

Tax strategy governance and approach to tax risk

2025
Igniting
growth and
opportunity



Capitec Bank Holdings Limited

Tax strategy governance and approach to tax risk

Introduction

With approximately 17 000 employees, serving millions of clients, the actions of Capitec Bank Holdings Limited and its subsidiaries (Capitec or the group) have a significant impact on its stakeholders, on society and on how business is done in the industry. Acting with integrity and exercising the right behaviour is critical to fulfilling Capitec's role as a good corporate citizen and ensuring that it maintains a sustainable business.

The group's values are to be fair, accountable and driven and ensure that the group operates in an environmentally friendly and responsible manner. The group complies with rules and regulations, operating at the highest levels of integrity and ethics, and ensures that its business practices are not discriminatory.

The primary objective of the tax management framework is to ensure compliance with the various tax laws affecting the group. The tax management framework and tax risk policy align with Capitec's ethics management framework.

Tax risk policy

All persons engaged in the management of Capitec tax matters should do so having due regard for compliance with tax law, protection of shareholder value and constructive engagement with tax authorities.

Compliance

Capitec is committed to compliance with the spirit and the letter of the tax laws and regulations in the countries in which it operates. Capitec follows a zero-tolerance approach to non-compliance. Strict controls are in place to ensure compliance with all tax legislation and regulations at all times.

Capitec aims to ensure it is aware of all relevant tax risks, including those relating to compliance matters, financial reporting, tax audits and legislative developments. We have established policies which govern our approach to identifying, managing and mitigating tax risks. Identified tax risks are actively managed within an appropriate tax risk framework and control procedure. Significant risks are routinely reported to the board and audit committee, and recorded on the appropriate risk register. The tax policy and tax management framework are approved by the audit committee, a subcommittee of the board.

Shareholder value

Under- and overpayment of taxes negatively affects shareholder value. Capitec management should manage tax matters to minimise the risk of under- or overpayment of taxes. Management should be aware of available incentives put in place by tax authorities and apply these where relevant.

Capitec is committed to using structures of commercial substance and not to transfer value created to low-tax jurisdictions or 'tax havens' for tax avoidance purposes.

Engagement

Capitec recognises the important role of the South African Revenue Service (SARS) and National Treasury, and it is our policy to be transparent and proactive in all interactions with them. Capitec fosters positive working relationships with SARS representatives. Additionally, Capitec should follow industry developments on tax matters and be represented on relevant industry committees to stay abreast of such developments and ensure that Capitec's views are represented.

Tax management framework

The Capitec tax management framework is based on the following principles:

Principle	Description
Prudence	A degree of caution must be exercised in matters of tax uncertainty
Competence	As a general or preferred rule, where possible, Capitec seeks to perform work in-house. The use of experts and tax consultants is considered where necessary
Skills and experience	All employees involved in tax-related matters must have adequate skills and experience to perform their functions
Timeliness	Tax matters are project managed to ensure the timeliness of submissions and payments
Supervision and validation	All tax calculations, submissions and payments must be subject to appropriate review and authorisation
Accuracy	All tax calculations must aim for maximum accuracy
Transparency	Management should communicate with all tax stakeholders in a transparent manner
Reputation	Due care should be given to the group's reputation and the impact that all tax matters have on the reputational risk of the group

Consideration of the tax legislation requires management to address 4 specific areas on an ongoing basis:

Group tax function	Description of tax function
Tax operations, risk and planning	Consideration of the impact of changes in legislation, business, products or structure
Reputational and strategic risk	Ensure that tax risks are managed within the risk appetite in the context of Capitec's enterprise risk management framework
Tax accounting and reporting	Reporting to SARS and executive management on tax matters, developments, risks and non-compliance
Tax compliance	Day-to-day administration of payments, submission of returns and audit reviews conducted by SARS

Classification of tax risks

The tax risk classification must take cognisance of the following elements of tax risks:

- **Financial risk** – an adverse impact on cash as a result of the group reaching an incorrect view on the application of tax laws
- **Compliance systems risk** – an instance of inability to comply with regulatory and statutory requirements (Example: Use of incorrect data, late lodgement of a tax return and SARS scrutiny)
- **Operational risk** – the risk of loss arising from inadequate or failed internal processes, people and systems (Example: Inadequate documentation to support transactions or a transaction is not implemented in accordance with advice)
- **Reputational or strategic risk** – uncertainties and untapped opportunities embedded in the business's overall strategic intent (Example: Reputational risk resulting in negative publicity, creating a high-risk profile with SARS or a higher risk rating leading to increased costs of compliance).

Tax risks include existing obligations to pay an amount as a result of events occurring in the present, past and future.

Tax certainty and tax planning

Capitec aims to keep its tax affairs simple and focuses primarily on business outcomes. While it is the inherent right of each taxpayer to plan its affairs in such a manner that the tax liabilities are minimised, Capitec does not undertake aggressive tax planning.

Capitec is committed to ensuring that the tax impact of a transaction is underpinned by the business rationale thereof. Capitec does not embark on any transaction where the sole or main purpose of the transaction is to achieve a tax benefit. Stated differently, Capitec always concludes transactions on the basis that its sole or main purpose is for business reasons, other than to obtain a tax benefit.

The focus of Capitec with regard to 'tax planning' is to obtain 'tax certainty' and to reduce uncertain tax positions as far as possible.

To increase tax certainty within the group, it is required that the group tax function must be consulted and approve the following before implementation:

- Major contracts or transactions
- Acquisitions or disposals of companies or businesses
- Change in the legal structure of the group, including, but not limited to, share buy-backs, internal reorganisations, liquidations and deregistrations.

Tax advisors

Taxation is an extremely complex area necessitating specialist tax advice from time to time.

The group tax function will consider whether external tax advice should be obtained whenever faced with a particular challenge. In considering the need for external tax advice, the group tax function will *inter alia* consider the following:

- The technical complexity of the issue for consideration and whether in-house skills are available
- Whether or not the issue is an uncertain tax position and protection against understatement penalties is required in terms of section 223 of the Tax Administration Act, Act 28 of 2011
- Resource constraints within the tax department.

While external tax advice is valuable in assisting management to make appropriate decisions, the final responsibility of ensuring that the tax advice is legal, appropriate and relevant rests with the group tax function and the chief financial officer (CFO).

Interactions with National Treasury and SARS

The Capitec group is a key role player in the South African banking and insurance sectors. Amendments to tax legislation may significantly impact the viability, competitiveness and economic contribution to be made by the group to the South African economy.

The group tax function should consider proposed legislation, draft interpretation notes, discussion documents and other relevant documentation for public comment published by SARS and National Treasury. The group tax function should consider the impact of these publications on the business of Capitec and should make suitable recommendations to the Association for Savings and Investment South Africa, the Banking Association South Africa or the South African Institute of Chartered Accountants as part of an industry response.

Non-resident companies

This policy document records the policy regarding South African resident companies. It is recorded that the CFO of each non-resident company is responsible for that entity's own tax affairs and tax risk management, which need to align to the group tax policy.

Capitec is committed to the following:

- Not to transfer value created to low-tax jurisdictions
- Undertake transfer pricing using the arm's length principle
- Not to use secrecy jurisdictions or so-called tax havens for tax avoidance.

The responsibility of the group tax function is limited to the following:

- To obtain quarterly status reports from the various non-resident companies within the group that contain the following details:
 - Tax compliance status (For instance: Filings made, outstanding filings)
 - Status of tax disputes, requests for information and tax audits
 - Uncertain tax positions
- The collation of sufficient information that will enable the group tax function to consider the appropriate South African tax treatment (Example: Controlled foreign companies, permanent establishment, section 6quat credits or deductions, transfer pricing, to name a few)
- To ensure that non-resident companies adopt and maintain this policy, as amended for local laws and regulations.

Governance

The Capitec board has overall responsibility for the management and control of the group. Approval of and ultimate responsibility for corporate governance and the tax management framework and tax risk policy rests with the board.

The CFO, an executive director of the board, is ultimately responsible for tax governance within the group. The CFO is accountable for tax accuracy, completeness and transparency. The CFO relies on the group tax function and subsidiary CFOs to ensure that the group complies with its tax responsibilities towards SARS and that tax is reported accurately in the annual financial statements. The CFO ensures that the group tax strategy aligns with the Capitec code of conduct and the group's core values. The CFO is responsible for ensuring that relevant tax matters are reported to the board of directors and the audit committee. The CFO ensures that tax risks are managed within the risk appetite in the context of Capitec's enterprise risk management framework.

