
		2013/2014	7.1	12 500	1 395	34.0	75.7	359
		2014/2015	7.5	12 500	1 403	27.2	68.2	260
		2015/2016	7.8	12 500	1 410	22.7	61.3	196
	61.05	2012/2013	6.4	4 095	398	44.2	83.8	147
		2013/2014	7.1	4 095	406	33.1	75.4	101
		2014/2015	7.5	4 095	414	26.5	67.9	75
		2015/2016	7.8	4 095	421	22.1	61.1	57
2010/2011	97.30	2013/2014	6.7	42 497	2 963	29.2	79.9	692
		2014/2015	7.3	42 497	3 196	21.9	72.0	504
		2015/2016	7.6	42 503	3 395	17.5	64.8	385
		2016/2017	7.9	42 503	3 563	14.6	58.3	303
	117.79	2013/2014	6.9	3 184	186	19.3	77.5	28
		2014/2015	7.4	3 184	208	14.4	69.7	21
		2015/2016	7.7	3 184	226	11.6	62.8	16
		2016/2017	7.9	3 184	241	9.6	56.5	13
Grand total				2 706 616	319 194	59.9	80.9	154 735
Note								14

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

Dividend yield	*1.74%*
Volatility	*34.4%*
Ex dividend share price	*156.29*

[2] *Average South African executive staff turnover of 10% p.a. (2010: 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, will benefit from cash disbursements, based on the cumulative increase in value of 200 Capitec Bank Holdings shares less funding costs, paid in increments of 25% over four years. The payments will be made starting February 2010 and depend on their continued employment by the Group.

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

At 28 February 2011 1 666 (28 February 2010: 1 902) employees qualified for the rights.

Year granted	Year maturing	Risk free rate	Rights Number	Value per right	Portion of term expired	Expected vesting portion	Adjusted value
		%		R	%	%	
2008	2010	6.7	83 300	77.14	100	87	5 600
2008	2011	6.7	83 300	77.14	100	87	5 600
2008	2012	6.7	83 300	77.14	75	87	4 218
2008	2013	6.7	83 300	77.14	60	76	2 929
Grand total		6.7	333 200	77.14	84	84	18 347

Liability as at 28 February 2011	18 347
Less payments	(13 659)
February 2010	2 588
February 2011	11 071
Net liability	4 688

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

Dividend yield	*1.74%*
Volatility	*34.4%*
Ex dividend share price	*156.29*

(2) *Average South African executive staff turnover of 10% p.a. (2010: 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.*

40. Derivative financial instruments: economic hedges

Included in trade and other payables are the following forward foreign exchange contracts:

	Notional amount R'000	Fair values Assets R'000	Fair values Liabilities R'000
2011			
Forward foreign exchange contracts			
Notional amounts in ZAR	**4 271**	**–**	**203**
Notional amounts in USD	**579**	**–**	**–**
2010			
Forward foreign exchange contracts			
Notional amounts in ZAR	487	5	–
Notional amounts in USD	63	–	–
Notional amounts in ZAR	1 284	4	–
Notional amounts in GBP	105	–	–
Notional amounts in ZAR	102	–	–
Notional amounts in AUD	15	–	–
Notional amounts in ZAR	515	–	–
Notional amounts in EUR	48	–	–

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 R4.3 million (2010: R2.4 million).

41. Derivative financial instruments: cash flow hedges

	Notional amount R'000	Fair values Assets R'000	Fair values Liabilities R'000
2011			
Interest rate swaps	**380 000**	–	**6 066**
2010			
Interest rate swaps	**380 000**	–	23 109

	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
2011					
Discounted swap cash flows	–	**6 066**	–	–	**6 066**
Margin paid	–	–	–	–	–
Net	–	**6 066**	–	–	**6 066**
2010					
Discounted swap cash flows	–	4 496	14 386	4 231	23 113
Margin paid	–	(4)	–	–	(4)
Net	–	4 492	14 386	4 231	23 109

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 28 February 2011, the fixed interest rates were between 12.14% and 12.5% and the floating rates were based on forecast 3-month JIBAR rates at 28 February 2011.

The fair value adjustment removed from the cash flow hedging reserve and transferred to the income statement amounting to a debit of R22 million (2010: R15.9 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 2011 and 2010. There were no transactions for which cash flow hedge accounting had to be discontinued in 2011 and 2010 as a result of highly probable cash flow no longer being expected to occur.

43. Shareholders holding more than 5% of the company's ordinary shares

Shareholder	Shares held	Shareholding
Year ended 28 February 2011	Number	%
PSG Group Limited	32 314 970	34.60
Limietberg Beleggings (Pty) Limited	12 932 269	13.85
Coral Lagoon Investments 194 (Pty) Limited	10 000 000	10.71

44. Black economic empowerment shareholding

Shareholder	Shares held	Shareholding
Year ended 28 February 2011	Number	%
Coral Lagoon Investments 194 (Pty) Limited	10 000 000	10.71
Thembeka Capital Limited	3 473 193	3.72
Merlyn Claude Mehl	70 784	0.08
Nonhlahnla Mjoli-Mncube	110 000	0.12
	13 653 977	14.62

45. Shareholding by executive management[(1)]

Shareholder	Shares held	Shareholding
Year ended 28 February 2011	Number	%
CG van Schalkwyk	682 345	0.73
CG Fischer	1 165 179	1.25
A Olivier	187 808	0.20
R Prinsloo	389	0.00
C Williams	550	0.00
L Venter	283 306	0.30
C Oosthuizen	67 125	0.07
NST Motjuwadi	–	0.00
JE Carstens	–	0.00
GM Fourie	963 592	1.03
	3 350 294	3.59

[(1)] *Executive directors' shareholdings is presented in Note 7.1 of the directors report.*

46. Highest paid individuals other than directors

Employee	Salaries	Fringe benefits	Bonuses	Total
Year ended 28 February 2011	R'000	R'000	R'000	R'000
GM Fourie (Executive: operations/sales)	3 200	34	670	3 904
A Olivier (Executive: business development)	2 782	30	581	3 393
C Oosthuizen (Executive: information technology)	2 750	176	625	3 551
	8 732	240	1 876	10 848

Statutory information

Analysis of shareholders holding ordinary shares

	Number of shareholders	% of total	Number of shares	% of interest
1 – 1 000	5 532	74.39	1 719 569	1.84
1 001 – 10 000	1 578	21.22	4 327 622	4.63
10 001 – 100 000	260	3.50	7 924 579	8.49
100 001 and over	66	0.89	79 415 902	85.04
	7 436	100.00	93 387 672	100.00
Shareholder spread				
Public shareholders	7 412	99.68	32 355 893	34.65
Holdings less than 5%	7 412	99.68	32 355 893	34.65
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	45.31
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	45.31
Coral Lagoon Investments 194 (Pty) Limited	1	0.01	10 000 000	10.71
PSG Financial Services Limited	1	0.01	32 314 970	34.60
Directors (refer to page 90 for detail)	22	0.30	18 716 809	20.04
Directors of company or any subsidiaries	6	0.08	378 167	0.40
Associates of directors of company or any of its subsidiaries	16	0.22	18 338 642	19.63
	7 436	100.00	93 387 672	100.00

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

	Number of shareholders	% of total	Number of shares	% of interest
1 – 1 000	462	49.36	249 064	8.68
1 001 – 10 000	438	46.79	1 356 582	47.28
10 001 – 100 000	33	3.53	871 588	30.38
100 001 and over	3	0.32	391 780	13.66
	936	100.00	2 869 014	100.00
Shareholder spread				
Public shareholders	935	99.89	2 848 014	99.27
Holdings less than 5%	934	99.79	2 703 076	94.22
Holdings of 5% and more	1	0.11	144 938	5.05
Grindrod diversified preference share fund	1	0.11	144 938	5.05
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 92 for detail)	1	0.11	21 000	0.73
None of the directors hold preference shares				
Associates of directors of company or any of its subsidiaries	1	0.11	21 000	0.73
	936	100.00	2 869 014	100.00

Special resolution of a subsidiary

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

Capitec Bank Limited ("Capitec Bank" or "the bank")

Special resolution number 1: Acquisition of shares in holding company

Resolved that the bank be authorised as a general approval to acquire shares issued by its holding company, upon such terms and conditions and in such amounts as the directors of the bank may from time to time decide, but subject to the provisions of sections 85 to 89 of the Companies Act, 1973 (Act 61 of 1973) ("the Act"), the Banks Act, 1990 (Act 94 of 1990), the articles of association of the bank and holding company respectively and insofar as it may be applicable, the Listings Requirements of JSE Limited ("JSE") from time to time, provided always that :

- This general approval shall expire at the date of the bank's next annual general meeting in 2011, but not later than 2 September 2011;
- Purchases of securities in the listed holding company will only be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the bank and the counterparty (reported trades are prohibited);
- An announcement must be published when the bank has acquired on a cumulative basis, 3% of the number of shares the holding company had in issue prior to the acquisition, pursuant to which the aforesaid 3% threshold is reached, containing full details thereof as well as for each 3% in aggregate of the initial number of that class acquired thereafter;
- Acquisitions by the bank of shares in its holding company will be limited to an aggregate of 10% of the holding company's issued capital as at the date this authority is granted;
- The bank will not purchase shares in the holding company at a price more than 10% above the weighted average of the market value for the five business days immediately preceding the date of acquisition. To the extent applicable, the JSE will be consulted for a ruling if the company's securities have not traded in such five business day period;
- The bank will at any point in time, if applicable, appoint only one agent to effect any purchase(s) of the holding company's shares;
- The bank will not purchase any shares in its holding company during any prohibited period as defined in par 3.67 of the Listings Requirements of the JSE unless a repurchase programme is in place in respect of which the dates and quantities of ordinary shares to be traded during such period are fixed and full details of such programme have been disclosed in an announcement on SENS prior to the commencement of the prohibited period."

The effective date of this resolution shall be, subject to registration of same by the Registrar of Companies, from the date of approval of this resolution by the shareholder of the bank.

Shareholders' calendar

Financial year-end
28 February 2011

Profit announcement
30 March 2011

Integrated annual report
May 2011

Annual general meeting
3 June 2011

Interim report
September 2011

Ordinary dividend

JSE Code
CPI

ISIN
ZAE 000035861

Last date to trade to be considered for the dividend payment
Friday, 17 June 2011

Record date in respect of the dividend payment
Friday, 24 June 2011

Payment date
Monday, 27 June 2011

Share certificates may not be dematerialised or rematerialised, both days inclusive, 20 to 24 June 2011.

Administration and addresses

Capitec Bank Holdings Limited

Registration number
1999/025903/06

Auditors
PricewaterhouseCoopers Inc.

Directors
MS du P le Roux (Chairman)
R Stassen (Chief executive officer)
AP du Plessis (Financial director)
RJ Huntley (appointed 14 April 2011)
MJ Jooste (appointed 28 January 2011)
TD Mahloele (resigned 18 January 2011)
MC Mehl (Prof)
NS Mjoli-Mncube (Ms)
PJ Mouton
CA Otto
JG Solms
JP van der Merwe

Secretary
CG van Schalkwyk

Registered address
1 Quantum Street, Techno Park,
Stellenbosch 7600

Postal address
PO Box 12451, Die Boord,
Stellenbosch 7613

Website
www.capitecbank.co.za

control

is simplicity
with transparency