CAPITEC Bank

ANNUAL REPORT **2005**

CONTENTS

Banking made easy

simplicity *n* a service made easy
convenience *n* freedom from effort or difficulty
service *n* an act of assistance
accessible *adj* able to be accessed; friendly and easy to talk to; approachable
affordable *adj* have sufficient money, time or means for
PHRASE
banking made easy
DERIVATIVE
customer service
(syn) see **CAPITEC BANK**


CAPITEC
Bank
CAPITEC
Bank

OPERATIONAL STATISTICS

	February 2005	February 2004	Change %	February 2003
OPERATIONS				
• Number of branches	251	265	(5)	266
• Number of employees	1 708	1 402	22	1 180
• Number of ATMs	180	75	140	58

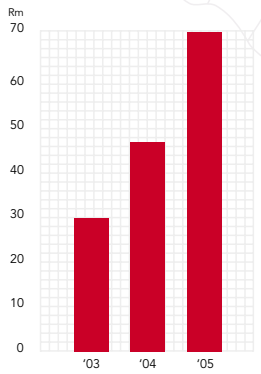
GEOGRAPHICAL REPRESENTATION

Region	Number of branches
Western Cape	40
Northern Cape	10
Eastern Cape	31
Free State	17
Gauteng	58
North West	14
Limpopo	16
Mpumalanga	22
KwaZulu-Natal	43
TOTAL	251

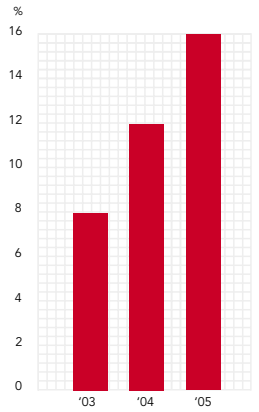
KEY PERFORMANCE INDICATORS

		February 2005	February 2004	Change %	February 2003
SALES					
Loans					
• Value of loans advanced	Rm	**2 259**	1 904	19	1 477
• Number of loans advanced	‘000	**2 486**	2 617	(5)	2 454
• Average loan amount	R	**909**	728	25	602
• Net loan impairment expense	Rm	**39**	29	34	33
• Net impairment % of repayments	%	**1,45**	1,43	1	2,58
Deposits					
• Number of savings accounts	‘000	**143**	18		–
• Value of savings deposits	Rm	**74**	4		–
PROFITABILITY					
• Attributable earnings	Rm	**68**	45	50	30
• Headline earnings	Rm	**70**	47	49	30
• Attributable earnings per share	Cents	**99**	68	46	46
• Headline earnings per share	Cents	**102**	70	46	46
• Diluted attributable earnings per share	Cents	**92**	63	46	44
• Diluted headline earnings per share	Cents	**95**	65	46	45
• Cost-to-income ratio – banking activities	%	**73**	76	(4)	75
• Return on equity	%	**16**	12	33	8
• Proposed dividend per share	Cents	**30**	20	50	19
ASSETS					
• Total assets	Rm	**804**	510	58	434
• Net loans and advances	Rm	**208**	135	54	116
• Cash and cash equivalents	Rm	**363**	160	127	104
• Equipment to total assets	%	**22**	29	(24)	31
• Capital expenditure	Rm	**84**	44	91	31
LIABILITIES					
• Total liabilities	Rm	**327**	82	299	49
• Deposits	Rm	**281**	49	473	26
EQUITY					
• Shareholders’ funds	Rm	**477**	428	11	386
• Capital adequacy ratio	%	**84**	98	(14)	99
• Net asset value per share	Cents	**676**	623	9	611
• Tangible net asset value per share	Cents	**643**	552	16	502
• Share price at 28 February	Cents	**1 490**	580	157	260
• Market capitalisation at 28 February	Rm	**1 072**	399	169	164
• Number of share options outstanding	‘000	**6 753**	7 860	(14)	8 079
• Average share option strike price	Cents	**271**	153	77	144

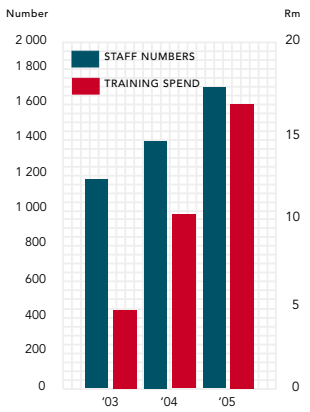
HEADLINE EARNINGS



RETURN ON EQUITY



STAFF NUMBERS AND TRAINING SPEND




CAPITEC
Bank
SAVINGS

CAPITEC BANK AT A GLANCE

ESTABLISHED: On 1 March 2001 and listed on the JSE Securities Exchange South Africa on 18 February 2002.

FOCUS: A retail bank that focuses on providing accessible and low-cost banking services to clients via the innovative use of technology, in a manner that is convenient, simplified and personalised.

MARKET: Anyone who requires low-cost, simplified banking. The bank has acquired over 350 000 clients to date.

DISTRIBUTION: 251 branches and 180 ATMs countrywide, conveniently placed in shopping centres or near commuter points.

CONNECTIVITY: Full interbank connectivity provides further access for clients to 10 000 ATMs and 200 000 point-of-sale machines.

RETAIL CASH WITHDRAWALS: In addition to debit card purchases at most major retailers, cash withdrawals are offered at Checkers, Shoprite and Pick 'n Pay.

UNIQUE OFFERING: A single Global One Banking Facility that includes savings accounts, transacting facilities at ATMs or point-of-sale machines, stop orders and debit orders, 30-day/90-day personal loans and term loans, interbank transfers and retail purchases, all packaged in one facility and accessed via a single gold card.

BANK SYSTEM: An innovative, advanced banking system uses biometric access control to minimise administrative requirements and bank costs. Capitec Bank is therefore able to offer banking facilities that are highly accessible, very secure, easy to operate, fast and at less than half the cost of other banks.

branches *n* outlet, customer interface
- **251 countrywide**
- **minimum hours 08:00 to 17:00**
- **often open 07:00 to 19:00**

PHRASE
banking made easy
DERIVATIVE
accessible
(syn) see **CAPITEC BANK**

THE SERVICE EXPERIENCE: The unique banking system provides a paperless environment, whether clients are opening a Global One Banking Facility, making a deposit, taking a loan or transacting. No client is ever required to fill in a form.

SECURITY: A cashless branch environment results in an open, accessible, friendly atmosphere where clients are seated and served at consulting desks without the restrictions caused by glass or metal barriers.

BANKING HOURS: Branches are open from eight in the morning to five in the afternoon, but often from seven in the morning to seven at night.

CLIENT SUPPORT: The bank offers 24-hour client support via its call centre, should there be a need for enquiries regarding the bank's products or services.

INDUSTRY RELATIONSHIPS: Capitec Bank, a registered clearing bank and member of the Payments Association of South Africa, is connected to all the key payment streams such as the Saswitch transaction network and the ACB. The bank is internationally partnered with Mastercard for local and international card transactions.

STAFF PROFILE: The bank employs over 1 700 staff members with the following employee profile: African 61,8%, White 19,4%, Coloured 16,5% and Indian 2,3%.

BEE REQUIREMENTS: Capitec Bank subscribes to the financial services charter and is compliant with the requirements as defined to date. In a recent Financial Mail study on BEE, Capitec Bank was placed 29th out of 184 listed companies that were surveyed.


CAPITEC
Bank
Global One
Facility
SAVINGS
ATM
In-store

THE CAPITEC REVOLUTION

Capitec is fomenting a revolution. A revolution is needed to make banking accessible to all South Africans. Revolutions are fun, but difficult. Our revolution is based on modern, low-cost technology which enables us to offer our clients dramatically lower fees and a unique service.

The building phase of a revolutionary model can be precarious. We invested what we consider huge amounts of money, we reduced prices and we hoped to see a significant increase in client numbers. So far it has worked, but we remain vulnerable to even small discrepancies between our projections and actual trends. We trust that our shareholders will take sufficient comfort from the good years to fortify them for the odd lean year that may befall us.

card *n* small rectangular piece of plastic containing machine-readable personal data
- **low-cost transacting**
- **cash withdrawals at retailers**
- **secure – pin based**

PHRASE
banking made easy
DERIVATIVE
affordable
(syn) see **CAPITEC BANK**

REDUCED FEES, INCREASED COSTS, INCREASED PROFIT

We offer the lowest bank fees in South Africa and we have just reduced them further by 20 cents per transaction (when the government dropped a bizarre tax on transactions). Our ATM fees are fixed at R1,80 per transaction (and a withdrawal at a major retailer costs only 55 cents). We pay 10% interest per annum on the daily balances of a savings account (up to R25 000 per account) and have kept our rates at that level during a year when all rates were heading south. We charge the lowest rates for short-term cash loans and have reduced them further for clients who bank with us.

The number of Capitec bank clients grew eightfold during the year. Our total loan volume increased by 19%. We converted 79 branches to full bank branches. We employ 306 more people than a year ago. Inevitably our costs increased substantially – by 28%.

Our profit jumped by 50% to R68 million.

A CAPITEC BANK BRANCH IN LUSIKISIKI

Every conversion of a branch to a full banking branch requires an investment in infrastructure and in the training of consultants. Our branch network is skewed towards smaller towns. For instance, we have no branches in Sandton, seven in downtown Johannesburg, four in Soweto and also four in Polokwane. We have branches in Jane Furse, Lusikisiki and Kwaggafontein. There are not many places left without a Capitec Bank branch.

We have 180 ATMs. A branch with an ATM carries no cash (apart from coins) and does only electronic transactions. Having an ATM in a branch, greatly reduces the risk of robberies and enables us to eliminate the heavy, user-unfriendly glass partitions between clients and tellers. Robberies remain a serious threat to banking in South Africa. This year we were the victim of 11 robberies (with a loss of R0,3 million) compared to 26 last year (with a loss of R1,9 million). We however assume the risk of loss when money is transported on our behalf. Eight heists cost us a further R2,4 million.

We have obtained access to low-cost transacting and cash withdrawals at major retailers in South Africa. Our clients can now do purchases and cash withdrawals for only 55 cents at retailers such as Checkers, Shoprite and Pick 'n Pay.

Our system offers clients a unique banking experience. No client is ever required to fill in a form. Whether they open an account or simply make a deposit, it is all done online by a consultant. We capture a photograph and the ID of every new client on the system and this photograph appears on the screen along with the account details whenever we deal with that client. Every transaction is validated by biometrically recording a fingerprint of the Capitec Bank consultant involved. Our system is easy to operate, very secure and fast. A loan transaction takes an average of only 191 seconds.

Our branches are open from at least eight in the morning to five o'clock in the afternoon, but often from seven to seven.

A PROFIT MARGIN OF 3,0%

Our profit margin increased from 2,4% of turnover in 2004 to 3,0% in 2005.

Most of our profit for the year was derived from small personal loans. Bank fees contributed only R4,0 million, a figure which will grow significantly. We increased our turnover to R2,3 billion, an increase of 19% over 2004.


CAPITEC
Bank
Global One Gold Card
5054 0950 0001 0094
10/12

For the second consecutive year our attributable earnings increased by 50%. Bear in mind, however, that we came off a very low base of R30 million in 2003 and that conditions are currently very favourable. A company that cannot make money in circumstances such as we are experiencing now, will probably never make money. Still, our return on equity is only 16%. That is better than last year's 11,6%, but short of the 20% which we think is a decent return on our shareholders' money.

We carry a tax loss and R30 million of the tax expensed was actually written off against the deferred tax asset; in short, we generated R30 million more cash than our profit figure indicates. Only R23 million of our tax asset remains and we expect this to be exhausted during the coming year.

The directors propose a dividend of 30 cents per share, subject to shareholders' approval. Last year the dividend was 20 cents per share.

MICROLOANS ARE EXPENSIVE

It is expensive to grant small, unsecured personal loans and our costs, inevitably, result in high fees for our clients. It is one of Capitec Bank's ambitions to make microcredit more accessible by reducing the cost of lending while offering more products designed to meet the exact needs of the market.

In a brief* on microfinance, the Consultative Group to assist the Poorest, a World Bank organisation, explains the higher rates charged for small loans: "Why are microcredit interest rates higher than bank interest rates? Because the costs of making a small loan are higher in percentage terms than the costs of making a larger loan. If the actual cost per loan is $25, the percentage cost is 0,25 percent for a $10 000 loan, but 25 percent for a $100 loan."

During the year we granted a total of 2,5 million loans with an average size of R909 (2004: 2,6 million loans with an average size of R728). The interest we charge on short-term loans declined further to an average of 17,8% a month (2004: 19,9%). We make a profit of R27 per loan, or 3,0% of loan value. Like all averages, these figures hide more than they reveal because our new three-month loan made a sizeable contribution to turnover. The percentage cost of the three-month product is lower than that of the one-month cash loan for two reasons: the cost of granting the loan is amortised over three payments and the loans are bigger. However, the risk of default increases as the loan period increases. Our fees for a one-month loan vary between 15% and 21,5% per month and for a three-month loan between 9% and 12,5% per month, depending on whether the client banks with us or not.

** Donor Brief No 6, September 2002*

For the first time we need to define when we consider a loan to be in arrears. With a one-month loan things are very simple: should a loan not be repaid on the due date it is in arrears. With a term loan the bank has the option to regard a loan as still active even though a payment has been missed. (No bank considers a home loan to be in arrears when one payment is missed.) We have, however, taken the easy (and conservative) route of considering all loans to be in arrears as soon as a single payment has been missed. Inevitably our arrears on three-month loans are higher than on one-month loans, and our total arrears rate will be determined in part by the ratio of three-month to one-month loans. All arrears are written off after 90 days. As we make each loan, we make a provision against the loan for expected bad debts. This provision is 2,5% for short-term loans and 3,7% for three-month loans. The following table gives the detail:

	Three-month loans		One-month loans		All loans	
	2005	2004	2005	2004	2005	2004
Number '000	323	55	2 163	2 562	2 486	2 617
Value Rm	657	105	1 602	1 799	2 259	1 904
Average loan size R	2 034	1 918	741	702	909	728
Average monthly rate %	11,8	12,8	20,3	20,3	17,8	19,9
Bad debt %	3,6	5,6	0,6	1,2	1,45	1,43
Total net write-off Rm	29	5	10	24	39	29

The government will soon be proposing new credit legislation. Current legislation is obsolete, but will the new legislation be realistic or will it be utopian, making it more expensive for us to do business when the need is to reduce costs?

WORLD LEADER IN CARD TECHNOLOGY

We have developed the world's first off-line card system based on the EMV standard, through the use of microchip technology. EMV is the global standard that ensures that smart cards issued in one country can be accepted by terminals worldwide. The smart card is embedded with a computer chip, in contrast to traditional cards with a magnetic strip which contains just the account number. The Capitec Bank smart card carries an electronic "cash wallet" with readily accessible money, which is ideal for small transactions and is very secure. Transactions are off-line, with no time delay, cost-free and suited to remote areas. Best of all, when the card is lost or stolen, the money in the "wallet" can be refunded. This card will bring about another revolution: the introduction of electronic banking to remote areas.

MasterCard has been highly supportive as a partner in this project. All our cards carry their Maestro brand and it is with their help that Capitec Bank cards are accepted internationally. MasterCard has 25 000 member banks internationally.

TRAINING BANKERS

We appointed 555 new employees, resulting in a net increase of 306 people. We invest heavily in our people: on average our branch employees attended three training courses during the year. We spent R18 million (including overheads) on training, an unheard of 12% of our salary bill.

When we started we were disheartened by the large number of employees who stole from the company. Slowly but surely we are building a competent, enthusiastic and honest work force. This year we fired 34 people for dishonesty. This is still an unacceptable number, but it is half the number of last year.

In terms of our empowerment share scheme, the bank subsidises the purchase price of Capitec shares bought by our employees by 10%. At the moment 191 people participate in the scheme. Everybody is encouraged to participate and some invest amounts as small as R20 per month. When a branch hits the magic target of R2 million loans in a month, each consultant at the branch receives 500 Capitec shares. It is our dream that all our employees will eventually own Capitec shares.

SHARES, OPTIONS AND DIRECTORS

As approved by shareholders, we issued 1,4 million new shares at market price to Arch Equity, a listed black-owned company that now holds 15,6% of Capitec's shares. Arch Equity paid market prices for all the shares it acquired in Capitec. Desmond Lockey, Arch Equity's chief executive officer, joined our board in December 2004. We also issued 1,6 million new shares at market price to 19 members of management (including two executive directors) and two black non-executive directors.

The bank has a strong and loyal management team. Those who are in a position to influence the growth of the bank as a whole, participate in an option scheme. The rise in our share price means that those who exercised options during the year, made a good paper profit. In most cases it remains a paper profit as those shares have not been sold. We think it mitigates risk if optionholders are also significant shareholders.

During the year 1,8 million options were exercised by members of management. They paid R2,5 million for the shares of which the market price was R13,4 million in total. In addition, Michiel le Roux, who retired as chief executive officer (but who remains a non-executive director), was granted the right to exercise all outstanding

options at the time to a value of R1,6 million, of which the market price was R6,4 million. There are 6,8 million options outstanding, with a difference between option price and market price at year-end of R82 million. This obligation is partially hedged by the fact that the Capitec share incentive trust holds 1,5 million Capitec shares, purchased at an average price of under R12 which will satisfy most options to be exercised in the next financial year. Capitec share options represent a significant cost to the company and we account for this cost according to international accounting statements. We believe in options as an instrument to reward management for the wealth they help to create for shareholders.

Neels Borstlap, who was the founder of Finaid Financial Services – the predecessor of Capitec Bank – and one of the founders of Capitec Bank itself, resigned as an employee and board member in October 2004 to start another enterprise. We appreciate his contribution to Capitec Bank.

information technology
phr electronic foresight
- **paperless account opening**
- **paperless transacting**
- **fast and secure**

PHRASE
banking made easy
DERIVATIVE
simplicity
(syn) see **CAPITEC BANK**

DOES GOVERNMENT REALLY SUPPORT SMALL BUSINESSES?

Four years ago we acquired a banking licence and embarked on a major empowerment adventure: to provide banking to people who cannot afford traditional banking products. We charge the lowest fees of all banks, offer the highest retail savings rates and have halved the cost of short-term personal loans to our clients. In the process we have created 1 708 jobs and trained hundreds of people as bankers. One would think government would be elated about what we do, but that is not our impression. We are subjected to a plethora of rules that seem to be aimed at making business expensive, for instance:

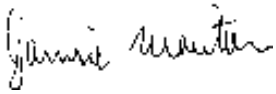
- We spent R18 million on training during the year – a year in which our shareholders received R14 million in dividends. This equals 12% of our salary bill and is a massive burden on a new company. Yet we are forced to make a net contribution of R0,5 million to the bank SETA as a training levy.
- When we catch an employee stealing from the company, we are not allowed to deduct our loss from the last salary we pay the thief. We are forced to submit a civil claim and inevitably we are told, months later, that the thief is unable to repay us. Why does labour legislation protect his ill-gotten gains?

WE'RE OPTIMISTIC, BUT WARY

The past year has been a friendly one for any business serving the public. The minister of finance contributed to our optimism by eliminating a tax of 20 cents per debit transaction – a benefit which we immediately passed on to our clients. The minister also reduced company tax to 29% for the new year.

More important is the outlook for the economy. For many decades a South African boom inevitably ended in a crunch triggered by a lack of foreign currency. This was usually manifested in rising interest rates. Although our country remains vulnerable to a lack of external confidence, this time we believe that growth will continue and will benefit all South Africans. In a benign climate Capitec Bank will prosper.

As we build our bank, costs will continue to rise at a rapid rate. Our shareholders can be assured that we do understand the value of money. We remain conservative in spending money (nobody flies business class) and cautious in ensuring that the bank always has enough of it (we ended the year with R363 million in cash and throughout the year our cash covered all current deposits). We plan for a continued rise in revenue – fee income on our banking products will start contributing for the first time – and we are budgeting for a rise in headline earnings per share of 20% to 40%. This forecast has not been reviewed or reported on by our auditors. Our bank is going through a continuous revolution and, as with all revolutions, real risks remain.



Jannie Mouton
Chairman

Riaan Stassen
Chief executive officer


CONVERSE
ALL ★ STAR
RINCETON
CHECKOUT
APITEC
Bank
CAPITEC
Bank


ORLANDO

DIRECTORATE AND EXECUTIVE

CAPITEC BANK HOLDINGS AND CAPITEC BANK BOARDS

Non-executive

Johannes Fredericus Mouton (58) BComm (Hons), CA(SA), AEP

Jannie is chairman of Capitec Bank Holdings and Capitec Bank as well as chairman of PSG Group Limited. He is non-executive director of Remgro Limited and Steinhoff International Holdings Limited. He also serves as a trustee of trusts and investment funds of Stellenbosch University. Prior to the establishment of PSG Group, Jannie co-founded and served as managing director of the stockbroking firm SMK.

Michiel Scholtz du Pré le Roux (55) BComm LLB

Michiel has 30 years' experience in commerce and banking. He was managing director of Distillers Corporation (SA) Limited ("Distillers") from 1979 to 1993, and from 1995 to 1998 managing director of Boland Bank Limited, NBS Boland Limited and BoE Bank Limited. Michiel was one of the founding members of the Capitec Bank group and resigned from his position as chief executive officer effective 31 March 2004.

Desmond Lockey (43) BA (Hons) Business Management and Administration

Desmond is the chief executive officer of Arch Equity Limited, a black empowerment investment company and a director of PSG Group Limited, both listed companies. He is also a director of various other companies. He was a representative at the multiparty negotiating forum that negotiated the transition to democracy in South Africa and served as a member of Parliament from 1984 to 2004. He is the chairman of the corporate communications committee and a member of the directors' affairs committee of Capitec Bank.

Chris Adriaan Otto (55) BComm LLB

Chris has been an executive director of PSG Group Limited since its formation and currently serves as chief executive officer of PSG Capital Limited, the private equity and corporate finance division of PSG Group. He has been directly involved in the establishment of PSG's investment in microfinance and subsequent establishment of Capitec Bank of which he has been a non-executive director since establishment.

Independent non-executive

Merlyn Claude Mehl (Prof) (62) PhD (Physics)

Merlyn serves on the boards of various companies. He was previously chancellor of Peninsula Technikon and chief executive of the Independent Development Trust. He is presently executive chairman of Triple L Academy (Pty) Limited.

Nonhlanhla Sylvia Mjoli-Mncube (46) MA City and Regional Planning

Nonhlanhla is chairperson of Nurcha, the National Urban Reconstruction and Housing Agency in South Africa, and director of Mjoli Development group. She was Nurcha's executive director from 1994 until 2003. She sits on several boards in the housing finance sector.

Jan Georg Solms (50) BAcc, CTA, CA(SA)

Johnnie has been a member of the JSE Securities Exchange South Africa since 1981, and is stockbroker and executive director of stockbrokers Independent Securities Holdings (Proprietary) Limited.

Jacobus van Zyl Smit (Dr) (63) BComm LLB, CTA, CA(SA), DComm

Jacobus is a director of BAT Holdings SA (Proprietary) Limited. He was previously a partner of Coopers & Lybrand Chartered Accountants. He is chairman of the Capitec Bank Holdings audit and risk committees.

Executive

Riaan Stassen (51) BComm (Hons), CA(SA)

Chief executive officer

Riaan was managing director of Boland PKS, a division of BoE Bank Limited from 1997 to 2000. Previous positions include head of operations of Boland PKS (1995 – 1997), operations director of Distillers (1992 – 1995) and group financial manager of Distillers (1989 – 1992). He was appointed chief executive officer effective 31 March 2004.

André Pierre du Plessis (43) BComm (Hons), CA(SA)

Financial director

André has 20 years' business advisory, financial consulting and strategic and financial management experience. He was a partner at Arthur Andersen where he worked from 1986 to 1996, and was the chief executive – financial management of Boland PKS from 1996 to 2000.

CAPITEC BANK HOLDINGS AND CAPITEC BANK MANAGEMENT COMMITTEE

Riaan Stassen (51) BComm (Hons), CA(SA)
Chief executive officer

André Pierre du Plessis (43) BComm (Hons), CA(SA)
Financial director

Carl Gustav Fischer (48) BComm (Hons), MBA
Chief executive – Marketing and corporate affairs
Carl was chief executive for 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 Limited (1993 – 1996).

Gerhardus Metselaar Fourie (41) BComm (Hons), MBA
Chief executive – Operations
Gerrie was area general manager of Stellenbosch Farmers' Winery (1997 – 2000), focusing on distribution and sales.

André Olivier (37) BComm (Hons), CA(SA)
Chief executive – Business development
André was a financial risk manager at Boland PKS from 1997 to 2000, after which he was head of operations of PEP Bank, the micro-lending division of BoE Bank Limited. He gained extensive audit and business advisory experience with Arthur Andersen (1990 – 1997).

Christiaan Oosthuizen (50)
Chief executive – Information technology
Chris held the position of chief executive – information technology at Boland PKS, where he was employed from 1976 to 2000.

Christian George van Schalkwyk (49) BComm LLB, CA(SA)
Chief executive – Risk management and company secretary
Christian was chief executive – credit risk and legal services at Boland PKS from 1997 to 2000. Previous positions include being a partner at attorneys Jan S de Villiers (1987 – 1996) and tax consultant at Arthur Andersen (1985).

Leonardus Venter (43) BA (Hons), MA (Industrial Psychology)
Chief executive – Human resources
Leon was a human resources manager at Iridium Africa from 1998 to 1999. Previous positions include manager – human resources and support at Telkom SA (1993 – 1997) and area personnel manager at Iscor Limited (1986 – 1992).

1. BOARD AND DIRECTORS

1.1 Role and function of the board

The board of Capitec Bank acts as the chief custodian on behalf of all stakeholders in the company. In this regard the following important principles apply:

- The board comprises a majority of non-executive directors with a strong contingent of independent non-executives. Four of the full complement of ten directors are independent non-executives.
- The board members represent a mixture of skills and diverse backgrounds.
- The board is provided with timeous, comprehensive and quality information, ranging from standardised monthly financial results and two-monthly board packs to occasional visits to branches by board members.
- Great emphasis is placed on proper and correct declarations of interest by directors in compliance with relevant legislation. The register of directors' interests is circulated at every board meeting and signed by all members present.
- The board meets at least six times per annum. A record of attendance by each board member is published as per Annexure A.
- The board has formulated a definition of what it regards as a material malfunction relative to the extent of the operation of the company. In addition it has delegated certain powers to management with due regard for potential conflict between fiduciary responsibility on the one hand and operational efficiency on the other.
- The board annually approves a detailed budget supported by a business plan and a written exposition of the strategy of the company.
- Information assessed by the board comprises financial as well as non-financial information and enables the board to assess the adequacy and efficiency of corporate governance and internal controls in operation from time to time.

1.2 Role and function of the chairperson

The chairman of the board of Capitec Bank is a non-executive director with proven business acumen and is of good standing in the South African business community. Principles of good corporate governance are complied with in that:

- the roles of chairman and chief executive are separated;
- the chairman actively participates in the selection of board members;
- the chairman ensures that all directors are given opportunity to add value to the formulation of strategy of the company; and
- informal linking between board and management is easily facilitated through the chairman.

1.3 Role and function of the chief executive officer

The chief executive officer of Capitec Bank has a role separate from that of the chairman and deals with the following. He:

- takes initiative in managing relationships with shareholders and the investment public in general;
- provides input in the development of company strategy; and
- acts as the chief spokesperson on behalf of the company.

1.4 Role of the executive and non-executive directors

The board of Capitec Bank is constituted in a manner which ensures:

- a proper balance between non-executive and executive directors;
- non-executive directors are selected on the basis of skill and experience;
- the company has a remuneration committee headed by a non-executive director;
- non-executive directors are not granted share options; and
- executive directors do not have fixed-term service contracts.

1.5 Director selection and development

The company has a directors' affairs committee led by the chairman. This committee annually performs an appraisal of the board's performance. It further concerns itself with succession both at board and executive management level and recommends new appointees to the board. The company enables directors to acquaint themselves with the business over which they preside, inter alia in the following manner:

- non-executive directors are given the opportunity to interact with management at management forums;
- directors are notified on an ongoing basis of relevant legislation affecting their position within the specific business; and
- board members attend informative presentations on directors' duties at the expense of the company.

1.6 Board and director appraisal

Through the directors' affairs committee, the board from time to time performs evaluation and assessment of itself as a functioning body as well as of the contribution of each individual director.

1.7 Disqualification of directors

Any potential new appointees to the board are scrutinised by the directors' affairs committee and, if deemed appropriate, recommended for appointment to the full board. Only once the full board has resolved to approach a new appointee and such individual accepts, the regulatory process (including approval by South African Reserve Bank) commences. If successfully complied with, the appointment becomes effective; otherwise the appointment is not proceeded with.

1.8 Board committees

The board has appointed a number of committees to assist it in the performance of its duties. These include:

- Management committee
- Directors' affairs committee
- Audit committee
- Remuneration committee
- Risk committee

Principles enshrined in the functioning of these committees include:

- drafting and acceptance of individual charters including terms of reference;
- full disclosure of committee activities to the board; and
- use of non-executive and independent appointees to serve on committees.

Further particulars on each of the committees are set out in Annexure B.

1.9 The business judgement rule

The board is presented with timeous and sufficiently detailed information to enable them to exercise fair judgement in deliberation on company matters. Should the "business judgement rule" therefore be upheld in South Africa, directors should not fall foul.

1.10 Role and function of the company secretary

The company secretary:

- strives to inform the board of relevant legislation;
- makes available information on the company to board members;
- ensures compliance with statutory and regulatory matters; and
- acts as primary point of contact for shareholders.

2. RISK MANAGEMENT

2.1 Definition

Capitec Bank views risk management as a measure of ensuring a responsible return on shareholders' equity.

2.2 Responsibility

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.

With specific committees such as the operational risk committee (responsible for managing legal, compliance, technology, operational and reputational risks), the asset and liability committee (looking after interest rate, market, liquidity, counterparty and currency risk as well as capital adequacy) and the credit committee appointed to deal with defined areas of risk management, it is ensured that the company approaches risk management in a structured manner. Ultimately risk management is assessed by the risk committee comprising non-executive directors. An awareness

of risk thus pervades every aspect of our business and is seen as the responsibility of each and every employee of Capitec Bank.

2.3 Assimilating risk to the control environment

The company operates in a structured manner with defined processes and procedures. This enables risk assessment within a controlled environment. Accordingly, an annual 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.

2.4 Application of risk management

At the current stage in the lifecycle of Capitec Bank, the greater risks reside in information technology, human skills levels, credit extension and the regulatory environment. Thus the emphasis tends to fall in these areas, but mitigation of all risks to an acceptable level relative to the return produced by the activity concerned, remains a central theme of the manner in which Capitec Bank conducts business.

3. INTERNAL AUDIT

3.1 Status of internal audit

The company has an independent internal audit department with direct access to both the chairman and the chief executive officer. Apart from own staff it functions on a co-sourced basis with Deloitte as external consultants and in accordance with a charter approved by the audit committee, to which a report is submitted at every meeting of the committee.

3.2 Role and function of internal audit

The internal audit function focuses on adding value to the operations of Capitec Bank. To this end it emphasises:

- compliance with company policies and procedures;
- regulatory compliance;
- prevention of theft and fraud; and
- production of quality management information.

3.3 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 Capitec Bank and is drafted with the strategic aim of the bank in mind. In our developing environment great emphasis is placed on implementation and efficiency of systems. In addition, the operational environment is closely monitored and assurance derived that controls are functioning adequately. Increased emphasis is placed on development of centralised monitoring. In this process, any deficiency detected in governance is escalated to management for action.

4. INTEGRATED SUSTAINABILITY REPORTING

4.1 Scope of review

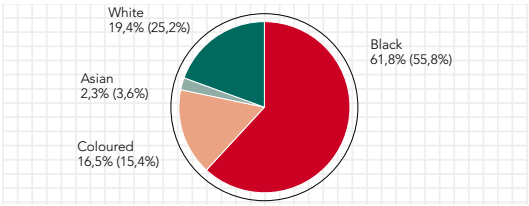
Aware of the potentially endless scope of reporting on integrated sustainability of the business of Capitec Bank within the universe in which it exists, the company has positioned itself as socially and environmentally conscious and strives to take its place as a responsible corporate citizen. This attitude is reflected in and substantiated by what is reported below and should encompass ever-widening reaches as the company grows and prospers in years to come, to the betterment of all stakeholders.

4.2 Stakeholder relations

Relationships with stakeholders are governed by, inter alia, the following:

- Shareholders – they are respected as the providers of capital and the company strives to provide them with a reasonable return as well as sufficient information on which investment decisions can be based. We strive to maintain regular, transparent and timely communication with our shareholders through the media, our website, formal announcements and shareholders' meetings. We create wealth for shareholders; our market capitalisation exceeded R1 billion for the first time during the year under review.
- Regulators – our relationships with regulators are maintained in a businesslike manner, frank, open and with mutual respect. We acknowledge the task and responsibility of regulators. As a result we have had valued support from these bodies in building a business which contributes to the improvement of society. From our dominant position, holding between 30% and 40% of the market share in the 30-day microloan industry, we play an important role in regularising the microlending industry and improving service levels available to the public.
- Suppliers – we strive to manage these relationships in an atmosphere of certainty and fairness. Service level agreements are general practice. Capitec Bank has implemented a targeted procurement strategy to enhance black economic empowerment (BEE), the aim being in line with the Financial Services Charter to procure at least 50% of supplies from BEE-accredited companies by 2008 and 70% by 2014. R175 million of Capitec Bank's expenditure procurement is subject to its BEE procurement policy. Of this expenditure, 30% of supplies are procured from BEE-accredited companies.
- Communities – Capitec Bank returns something to the communities in which we function. For this purpose we have a small budget for meritorious cases in charity and social upliftment.
- Employees – the employment equity profile of Capitec Bank is 81% black and 19% white. At present almost 100% of employees recruited in the operational division are previously disadvantaged.

STAFF PROFILE



We have run 310 training programmes during the year under review, accommodating 3 963 employees and indirectly, as a result of inter alia this training, were able to have a substantial number of internal promotions.

We have approved 47 bursaries to our staff for tertiary education in 2005, of which at least 70% was awarded to previously disadvantaged employees.

In terms of an empowerment share purchase scheme for employees, they are assisted by the company to acquire shares to the extent of 10% of the value of shares purchased, and by year-end 11,2% of all employees participated in this scheme.

4.3 Ethical practices and organisational integrity

Capitec Bank intends to become an institution in the communities which it serves. For this reason the board and management ruthlessly enforce the highest standards of ethical behaviour, from internal compliance with policies and procedures to external criminal prosecution of offenders.

We subscribe to the Code of Good Banking Practice and expect our employees to bind themselves to support and maintain the ethical principles and standards prescribed by the board and management.

4.4 Safety, health and the environment (SHE)

Capitec Bank cherishes the safety of its employees. For this reason security of our staff remains an ongoing concern and considerable time and resources are spent on combating armed robbery – the unacceptable face of our society. We remain committed to stamping out this evil and work within the banking industry to achieve this aim.

It is very important to Capitec that its employees work in a healthy and safe environment, and the exposure of branch personnel to robberies due to their working in a traditionally cash rich environment is of great concern. For this reason the company has implemented and continues to implement strategies to enhance security at branches. One of the core business strategies of Capitec is to create a cashless environment in the branches. This is effected by installing ATMs for cash dispensing and secure drop safes to deposit cash,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leaving consultants with only a minor daily float for small transactions. ATMs are however excessively expensive and it is financially not viable to install ATMs in all branches in a single year. Capitec thus continues to implement ATMs in branches focusing on those branches in high-risk areas first. To date we have installed 180 ATMs. The drop safes are emptied regularly by an independent security firm and cash is counted and banked off premises. In addition to standard security measurements, security guards are deployed at high-risk branches.

In terms of the Occupational Health and Safety Act, 1993 (Act 85 of 1993), a policy has been set in place in accordance with which health and safety representatives, first-aid workers and emergency wardens have been appointed at head and regional offices. These employees have been trained to cope with work-place accidents and other emergency situations. Details of emergency officials are made available to all employees.

As a retail financial services supplier, our business has little or no direct impact on the environment. However, by extending credit in a manner which may contribute to the relief of poverty, we hope to contribute in the long term to relieving pressure on the environment and creating sustainability.

5. AUDITING

5.1 Assurance

In compliance with the Banks Act, 1990 (Act 94 of 1990), the board annually reports on the going concern status of our business and documents reasons for their conclusion.

Regular consultation takes place between internal and external auditors and the latter develops their programmes in consultation with the former to enable them to rely on work done internally.

We are privileged to have as our external auditors a prestigious international firm. Audit fees are annually set in advance by the audit committee in a manner which should not impact on the scope of the audit.

Our audit committee:

- comprises a majority of non-executive directors;
- is chaired by an independent non-executive;
- has a charter approved by the board and has complied with its responsibilities in terms thereof during the year under review;
- submits the minutes of its meetings to the board;
- reviews the company's internal controls through the work of the internal audit department; and
- reviews the scope and results of the external audit.

5.2 Non-audit services

Non-audit services rendered by our external auditors are limited to ad hoc tax advice and other assurance-related services within the parameters of a policy approved by the audit committee and for which the consideration is disclosed in our annual financial statements.

CAPITEC Bank

ANNUAL FINANCIAL STATEMENTS **2005**

CONTENTS OF THE ANNUAL FINANCIAL STATEMENTS

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

CAPITEC BANK HOLDINGS LIMITED AND ITS SUBSIDIARIES

The directors are responsible for the preparation, integrity and fair presentation of the financial statements of Capitec Bank Holdings Limited and its subsidiaries. The financial statements presented on page 27 to 63 have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP), 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 GAAP 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 for 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 and its subsidiaries 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 within the group will not be going concerns in the foreseeable future, based on forecasts and available cash resources. These financial statements support the viability of the company and the group.

The Code of Corporate Practices and Conduct has been adhered to, as noted in the corporate governance and risk management review.

The group's external auditors, PricewaterhouseCoopers Incorporated, audited the financial statements and their report is presented on page 26.

The financial statements were approved by the board of directors on 30 March 2005, and are signed on its behalf by:

Jannie Mouton
Chairman

Riaan Stassen
Chief executive officer

CERTIFICATE BY THE COMPANY SECRETARY

I hereby certify, in terms of section 268G of the Companies Act, 1973 (Act 61 of 1973), that to the best of my knowledge, for the year ended 28 February 2005, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

CG van Schalkwyk
Company secretary

Stellenbosch
30 March 2005

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF CAPITEC BANK HOLDINGS LIMITED

We have audited the annual financial statements and group annual financial statements of Capitec Bank Holdings Limited, set out on pages 27 to 63, for the year ended 28 February 2005. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion these financial statements fairly present, in all material respects, the financial position of the company and group at 28 February 2005 and the results of their operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the South African Companies Act.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc
Chartered Accountants (SA)
Registered Accountants and Auditors

Cape Town
30 March 2005

DIRECTORS' REPORT

The directors present their annual report, which forms part of the audited financial statements of the company, for the year ended 28 February 2005.

1. NATURE OF BUSINESS

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

2. REVIEW OF OPERATIONS

The operating results and the state of affairs of the company and the group are fully set out in the attached balance sheets, income statements, statements of changes in shareholders' equity, cash flow statements and notes thereto. The group's earnings attributable to shareholders amounted to R67,9 million (2004: R45,3 million).

3. FINANCIAL RESULTS AND DIVIDENDS

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

Current year dividend

A dividend of 30,0 cents per share is proposed (2004: 20,0 cents). No accrual was made for this dividend, which is in line with recommended accounting practice.

It is not practice of the company to declare an interim dividend.

Previous dividend

A dividend of 20,0 cents per share was declared on 26 May 2004 and paid on 14 June 2004. The dividend of R13 767 450, less R37 744 relating to shares held by the share incentive trust, was settled in cash.

4. SHARE CAPITAL

Movements relating to share capital during the year, disclosed in the statement of changes in shareholders' equity (page 34), include:

Specific issue of shares

A total of 3 091 162 shares were issued in the current year in terms of the JSE Listings Requirements. These comprise:

- 1 445 580 issued to management, including two executive directors;
- 200 000 shares issued to two black non-executive directors; and
- 1 445 582 shares issued to Arch Equity Limited, a listed black-owned company. Arch Equity Limited thereby increased its shareholding in the company to 15,62% of the issued share capital. This transaction was accounted for in terms of AC133 – Financial Instruments: Recognition and Measurement.

Odd-lot offer

During the year the company extended an odd-lot offer to all shareholders who, at the close of business on 23 July 2004, held less than 500 shares. The odd-lot offer permitted these shareholders to either purchase additional shares at a price of 627 cents in order to increase their odd-lot holding to 500 shares or to sell their odd-lot holding to the company at a price of 690 cents. Alternatively these shareholders had the option of retaining their odd-lot holdings. A total of 195 164 shares were acquired and 124 979 shares were sold, with the resulting excess acquired by the share incentive trust.

Settlement of share options

The group settled 2 899 857 options (2004: 876 780 options) relating to the existing share incentive scheme. 2 785 257 options (2004: 820 632 options) were settled through purchases of shares in the open market while the balance of 114 600 (2004: 56 148 options) were settled in cash.

5. DIRECTORS AND SECRETARY

Information relating to the directors and secretary of the company is presented on pages 28 to 31 of the financial statements and on page 14 and on the inside back cover of the annual report.

6. INTERESTS OF THE DIRECTORS IN SHARE CAPITAL AND CONTRACTS

6.1 At year-end, the directors, in aggregate, were directly or indirectly, beneficially or non-beneficially, interested in 35 923 488 (2004: 23 635 616) Capitec Bank Holdings Limited shares, equivalent to 49,94%, (2004: 34,34%) of the issued share capital of Capitec Bank Holdings Limited. The individual interests of the directors were as follows:

2005	Number of shares held					
	Beneficial		Non-beneficial		Total	
	Direct	Indirect	Direct	Indirect	Shares	%
AP du Plessis	–	800 000	–	–	800 000	1,11
MS du P le Roux *	–	–	–	12 292 244	12 292 244	17,09
D Lockey **	–	–	–	11 250 913	11 250 913	15,64
MC Mehl	100 000	–	–	–	100 000	0,14
NS Mjoli-Mncube	100 000	–	–	–	100 000	0,14
JF Mouton	304 297	–	–	7 033 104	7 337 401	10,20
CA Otto	967	–	–	753 760	754 727	1,05
JG Solms	–	–	–	18 183	18 183	0,03
R Stassen	135 122	–	–	2 930 761	3 065 883	4,26
J van Z Smit	173 430	–	–	30 707	204 137	0,28
	813 816	800 000	–	34 309 672	35 923 488	49,94

2004	Number of shares held					
	Beneficial		Non-beneficial		Total	
	Direct	Indirect	Direct	Indirect	Shares	%
CJ Borstlap ***	–	–	–	320 322	320 322	0,47
AP du Plessis ****	–	314 290	–	–	314 290	0,46
MS du P le Roux	–	–	–	11 083 713	11 083 713	16,10
MC Mehl	–	–	–	–	–	–
NS Mjoli-Mncube	–	–	–	–	–	–
JF Mouton	33	–	–	8 255 611	8 255 644	11,98
CA Otto	33	–	–	775 573	775 606	1,13
JG Solms	–	–	–	18 183	18 183	0,03
R Stassen	135 122	–	–	2 562 382	2 697 504	3,92
J van Z Smit	139 647	–	–	30 707	170 354	0,25
	274 835	314 290	–	23 046 491	23 635 616	34,34

* *MS du P le Roux retired as an executive director and was appointed as a non-executive director on 31 March 2004.*

** *D Lockey was appointed as a non-executive director on 23 December 2004. The shares held mainly represent Arch Equity Limited's shareholding in Capitec Bank Holdings Limited.*

*** *CJ Borstlap resigned on 6 October 2004.*

**** *In addition to AP du Plessis' shareholding, 220 710 shares were held in the name of PSG Corporate Services (Pty) Limited until such time as the director repaid a loan related to the financing of these shares. The loan was fully repaid in the 2005 financial year.*

6.2 At year-end the directors were participants in the Capitec Bank Holdings Limited share incentive scheme in respect of 1 669 726 shares (2004: 2 835 933 shares) in Capitec Bank Holdings Limited as follows:

2005			Opening balance	(Options exercised)/ Options granted ***			Closing balance
Directors	Maturity date	Strike price R	Number of share options	Number of share options	Market value R	Exercise date	Number of share options
CJ Borstlap *	31 Aug 04	1,42	38 991	(38 991)	9,70	4 Oct 04	–
(indirect non-beneficial)	30 Sep 04	1,42	7 798	(7 798)	9,70	4 Oct 04	–
	31 Aug 05	1,42	38 991	(38 991)	10,00	25 Oct 04	–
	30 Sep 05	1,42	7 798	(7 798)	10,00	25 Oct 04	–
	31 Aug 06	1,42	7 798	(7 798)	10,00	25 Oct 04	–
	30 Sep 06	1,42	7 798	(7 798)	10,00	25 Oct 04	–
	30 Sep 07	1,42	7 798	(7 798)	10,00	25 Oct 04	–
			116 972	(116 972)			–
AP du Plessis	16 Jul 04	1,42	129 970	(129 970)	13,00	10 Jan 05	–
(indirect beneficial)	16 Jul 05	1,42	129 970	–			129 970
	16 Jul 06	1,42	129 970	–			129 970
	16 Jul 07	1,42	98 777	–			98 777
	29 Apr 07	5,73	–	25 000			25 000
	29 Apr 08	5,73	–	25 000			25 000
	29 Apr 09	5,73	–	25 000			25 000
	29 Apr 10	5,73	–	25 000			25 000
			488 687	(29 970)			458 717
MS du P le Roux **	31 Aug 04	1,42	389 908	(389 908)	5,79	26 May 04	–
(indirect non-beneficial)	31 Aug 05	1,42	389 908	(389 908)	5,79	26 May 04	–
	31 Aug 06	1,42	358 715	(358 715)	5,79	26 May 04	–
			1 138 531	(1 138 531)			–
R Stassen	16 Jul 04	1,42	280 734	(280 734)	13,70	24 Dec 04	–
(indirect non-beneficial)	16 Jul 05	1,42	280 734	–			280 734
	16 Jul 06	1,42	280 734	–			280 734
	16 Jul 07	1,42	249 541	–			249 541
	29 Apr 07	5,73	–	100 000			100 000
	29 Apr 08	5,73	–	100 000			100 000
	29 Apr 09	5,73	–	100 000			100 000
	29 Apr 10	5,73	–	100 000			100 000
			1 091 743	119 266			1 211 009
Total			2 835 933	(1 166 207)			1 669 726

No repricing of options or revision of maturity dates occurred during the year under review other than those noted below.

* *CJ Borstlap was allowed by the board of directors to accelerate the exercise of his options outstanding at 6 October 2004 before the end of October 2004, as a result of his early retirement as a director on 6 October 2004.*

** *MS du P le Roux was allowed by the board of directors to accelerate the exercise of his options outstanding at 31 March 2004 before the end of May 2004, as a result of his early retirement as an executive director on 31 March 2004.*

*** *These options were (exercised)/granted in the current financial year.*

The following options were exercised in the prior financial year.

2004	Options exercised				
Directors	Maturity date	Number of share options	Strike price	Market value	Exercise date
CJ Borstlap	31 Aug 03	38 991	1,42	5,84	16 Feb 04
AP du Plessis	16 Jul 03	31 193	1,42	5,15	15 Jan 04
MS du P le Roux	1 Jan 04	421 101	1,42	5,10	21 Jan 04
R Stassen	1 Jan 04	31 193	1,42	5,20	7 Jan 04

6.3 The directors' remuneration in respect of the financial year ended 28 February 2005 was as follows:

2005	Salaries R'000	Fringe benefits R'000	Bonuses R'000	Fees R'000	Total R'000
Executive					
CJ Borstlap *	637	172	–	–	809
AP du Plessis	921	188	212	–	1 321
MS du P le Roux **	41	10	–	–	51
R Stassen	1 489	270	337	–	2 096
Non-executive					
MS du P le Roux **	–	–	–	92	92
D Lockey	–	–	–	15	15
MC Mehl	–	–	–	80	80
NS Mjoli-Mncube	–	–	–	60	60
JF Mouton	–	–	–	500	500
CA Otto	–	–	–	163	163
JG Solms	–	–	–	100	100
J van Z Smit	–	–	–	120	120
	3 088	640	549	1 130	5 407

* *CJ Borstlap resigned on 6 October 2004.*

** *MS du P le Roux retired as an executive director and was appointed as a non-executive director on 31 March 2004.*

2004	Salaries R'000	Benefits R'000	Bonuses R'000	Fees R'000	Total R'000
Executive					
CJ Borstlap	682	6	–	–	688
AP du Plessis	977	21	–	–	998
MS du P le Roux	580	7	–	–	587
R Stassen	1 485	9	–	–	1 494
Non-executive					
MC Mehl	–	–	–	65	65
NS Mjoli-Mncube	–	–	–	15	15
JF Mouton	–	–	–	100	100
CA Otto	–	–	–	33	33
JG Solms	–	–	–	85	85
J van Z Smit	–	–	–	98	98
	3 724	43	–	396	4 163

7. INVESTMENTS IN SUBSIDIARIES

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

8. MATERIAL EVENTS AFTER YEAR-END

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

BALANCE SHEETS

as at 28 February 2005

	Notes	Group 2005 R'000	Group 2004 R'000	Company 2005 R'000	Company 2004 R'000
ASSETS					
Cash and cash equivalents	3	362 873	159 803	–	–
Investments at fair value	4	16 842	–	–	–
Loans and advances	5	207 897	134 878	–	–
Inventory	6	8 635	9 141	–	–
Other receivables	7	8 020	11 193	–	–
Group loans receivable	8	–	–	101 513	80 443
Investment in subsidiaries	9	–	–	267 914	282 610
Current tax assets	10	–	62	–	–
Property and equipment	11	176 413	146 755	–	–
Goodwill	12	–	–	–	–
Deferred tax	13	23 225	48 670	5	–
Total assets		803 905	510 502	369 432	363 053
LIABILITIES					
Deposits at amortised cost	14	222 412	48 876	–	–
Deposits held at fair value	15	58 283	–	–	–
Trade and other payables	16	45 700	31 709	1	–
Current tax liabilities	10	38	–	–	–
Provisions	17	1 000	1 746	–	–
Group loans payable	18	–	–	5 139	21 637
Total liabilities		327 433	82 331	5 140	21 637
SHAREHOLDERS' FUNDS					
Share capital, premium and group shares	19	330 341	325 878	347 865	326 415
Reserves	20	700	745	–	–
Retained earnings		145 431	101 548	16 427	15 001
Total shareholders' funds		476 472	428 171	364 292	341 416
Total liabilities and shareholders' funds		803 905	510 502	369 432	363 053

INCOME STATEMENTS

for the year ended 28 February 2005

		Group		Company	
	Notes	2005 R'000	2004 R'000	2005 R'000	2004 R'000
Interest income	21	543 982	398 732	–	–
Interest expense	21	(16 890)	(3 518)	–	–
Net interest income	21	527 092	395 214	–	–
Net impairment charge on loans and advances	22	(39 249)	(28 791)	–	–
Income from lending activities		487 843	366 423	–	–
Net fee income		4 423	201	–	–
Fee income		11 338	1 353	–	–
Fee expense		(6 915)	(1 152)	–	–
Dividend income		75	–	16 861	17 873
Net movement in financial instruments held at fair value	23	(6 001)	–	–	–
Non-banking gross profit		4 464	4 057	–	–
Sales		118 039	92 206	–	–
Cost of sales		(113 575)	(88 149)	–	–
Other income		6	396	1 425	2 429
Income from operations		490 810	371 077	18 286	20 302
Banking operating expenses		(385 808)	(301 402)	(1 465)	(2 820)
Non-banking operating expenses		(5 172)	(4 831)	–	–
Operating profit before tax	24	99 830	64 844	16 821	17 482
Tax	25	(31 904)	(19 505)	(1 628)	(51)
Net profit after tax attributable to ordinary shareholders		67 926	45 339	15 193	17 431
Attributable earnings per share (cents)					
Basic	26	98,6	67,6		
Diluted	26	92,4	63,1		
Headline earnings per share (cents)					
Basic	27	101,7	70,1		
Diluted	27	95,3	65,4		
Proposed dividend per share (cents)	28	30,0	20,0		

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

for the year ended 28 February 2005

	Share capital R'000	Share premium R'000	Shares held by the group R'000	Reserves R'000	Retained earnings R'000	Total R'000
GROUP						
Balance at 28 February 2003	632	326 246	–	–	59 055	385 933
Effect of implementation of AC133	–	–	–	700	(353)	347
Restated balance at 1 March 2003	632	326 246	–	700	58 702	386 280
Hedges – fair value gains, net of tax	–	–	–	45	–	45
Net profit for the year *	–	–	–	–	45 339	45 339
Loss on settlement of share options	–	(463)	–	–	–	(463)
Dividend – cash portion	–	–	–	–	(407)	(407)
– nominal value of scrip shares issued	56	(56)	–	–	–	–
Share-based staff costs *	–	–	–	–	61	61
Shares acquired for employee share options at cost	–	–	(537)	–	–	(537)
Realised loss on settlement of employee share options **	–	–		–	(2 147)	(2 147)
Restated balance at 29 February 2004 *	688	325 727	(537)	745	101 548	428 171
Realisation of hedges	–	–	–	(45)	–	(45)
Net profit for the year *	–	–	–	–	67 926	67 926
Shares issued	31	21 772	–	–	–	21 803
Share issue expenses	–	(353)	–	–	–	(353)
Loss on group shares relating to odd-lot offer	–	–	–	–	(415)	(415)
Dividend – cash portion	–	–	–	–	(13 730)	(13 730)
Share-based staff costs *	–	–	–	–	1 068	1 068
Shares acquired for employee share options at cost	–	–	(16 987)	–	–	(16 987)
Realised loss on settlement of employee share options **	–	–	–	–	(15 666)	(15 666)
Tax effect on settlement of options	–	–	–	–	4 700	4 700
Balance at 28 February 2005	719	347 146	(17 524)	700	145 431	476 472
Notes	19	19	19	20		

* *These items reflect the impact of the early adoption of IFRS2 – Share-based Payment on the Statement of Changes in Shareholders' Equity. The comparative figures have been adjusted in accordance with the transitional provisions of the statement (note 44).*

** *During the year the company revised its view regarding the debiting of the group share premium with losses arising on the settlement of share options. These entries have rather been allocated to distributable reserves. Comparative figures have been adjusted to reflect the change in disclosure and the loss of R15 666 000 (2004: R2 147 000) has been reallocated from share premium to retained income.*

	Share capital R'000	Share premium R'000	Reserves R'000	Retained earnings R'000	Total R'000
COMPANY					
Balance at 1 March 2003	632	326 246	–	(2 023)	324 855
Net profit for the year	–	–	–	17 431	17 431
Loss on settlement of share options	–	(463)	–	–	(463)
Dividend – cash portion	–	–	–	(407)	(407)
– nominal value of scrip shares issued.	56	(56)	–	–	–
Balance at 29 February 2004	688	325 727	–	15 001	341 416
Net profit for the year	–	–	–	15 193	15 194
Shares issued	31	21 772	–	–	21 803
Share issue expenses	–	(353)	–	–	(353)
Dividend – cash portion	–	–	–	(13 767)	(13 768)
Balance at 28 February 2005	719	347 146	–	16 427	364 292
Notes	19	19	20		

CASH FLOW STATEMENTS

for the year ended 28 February 2005

	Notes	Group 2005 R'000	Group 2004 R'000	Company 2005 R'000	Company 2004 R'000
CASH FLOW FROM OPERATING ACTIVITIES					
Cash flow from operations	32	330 723	101 433	16 822	17 790
Tax paid	33	(1 639)	(623)	–	(51)
Dividend paid		(13 730)	(407)	(13 767)	(407)
		315 354	100 403	3 055	17 332
CASH FLOW FROM INVESTING ACTIVITIES					
Investment in property and equipment		(84 056)	(44 230)	–	–
Proceeds from disposal of equipment		135	89	–	–
Decrease/(Increase) in loans receivable from group companies		–	2 596	(21 070)	(14 423)
Pre-acquisition dividend		–	–	13 063	–
Acquisition of investments		(16 745)	–	–	–
Acquisition of subsidiaries	34	–	(341)	–	(2 446)
Disposal of subsidiaries	35	–	357	–	–
		(100 666)	(41 529)	(8 007)	(16 869)
CASH FLOW FROM FINANCING ACTIVITIES					
Net cash outflow on odd-lot offer	36	(855)	–	–	–
Decrease in group loans payable		–	–	(16 498)	–
Shares issued	37	21 450	–	21 450	–
Shares acquired and options settled	38	(32 213)	(3 147)	–	(463)
		(11 618)	(3 147)	4 952	(463)
Net increase in cash and cash equivalents		203 070	55 727	–	–
Cash and cash equivalents at beginning of year		159 803	104 076	–	–
Cash and cash equivalents at end of year	3	362 873	159 803	–	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2005

1. ACCOUNTING POLICIES

The accounting policies applied in the preparation of these financial statements comply with South African Statements of Generally Accepted Accounting Practice (GAAP) and are consistent with the accounting policies applied in the previous year, except for the adoption of IFRS2 – Share-based Payment and AC501 – Accounting for Secondary Tax on Companies, applied from 1 March 2004. Adjustments to opening equity balances and the effect on the income statement as a result of adoption of accounting policies are disclosed in note 44.

The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The following are the principal accounting policies used by the company and its subsidiaries:

1.1 Basis of consolidation

The consolidated financial statements include those of the company, all its subsidiaries and the share incentive trust. Subsidiaries are those companies and other entities in which the company, directly or indirectly, has power to govern the financial and operating policies.

The results of all subsidiaries are consolidated from the date effective control was acquired and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of an acquisition over the fair value of the group's share of the net assets of the acquired entity, at the date of acquisition, is recorded as goodwill. Goodwill arising on acquisitions after 31 March 2004 is not amortised. Goodwill is annually tested for impairment and any adjustments for impairment will be recognised immediately in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated, unrealised losses are also eliminated unless costs will not be recovered. The accounting policies used by subsidiaries are consistent with the policies adopted by the group.

1.2 Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, translated at year-end exchange rates, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

1.3 Property and equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes all costs directly attributable to bringing the assets to working condition for their intended use. Depreciation is recorded by a charge to income computed on a straight-line basis so as to write off the cost of the assets over their estimated useful lives as follows:

• Core banking application software	6 years
• Banking application hardware	5 years
• Computer software	2 – 4 years
• Automated teller machines	8 years
• Computer equipment	3 – 4 years
• Office equipment	5 years
• Motor vehicles	5 years
• Buildings	25 years

Gains and losses on disposal of equipment are determined by comparing proceeds with carrying amounts and are included in operating profit.

1.4 Impairment of non-current assets

Equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use.

1.5 Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less. Cash and cash equivalents are stated at cost which approximates fair value due to the short-term nature of these instruments.

1.6 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 realise the asset and settle the liability simultaneously.

1.7 Originated loans and provisions for impairment

Loans and advances originated by the group by providing money directly to the borrower are carried at original contract amount less provision made for impairment of these receivables. An estimate is made for impairment of doubtful advances based on a review of all outstanding amounts at the year-end. Bad debts are written off during the year in which they are identified. An impairment assessment is made of the carrying value of loans and advances by comparing this carrying value with an assessment of the present value of recoverable cash flows, discounted at the asset's original effective interest rate. The resulting difference is recognised as an impairment provision. The movement in the provision is taken to the income statement.

1.8 Deposits held at amortised cost

Deposits are recognised initially at cost, being their issue proceeds (fair value of the consideration received) net of transaction costs incurred and are subsequently stated at amortised cost. Any differences between net proceeds and the redemption value are recognised in the income statement over the period of the borrowing using the effective yield method.

1.9 Deposits held at fair value

Deposits are recognised initially at cost, being their issue proceeds (fair value of the consideration received) net of transaction costs incurred. These deposits are subsequently 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.

1.10 Interest-free loans granted

Interest-free loans granted, with fixed maturities, are stated at amortised cost. The redemption value is discounted to present value using the borrowers incremental borrowing cost. The unwinding of the resulting discount value is recognised in the income statement over the period of the borrowing.

1.11 Derivative financial instruments and hedging

Derivative financial instruments are restricted to forward foreign exchange contracts and are initially recognised in the balance sheet at cost (including transaction costs) and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices. All contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Derivatives are held only for hedging purposes and not for trading.

On the date a derivative contract is entered into, the group designates the contract as either (1) a hedge of the fair value of a recognised asset or liability (fair value hedge); or (2) a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting is used for contracts designated in this way provided certain criteria are met.

The group's criteria for an instrument to be accounted for as a hedge include:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item; and
- the hedge is highly effective throughout the reporting period.

1.12 Investments at fair value

Investments at fair value relate to investments that are held for trading. The fair value of quoted investments in active markets is based on quoted bid prices at the balance sheet date.

1.13 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 inventory comprises finished goods.

1.14 Deferred tax

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. 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.

Deferred tax related to fair value measurement of cash flow hedges is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss. A deferred tax asset is raised on unutilised secondary tax on companies (STC) credits, to the extent that these will be used in future years.

1.15 Provisions

Provisions are recognised:

- when the company 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.

1.16 Revenue recognition

Revenue consists of interest earned on advances. Interest income is recognised as it accrues, taking into account the effective yield on the asset, unless collectability is in doubt. Fee and commission income is recognised on an accrual basis.

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

1.17 Segment reporting

Business segments provide products or services that are subject to risk and returns that are different from those of other business segments. The business of the group is currently located only within South Africa and meaningful geographical analyses cannot be performed.

1.18 Leases

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.

Where a group company is the lessor

Rental from the subletting of leased premises is recognised on a straight-line basis over the lease term.

1.19 Share-based payment

The group operates an equity-settled, share-based compensation plan. Share options are granted to employees as consideration for services received. In accordance with IFRS2 – Share-based Payment, the cost of services received is measured at the fair value of the share options granted. The cost to be expensed over the vesting period is determined by reference to the fair value of the options granted. This cost is then recognised by raising an expense in the income statement over the vesting period and a corresponding increase in equity.

2. SEGMENTAL REPORTING

Primary reporting format – business segments

During the year the group conducted operations in two main business areas – banking and wholesale distribution of consumer goods.

Year ended 28 February 2005	Banking R'000	Wholesale distribution R'000	Adjustment for intra-segment items R'000	Total R'000
Revenues	556 528	118 039	(1 127)	673 440
Segment earnings	69 881	(1 955)	–	67 926
Segment headline earnings	72 013	(1 955)	–	70 058
Segment assets	802 280	11 942	(10 317)	803 905
Segment liabilities	322 060	15 690	(10 317)	327 433
Capital expenditure	82 551	1 505	–	84 056
Depreciation	51 148	53	–	51 201
Goodwill impairment	–	–	–	–
Year ended 29 February 2004				
Revenues	401 207	92 206	(726)	492 687
Segment earnings	46 839	(1 500)	–	45 339
Segment headline earnings	48 489	(1 500)	–	46 989
Segment assets	509 835	10 698	(10 031)	510 502
Segment liabilities	80 243	12 119	(10 031)	82 331
Capital expenditure	44 177	53	–	44 230
Depreciation	32 086	64	–	32 150
Goodwill impairment	1 206	–	–	1 206

Secondary reporting format

No secondary geographical segment information is disclosed as the company's business for the year ended 28 February 2005 was all conducted within the Republic of South Africa. An analysis of the regional distribution of branches is set out on page 2.

	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
3. CASH AND CASH EQUIVALENTS				
Cash on hand	95 689	42 218	–	–
Bank balances	189 378	114 913	–	–
Central bank balances:				
Debentures	73 331	2 006	–	–
Deposits with the central bank	4 475	666	–	
	362 873	159 803	–	–
Debentures are short-term fixed-interest securities issued by the South African Reserve Bank.				
4. INVESTMENTS AT FAIR VALUE				
Listed preference shares at amortised cost	16 745			
Fair value adjustment	97			
Total at fair value	16 842	–	–	–
5. LOANS AND ADVANCES				
Receivable within:				
Demand to one month	174 318	146 460	–	–
One to three months	53 833	17 006	–	–
Three months to one year	–	–	–	–
More than one year	10 414	165	–	–
	238 565	163 631	–	–
Specific provision for impaired advances	(30 668)	(28 753)	–	–
	207 897	134 878	–	–
Included within loans and advances is related accrued interest receivable of R8 697 000 (2004: 7 835 000).				
Movement on provision for impaired advances:				
Balance at 1 March 2004	28 753	32 421	–	–
Transfer of general provision to general banking risk reserve	–	(1 000)	–	–
Movement in provision for loan impairment (note 22)	1 915	(2 668)	–	–
Balance at 28 February 2005	30 668	28 753	–	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2005

	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
6. INVENTORY				
Finished consumer goods	8 635	9 141	–	–
7. OTHER RECEIVABLES				
Prepayments	5 016	8 297	–	–
Rental deposits	1 812	1 879	–	–
Other	1 192	952	–	–
Derivatives (note 43)	–	65	–	–
	8 020	11 193	–	–
8. GROUP LOANS RECEIVABLE				
Loan to share incentive trust	–	–	–	443
Loans to subsidiaries	–	–	101 513	80 000
	–	–	101 513	80 443
All loans are currently interest-free with no fixed terms of repayment.				
9. INVESTMENT IN SUBSIDIARIES				
Unlisted				
Cost	–	–	267 914	282 610
Directors' valuation	–	–	267 914	282 610

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

Name	Domicile	Proportion owned	Nature of business
Capitec Bank Limited	South Africa	100%	Banking
Keynes Rational Corporate Services (Pty) Limited	South Africa	100%	Dormant
Smartfin Financial Services (Pty) Limited	South Africa	100%	Dormant
Finaid Financial Services (Pty) Limited	South Africa	100%	Dormant
Keymatrix (Pty) Limited	South Africa	100%	Dormant
Key Distributors (Pty) Limited	South Africa	75%	Wholesale distribution
Capitec Bank Holdings share trust	South Africa	–	Share incentive trust

The holding company's interest in the aggregate income earned and losses incurred after tax by the subsidiaries amounted to R71,2 million (2004: R44,5 million) and R2,0 million (2004: R1,5 million) respectively. All holdings are in the ordinary share capital of the subsidiary concerned. Holdings are unchanged from 2004, but the value of investments has decreased due to the declaration of a pre-acquisition dividend by Finaid Financial Services (Pty) Limited of R13,1 million with related secondary tax on companies of R1,6 million.

	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
10. CURRENT TAX ASSETS/(LIABILITIES)				
Current tax assets	–	62	–	–
Current tax liabilities	(38)	–	–	–
	(38)	62	–	–

11. PROPERTY AND EQUIPMENT

Group

Year ended 28 February 2005	Land and buildings* R'000	Software R'000	Computer equipment R'000	Office equipment and vehicles R'000	Total R'000
Opening net book value	–	64 032	42 512	40 211	146 755
Additions	1 482	11 296	29 322	41 956	84 056
Disposals	–	–	(335)	(2 862)	(3 197)
Depreciation charge	(26)	(13 296)	(21 451)	(16 428)	(51 201)
Net book value at end of year	1 456	62 032	50 048	62 877	176 413
Cost	1 482	85 639	94 337	103 230	284 688
Accumulated depreciation	(26)	(23 607)	(44 289)	(40 353)	(108 275)
Net book value at end of year	1 456	62 032	50 048	62 877	176 413
Year ended 29 February 2004					
Opening net book value		33 300	65 450	37 023	135 773
Additions		7 193	20 549	16 488	44 230
Disposals		(43)	(233)	(957)	(1 233)
Disposals of subsidiaries		7	53	75	135
Depreciation charge		(7 723)	(12 009)	(12 418)	(32 150)
Reclassification		31 298	(31 298)	–	–
Net book value at end of year		64 032	42 512	40 211	146 755
Cost		74 344	65 403	68 566	208 313
Accumulated depreciation		(10 312)	(22 891)	(28 355)	(61 558)
Net book value at end of year		64 032	42 512	40 211	146 755

** The land and buildings are encumbered in terms of a mortgage bond (note 14).*

	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
12. GOODWILL				
Opening book value	–	–	–	–
Acquisition of subsidiary	–	1 206	–	2 446
Impairment charge	–	(1 206)	–	(2 446)
Net book value at end of year	–	–	–	–
Cost	6 107	6 107	2 446	2 446
Accumulated impairment/amortisation	(6 107)	(6 107)	(2 446)	(2 446)
Net book value at end of year	–	–	–	–

The impairment charge in 2004 comprised the full write-off of goodwill paid of R600 000 on the acquisition of Key Distributors (Pty) Limited, as the subsidiary was trading at a loss. Goodwill of R606 000 on the acquisition of Keymatrix (Pty) Limited (previously Curerisk (Pty) Limited) was impaired as the purchase price was dependent on the collection rates of the arrears book of the acquired business. The increase in goodwill was therefore impaired in the same period as the collection was accounted for.

	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
13. DEFERRED TAX				
Deferred tax is calculated using a principal tax rate of 30% (2004: 30%). The movement on the deferred tax asset account is as follows:				
At beginning of year	48 670	68 448	–	–
AC133 – Adjustment to general doubtful debts provision	–	(300)	–	–
Restated opening balance	48 670	68 148	–	–
Movement in deferred tax taken to income statement	(30 165)	(19 458)	5	–
Utilisation of assessable losses	(33 138)	(20 868)	–	–
Movements due to other temporary differences	2 853	1 392	–	–
IFRS2 – Prior year share-based payment expense	–	18	–	–
STC credits received	120	–	5	–
Tax effect on settlement of share options	4 700	–	–	–
Cash flow hedges				
Fair value measurement	20	(20)	–	–
At end of year	23 225	48 670	5	–
Deferred tax asset may be analysed as follows:				
Assessable losses	16 932	45 370	–	–
Provisions and accruals	5 777	2 914	–	–
Capital allowances	396	406	–	–
STC credits	120	–	5	–
Cash flow hedges	–	(20)	–	–
	23 225	48 670	5	–

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2005

	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
14. DEPOSITS AT AMORTISED COST				
Deposits from customers on demand	73 539	4 337	–	–
Term deposits	148 873	44 539	–	–
– Within one month	7 648	248	–	–
– One to three months	1 042	1 310	–	–
– Three months to one year	1 772	6 002	–	–
– More than one year	138 411	36 979	–	–
	222 412	48 876	–	–
Effective interest rates (%)				
– Demand to one month	9,8	10,1		
– One to three months	10,2	7,6		
– Three months to one year	11,8	10,8		
– More than one year	11,9	12,6		
Term deposits include a mortgage bond of R1,2 million that is secured as stated in note 11. The remainder of the deposits are unsecured.				
15. DEPOSITS HELD AT FAIR VALUE				
Term funding				
– Within one month	–	–	–	–
– One to three months	2 185	–	–	–
– Three months to one year	–	–	–	–
– More than one year	50 000	–	–	–
	52 185	–	–	–
Fair value adjustment	6 098	–	–	–
	58 283	–	–	–
The contractual interest rate on the funding is 13,075% fixed, and the fair value thereof, at 28 February 2005, was determined after applying a discount rate of 9,22%.				
16. TRADE AND OTHER PAYABLES				
Trade payables	24 774	9 598	1	–
Accruals	20 926	22 111	–	–
	45 700	31 709	1	–
17. PROVISIONS				
Provision for pending litigation				
Opening balance	1 746	740	–	–
Net (release)/charge	(746)	1 006	–	–
Closing balance	1 000	1 746	–	–

	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
18. GROUP LOANS PAYABLE				
Loans from subsidiaries	–	–	5 139	21 637
Loans from subsidiaries are interest-free with no fixed terms of repayment.				
19. SHARE CAPITAL, PREMIUM AND GROUP SHARES				
Share capital				
Authorised				
Ordinary shares				
100 000 000 shares of R0,01 each	1 000	1 000	1 000	1 000
Issued				
Ordinary shares				
71 928 412 shares of R0,01 each (2004: 68 837 250 shares of R0,01 each)	719	688	719	688
Share premium	347 146	325 727	347 146	325 727
Shares held by the group				
1 486 339 shares held at cost (2004: 93 762) *	(17 524)	(537)	–	–
Total share capital, premium and group shares	330 341	325 878	347 865	326 415

All issued shares are fully paid.

6 883 725 of the unissued shares are under the control of the directors until the next annual general meeting.

** The share incentive trust holds shares in the group for the purpose of settling share options issued to employees in terms of the group share incentive scheme. The shares are reflected as a deduction against equity at cost to the group. During the year a loss of R16 million (R11 million after tax) was realised on the settlement of share options as reflected in the statement of changes in shareholders' equity.*

	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
20. RESERVES				
The cash flow hedge reserve is released on recognition of the related hedged liability. An analysis of the movements in each category within reserves is presented below:				
Cash flow hedge reserve				
At beginning of year	45	–	–	–
Movements during the year:	–	–	–	–
(Losses)/Gains from changes in fair value	(65)	65	–	–
Deferred tax	20	(20)	–	–
At end of year	–	45	–	–
General banking risk reserve				
At beginning of year	700	–	–	–
Transfer from general doubtful debts provision	–	1 000	–	–
Transfer from deferred tax	–	(300)	–	–
At end of year	700	700	–	–
Total	700	745	–	–
21. NET INTEREST INCOME				
Interest received				
Loan book	533 905	393 177	–	–
Bank balances	7 627	4 459	–	–
Central bank balances	2 450	136	–	–
Loan accounts	–	960	–	–
	543 982	398 732	–	–
Interest paid				
Demand deposits	(2 619)	(138)	–	–
Term deposits	(14 258)	(3 182)	–	–
Foreign exchange contracts	(13)	(198)	–	–
	(16 890)	(3 518)	–	–
Net interest income	527 092	395 214	–	–

	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
22. NET IMPAIRMENT CHARGE ON LOANS AND ADVANCES				
Bad debts	55 608	49 117	–	–
Movement in impairment provision	1 915	(2 668)	–	–
Bad debts recovered	(18 274)	(17 658)	–	–
Net impairment charge	39 249	28 791	–	–
23. NET MOVEMENT IN FINANCIAL INSTRUMENTS HELD AT FAIR VALUE				
Listed preference shares	97	–	–	–
Deposits held at fair value	(6 098)	–	–	–
	(6 001)	–	–	–
Refer to notes 1.9, 1.12, 4 and 15 for detail on how the fair values of the financial instruments were determined.				
24. OPERATING PROFIT BEFORE TAX				
The following items have been included in arriving at operating profit before tax:				
Exceptional items				
Profit on disposal of subsidiaries	–	(357)	–	–
Amortisation and impairment of goodwill	–	1 206	–	2 446
Loss on disposal of equipment	3 062	1 144	–	–
	3 062	1 993	–	2 446
Depreciation on fixed assets				
Change in estimated useful lives of certain hardware components *	5 778	–	–	–
Depreciation based on original estimates	45 423	32 150	–	–
	51 201	32 150	–	–
Operating lease rentals				
Land and buildings	37 485	33 920	–	–
Office equipment	3 730	3 153	–	–
	41 215	37 073	–	–
Income from subletting	(1 140)	(1 123)	–	–
Auditors' remuneration				
Audit fees – current year	1 182	880	–	–
– underprovision previous year	–	78	–	–
Other services	282	117	–	–
	1 464	1 075	–	–

** The tax effect of this adjustment was R1,7 million resulting in a net income statement impact of R4,1 million.*

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	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
24. OPERATING PROFIT BEFORE TAX – *continued*				
Directors' emoluments (included in staff costs below)				
Executive				
Salaries			3 088	3 724
Fringe benefits			640	43
Bonuses			549	–
Non-executive				
Fees			1 130	396
Less: Paid by subsidiaries			(5 407)	(4 163)
			–	–
Number of employees at year-end	1 708	1 402		
Staff costs				
Salaries and wages	146 399	110 538	–	–
Share-based payment	1 068	61	–	–
Social security cost	2 636	2 035	–	–
Training cost	12 911	5 605	–	–
Training refund	(585)	(603)		
	162 429	117 636	–	–
Consultancy fees relating to non-employees comprise:				
Managerial services	295	1 605	–	–
Secretarial services	366	540	168	188
Technical	2 455	1 920	–	–
Administrative	203	2 049	–	–
	3 319	6 114	168	188

	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
25. TAX				
Current tax	1 739	47	1 633	51
– normal company tax	13	(4)	–	–
– secondary tax on companies	1 726	51	1 633	51
Deferred tax	30 165	19 458	(5)	–
– normal company tax	30 285	19 458	–	–
– secondary tax on companies	(120)	–	(5)	–
	31 904	19 505	1 628	51
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	99 830	64 844	16 822	17 482
Tax calculated at a tax rate of 30%	29 949	19 454	5 047	5 245
Secondary tax on companies	1 606	51	1 628	51
Income not subject to tax	(295)	(1 497)	(5 058)	(5 362)
Expenses not deductible for tax purposes	48	1 612	–	734
Unutilised tax loss	589	474	11	16
Prior year unrecognised tax losses utilised	–	(632)	–	(633)
Overprovision previous year	–	(5)	–	–
Capital gains tax	7	–	–	–
Other	–	48	–	–
Tax charge	31 904	19 505	1 628	51
Estimated tax losses at year-end available for utilisation against future taxable income	65 652	158 391	92	53
Less: Applied in raising a deferred tax asset	(56 440)	(151 173)	–	–
Net calculated tax losses carried forward	9 212	7 218	92	53
Tax relief calculated at current tax rates	2 764	2 165	28	16
The utilisation of the tax losses is dependent on sufficient future taxable income being earned.				

26. ATTRIBUTABLE EARNINGS PER SHARE

Basic attributable earnings per share

Basic attributable earnings per share is calculated by dividing the net profit after tax attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. The shares held in the company by the share incentive trust reduced the weighted average number of shares for the year.

	Group	
	2005 R'000	2004 R'000
Net profit after tax attributable to ordinary shareholders	67 926	45 339
Weighted average number of ordinary shares in issue (thousands)	68 860	67 028
Basic attributable earnings per share (cents)	98,6	67,6

Diluted attributable earnings per share

Diluted attributable earnings per share is calculated using the weighted average number of ordinary shares in issue, adjusted to assume conversion of all potentially dilutive ordinary shares. For 2005 and 2004 potentially dilutive ordinary shares consisted only of share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to earnings (numerator).

Net profit used to determine diluted earnings per share	67 926	45 339
Weighted average number of ordinary shares in issue (thousands)	68 860	67 028
Adjustment for:		
– exercise of share options	4 676	4 840
Weighted average number of ordinary shares for diluted earnings per share (thousands)	73 536	71 868
Diluted attributable earnings per share (cents)	92,4	63,1

	Group	
	2005 R'000	2004 R'000
27. HEADLINE EARNINGS PER SHARE		
Basic headline earnings per share		
Net profit attributable to shareholders	67 926	45 339
Non-headline items after tax	2 132	1 650
Disposal of subsidiaries	–	(357)
Amortisation and impairment of goodwill	–	1 206
Disposal of equipment	2 132	801
Headline earnings	70 058	46 989
Headline earnings per share (cents)	101,7	70,1
Diluted headline earnings per share		
Headline earnings	70 058	46 989
Diluted headline earnings per share (cents)	95,3	65,4

28. DIVIDEND PER SHARE

At the annual general meeting on 25 May 2005 a dividend in respect of 2005 of 30 cents per share (2004: 20,0 cents per share) amounting to a total dividend of R21,6 million (2004: R13,8 million) will be proposed. 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 2006, which is in line with recommended accounting policy.

29. FINANCIAL RISK MANAGEMENT

Nature and extent of financial instruments

Financial instruments carried on balance sheet consist of cash and cash equivalents, loans and advances, other receivables, investments, forward foreign exchange contracts, intergroup loans receivable and payable, deposits and current accounts and trade and other payables.

Credit risk

Potential concentrations of credit risk exist principally in cash and cash equivalents. The group only deposits cash surpluses with major banks and asset managers of high credit standing.

Advances are disclosed net of impairment provisions. The group operates in the microfinancing industry. The group's exposure to concentrated 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 customers, daily monitoring of collectible balances at both branch and head office level and monitoring by the risk committee.

Interest rate risk

The group operates within the ambit of the Usury Act exemption notice when considering interest rates on the advance of short-term microloans.

The current group interest profile is uncomplicated and is monitored by the asset and liability committee. Effective rates on deposit balances are disclosed in notes 14 and 15.

Liquidity risk

The bank manages liquidity cautiously and operates an uncomplicated maturity profile which is monitored by the asset and liability committee. 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.

Maturities of assets and liabilities	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	Fair value adjustment R'000	Total R'000
2005						
Assets						
Loans to customers	174 318	53 833	–	10 414	–	238 565
Cash and bank balances	289 542	–	–	–	–	289 542
Investments at fair value *	16 745	–	–	–	97	16 842
Treasury bills/Debentures	73 331	–	–	–	–	73 331
Assets	553 936	53 833	–	10 414	97	618 280
Liabilities						
Liabilities to depositors	81 187	1 042	1 772	138 411	–	222 412
Trade and other payables	46 738	–	–	–	–	46 738
Deposits at fair value *	–	2 185	–	50 000	6 098	58 283
Liabilities	127 925	3 227	1 772	188 411	6 098	327 433
Net liquidity gap	426 011	50 606	(1 772)	(177 997)	(6 001)	290 847
Cumulative liquidity gap	426 011	476 617	474 845	296 848	290 847	290 847

** Items held at fair value are stated at nominal values for the purposes of the maturity gap analysis.*

29. FINANCIAL RISK MANAGEMENT – *continued*

Maturities of assets and liabilities	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	Total R'000
2004					
Assets					
Loans to customers	146 460	17 006	–	165	163 631
Cash and bank balances	157 797	–	–	–	157 797
Investments at fair value *	–	–	–	–	–
Treasury bills/Debentures	2 006	–	–	–	2 006
Assets	306 263	17 006	–	165	323 434
Liabilities					
Liabilities to depositors	4 585	1 310	6 002	36 979	48 876
Trade and other payables	33 455	–	–	–	33 455
Deposits at fair value *	–	–	–	–	–
Liabilities	38 040	1 310	6 002	36 979	82 331
Net liquidity gap	268 223	15 696	(6 002)	(36 814)	241 103
Cumulative liquidity gap	268 223	283 919	277 917	241 103	241 103

** Items held at fair value are stated at nominal values for the purposes of the maturity gap analysis.*

The repricing dates for items above are not materially different from their contractual maturity dates. The maturity groupings have been amended to provide more meaningful disclosure in line with the development in the group's product offering.

Currency risk

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

Capital adequacy

To monitor the adequacy of its capital the group uses ratios established by the South African Reserve Bank (SARB). These ratios measure capital adequacy (minimum 15% as required by SARB) by comparing the group's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. Reporting to the SARB on capital adequacy occurs on a periodic basis. The group capital adequacy ratio at year-end was 84% (2004: 98%).

30. RETIREMENT BENEFITS

The group contributed R6,5 million (2004: R5,4 million) 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). These amounts have been included in staff costs. Since 1 July 2001 it is compulsory for all new appointments to become members of the provident fund. The company 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 to existing or former employees.

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	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
31. RELATED-PARTY TRANSACTIONS				
Transactions with subsidiaries				
Investments in subsidiaries are disclosed in notes 9 and 34.				
Dividend received				
– Capitec Bank	–	–	16 861	17 873
– Finaid Financial Services	–	–	13 810	–
Loans due from:				
– Capitec Bank *	–	–	101 513	80 000
Loans due to:				
– Keynes Rational Corporate Services	–	–	891	891
– Finaid Financial Services	–	–	4 246	19 682
– Capitec Bank	–	–	–	1 063
– Keymatrix	–	–	1	1
Transactions with other related parties				
Operating expenses with former holding company **				
– PSG Corporate Services management fee	–	1 084	–	–
– PSG Corporate Services facility fee	–	227	–	–
Transactions with Arch Equity Limited ***				
– Interest received	849	–	–	–
– Loan receivable	10 000	–	–	–

** R100 million of the loan due from Capitec Bank is subordinated by the company, with a five-year notice period, and qualifies as secondary capital for Reserve Bank capital adequacy requirements (2004: R80 million).*

*** PSG Group unbundled its holdings in Capitec Bank Holdings Limited on 1 December 2003. The above related-party transactions took place up to 1 December 2003.*

**** Arch Equity Limited held 15,62% of the share capital of Capitec Bank Holdings Limited on 28 February 2005 (note 46).*

	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
31. RELATED-PARTY TRANSACTIONS – *continued*				
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.				
32. CASH FLOW FROM OPERATIONS				
Net profit before tax	99 830	64 844	16 821	17 482
Adjusted for				
Other finance charges	–	30	–	–
Non-cash items				
Fair value adjustments	6 001	–	–	–
Movement in impairment charge	1 915	(2 668)	–	–
Depreciation	51 201	32 150	–	–
Goodwill impairment	–	1 206	–	2 446
Movement in provisions	(746)	1 006	–	–
Share-based payment	1 068	61	–	–
Loss on disposal of equipment	3 062	1 144	–	–
Profit on disposal of subsidiaries	–	(357)	–	–
Other items	–	(353)	–	(2 138)
Movements in current assets and liabilities				
Increase in loans and advances	(74 934)	(15 440)	–	–
Decrease/(Increase) in inventory	506	(5 377)	–	–
Decrease/(Increase) in other receivables	3 108	(4 955)	–	–
Increase in deposits	225 721	23 039	–	–
Increase in trade and other payables	13 991	7 103	1	–
Cash flows from operations	330 723	101 433	16 822	17 790
33. TAX PAID				
Outstanding at beginning of year	62	(484)	–	–
Interest due to the Receiver of Revenue	–	(30)	–	–
Charge to the income statement	(31 904)	(19 505)	(1 628)	(51)
Income statement movement in deferred tax	30 165	19 458	(5)	–
Secondary tax on companies	–	–	1 633	
Owing by subsidiaries sold	–	–	–	–
Outstanding at end of year	38	(62)	–	–
Tax paid	(1 639)	(623)	–	(51)

34. ACQUISITION OF SUBSIDIARIES

On 1 March 2003, the company acquired 75% of the share capital of Key Distributors from the PSG Corporate Services (Pty) Limited. Key Distributors (Pty) Limited is a wholesale distribution company. Key Distributors (Pty) Limited incurred an operating loss of R2 million for the year (2004: R1,5 million). No outside shareholding is reflected, as the outside shareholders do not contribute to financing the loss of the company. On a group level the profit warranty given to PSG Corporate Services (Pty) Limited of R2,1 million, which was waived in the prior year, was offset against the purchase consideration to determine the goodwill on acquisition of Key Distributors (Pty) Limited. The effect was a lower group headline earnings.

The details of the assets and liabilities acquired and goodwill arising are as follows:

	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
Equipment	–	135	–	–
Cash and cash equivalents	–	570	–	–
Inventory	–	3 764	–	–
Other receivables	–	510	–	–
Trade and other payables	–	(3 170)	–	
Group loans payable	–	(2 104)	–	–
Goodwill	–	600	–	2 446
Total purchase consideration paid	–	305	–	2 446
Less: Cash and cash equivalents in subsidiary acquired	–	(570)	–	–
Cash (inflow)/outflow on acquisition	–	(265)	–	2 446

During the financial year ended 29 February 2004, the company continued to pay for the acquisition of Keymatrix (Pty) Limited (previously Curerisk (Pty) Limited) based on the purchase contract which specified that the purchase price be determined, based on the collection of the arrears book of the company. The purchase price was fully settled at the close of that financial year.

Assets acquired	–	–	–	–
Liabilities acquired	–	–	–	–
Goodwill	–	606	–	–
Cash outflow on acquisition	–	606	–	–
Total cash outflow on acquisition	–	341	–	2 446

	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
35. DISPOSAL OF SUBSIDIARIES				
Net asset value excluding cash	–	–	–	–
Profit on sale	–	357	–	–
Non-cash proceeds	–	–	–	–
Net proceeds	–	357	–	–
The proceeds on sale of subsidiaries in the prior period related to the receipt of cash on subsidiaries disposed of in the financial year ended 28 February 2003.				
36. NET CASH OUTFLOW ON ODD-LOT OFFER				
Shares acquired	1 347	–	–	–
Shares sold	(784)	–	–	–
Odd-lot expenses	292	–	–	–
	855	–	–	–
37. SHARES ISSUED				
Specific issue of shares	21 803	–	21 803	–
Share issue expenses	(353)	–	(353)	–
	21 450	–	21 450	–
38. SHARES ACQUIRED AND OPTIONS SETTLED				
Share options settled in cash	515	–	–	–
Shares acquired for options settled	19 137	7 976	–	4 584
Proceeds on settlement of options	(3 986)	(5 366)	–	(4 121)
Shares transferred from odd-lot offer	(440)	–	–	–
Increase in shares held by the group	16 987	537	–	–
	32 213	3 147	–	463
39. COMMITMENTS AND CONTINGENT LIABILITIES				
Property rental commitments *				
Within one year	38 010	33 078	–	–
From one to five years	73 795	49 082	–	–
After five years	6 215	–	–	–
	118 020	82 160	–	–
Other operating lease commitments				
Within one year	1 867	1 796	–	–
From one to five years	1 099	1 622	–	–
After five years	–	–	–	–
	2 966	3 418	–	–

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	Group		Company	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
39. COMMITMENTS AND CONTINGENT LIABILITIES – *continued*				
Guarantees				
Issued to non-banking institutions	1 976	1 949	–	–
Capital commitments – approved by the board				
Contracted for	2 514	16 446	–	–
Not contracted for	81 261	39 991	–	–
	83 775	56 437	–	–

** The property rental commitments have been disclosed before taking into account the effects of any escalation clauses provided for in the rental contracts.*

40. BORROWING POWERS

In terms of the articles of association of Capitec Bank Holdings Limited, the directors may at their discretion raise or borrow money for the purpose of the business of the company without limitation. These borrowing powers are subject to the limitations of the Banks Act, 1990 (Act 94 of 1990).

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

41. SHARE INCENTIVE SCHEME

	2005 Number	2004 Number
Options issued to personnel of Capitec Bank Limited		
Total number of options	6 753 192	7 859 924
Balance at beginning of year	7 859 924	8 079 205
Options granted	1 810 000	752 500
Options cancelled	(16 875)	(95 001)
Options exercised	(2 899 857)	(876 780)

Expiry		2005 Weighted average strike price (R)	2005 Number	2004 Weighted average strike price (R)	2004 Number
Financial year	2005/06	1,44	1 545 151	1,44	2 026 464
	2006/07	1,55	1 664 651	1,44	2 026 464
	2007/08	2,63	1 809 640	1,53	2 052 385
	2008/09	4,78	640 625	1,58	1 378 361
	2009/10	4,78	640 625	2,40	188 125
	2010/11	5,78	452 500	2,40	188 125
			6 753 192		7 859 924

42. 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 International Financial Reporting Standard (IFRS) 2 has been applied.

Year granted	Strike price R	Share price on issuing/ repricing date R	Volatility used in valuation (note 3) %	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 (note 4) %	Value taking into account expected vesting proportion R'000
1999/00 (1) (2)	1,42	1,72	40	16,3	2005/06	11,7	68 625	20	94,0	19
2000/01 (1) (2)	1,42	1,72	40	16,3	2005/06	11,7	1 062 373	320	95,4	305
					2006/07	11,7	1 062 373	292	85,9	251
					2007/08	11,7	754 862	187	77,6	145
2001/02 (1) (2)	1,42	1,72	40	16,3	2005/06	11,7	227 653	70	98,1	69
					2006/07	11,7	227 653	64	88,3	56
					2007/08	11,7	227 653	57	79,5	45
2002/03 (2)	1,59	1,71	40	16,5	2005/06	11,6	186 500	47	97,9	46
					2006/07	11,5	186 500	44	88,1	39
					2007/08	11,5	186 500	40	79,3	32
2003/04	2,40	2,52	40	7,4	2006/07	10,3	188 125	123	89,0	109
					2007/08	10,1	188 125	130	80,1	104
					2008/09	10,1	188 125	134	72,1	97
					2009/10	10,0	188 125	135	64,9	88
2004/05	5,73	5,30	28	3,7	2007/08	9,5	440 000	483	72,9	352
					2008/09	9,7	440 000	577	65,6	379
					2009/10	9,8	440 000	652	59,1	385
					2010/11	9,9	440 000	713	53,2	379
	7,36	8,15	28	3,7	2007/08	8,3	12 500	27	72,9	20
					2008/09	8,5	12 500	30	65,6	20
					2009/10	8,7	12 500	33	59,1	19
					2010/11	8,9	12 500	35	53,2	19
Grand total							6 753 192	4 213	70,7	2 978

(1) Initially issued at R5 strike price, repriced to R1,42 on 26 April 2002. Valuation done as at repricing date as required by IFRS2.

(2) Issued/Repriced prior to 7 November 2002 and will never be expensed through the income statement in terms of IFRS2.

(3) The share options granted prior to 28 February 2003 have been valued for disclosure purposes by applying a standard expected volatility of 40% since the short listing history available at the valuation date for those share options was inappropriate for forecasting purposes. The share options granted, to which IFRS2 has been applied, have been valued by applying the expected volatility of the share price after December 2003, as it was considered more appropriate in the valuation because the shares were traded more frequently after the PSG unbundling.

(4) Average South African executive staff turnover of 10% p.a. used to estimate likelihood of vesting conditions realising. Will be re-estimated in terms of IFRS2 on an annual basis.

43. DERIVATIVE FINANCIAL INSTRUMENTS

Included in other receivables are the following forward foreign exchange contracts

	Group		
	Notional	Fair values	
Year ended 28 February 2005	amount	Assets	Liabilities
	R'000	R'000	R'000
The group had no open forward foreign exchange contracts at 28 February 2005.			
Year ended 29 February 2004			
Forward foreign exchange contracts		65	–
– Notional amounts in ZAR	2 006		
– Notional amounts in US$	297		

Forward foreign exchange contracts represent commitments to purchase foreign currency, including undelivered spot transactions.

44. CHANGES IN ACCOUNTING POLICY

Year ended 28 February 2005

The implementation of AC501 – Accounting for Secondary Tax on Companies and IFRS2 – Share-based Payment (which the group adopted early), in the current year had the following effect.

	Group		
	Gross	Tax	Net
	R'000	R'000	R'000
Effect on opening retained earnings			
Income statement effect of IFRS2 for 2004	(61)	18	(43)
Statement of changes in shareholders' equity effect of IFRS2 for 2004	61	–	61
Effect of AC501	–	–	–
	–	18	18
Effect on income statement result			
Year ended 28 February 2005			
Effect of of IFRS2	(1 068)	320	(748)
Effect of AC501	–	120	120
	(1 068)	440	(628)
Year ended 29 February 2004			
Effect of implementation of IFRS2	(61)	18	(43)
Effect of implementation of AC501	–	–	–
	(61)	440	(43)

44. CHANGES IN ACCOUNTING POLICY *– continued*

Year ended 29 February 2004

In the previous financial year the company adopted AC133. The effect on the results of the previous year is disclosed below:

	Group		
Effect of AC133 on results *	Gross R'000	Tax R'000	Net R'000
– Adjustments to retained earnings [1]	(353)	–	(353)
– Adjustments to reserves [2]	1 000	(300)	700
	647	(300)	347

** The effect of implementing AC133 on the results for 2004 was limited due to the short-term nature of the loan book. Comparative figures were not restated and opening adjustments were accounted for directly in opening retained earnings in terms of AC133, which was applied prospectively.*

(1) Interest-free intergroup loans with a fixed maturity were fair valued in equity, with corresponding interest income amortised during the year.

(2) Creation of a reserve within equity for Banks Act regulatory requirements on general provisioning and transfer of prior year general doubtful debt provision net of tax to this account.

45. RINGFENCED ASSETS

In terms of the Keynes Rational Limited restructuring agreement, PSG Investment Bank Holdings Limited, the 100% holding company of PSG Investment Bank Limited, warranted to and in favour of the minority shareholders in Keynes Rational Holdings Limited and to Capitec Bank Holdings Limited that the tangible net asset value of Capitec Bank Limited, as at 28 February 2001, would not be less than R100 million, comprising cash injected as share capital and share premium. During 2002, this liability was assumed by PSG Group Limited on the sale of PSG Investment Bank Holdings Limited.

It was agreed during the abovementioned restructuring that all assets and liabilities ("the ringfenced assets"), other than the R100 million mentioned above, in existence at, or emanating from activities prior to 1 March 2001, would be held and administered for the exclusive benefit, risk, profit and loss of PSG Investment Bank Limited. This benefit was transferred to Axiam Holdings Limited, a 100%-held subsidiary of PSG Group Limited, on the sale of PSG Investment Bank Holdings Limited.

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

Year ended 28 February 2005

Shareholder	Number of shares held	% shareholding
Bielkor Beleggings (Pty) Limited	11 548 950	16,06%
Arch Equity Limited	11 235 734	15,62%
JF Mouton Familie Trust	5 679 687	7,90%

STATUTORY INFORMATION

for the year ended 28 February 2005

	Number of shareholders	% of total	Number of shares	% interest
Analysis of shareholders				
1 – 1 000 shares	1 576	51,84	753 341	1,05
1001 – 10 000 shares	1 120	36,84	3 921 907	5,45
10 001 – 100 000 shares	263	8,65	7 865 266	10,93
100 001 and over	81	2,66	59 387 898	82,57
	3 040	100,00	71 928 412	100,00

Shareholder spread

	Number of shareholders	% of total	Number of shares	% interest
Public shareholders	3 014	99,14	30 729 017	42,72
Directors	22	0,73	35 923 488	49,94
Directors of the company or any of its subsidiaries	6	0,20	813 816	1,13
Associates of directors of the company or any of its subsidiaries	16	0,53	35 109 672	48,81
Trustees of employees' share scheme	1	0,03	1 486 339	2,07
Holdings of 5% or more (excluding holdings of directors and associates of directors)	3	0,10	3 789 568	5,27
Sanlam	3	0,10	3 789 568	5,27
	3 040	100,00	71 928 412	100,00

SPECIAL RESOLUTIONS OF SUBSIDIARIES

Details of special resolutions passed by the company's subsidiaries during the financial year under review are presented below.

Capitec Bank Limited

– Resolution passed authorising directors of the bank, as a general approval, to acquire shares issued by its holding company upon such terms and conditions as the directors of the bank may from time to time decide, subject to the provisions of sections 85 to 89 of the Companies Act, 1973, provided always that:

- The general approval shall expire at the date of the bank's next annual general meeting in 2005 or 30 November 2005, whichever is the earlier;
- Repurchase of securities in the 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 company and the counterparty;
- 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;
- Acquisition by the bank of shares in its holding company will be limited to an aggregate of 10% of the holding company's issued share capital as at the date this authority is granted;
- The bank will not acquire 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 the acquisition;
- The bank will only undertake an acquisition of the holding company's shares if, after the acquisition, at least 500 public shareholders continue to hold at least 20% of that class of the company's issued shares;
- The bank will not purchase any shares in its holding company during any prohibited period as defined in paragraph 3.67 of the Listings Requirements of the JSE.

ANNEXURE A – ATTENDANCE OF MEETINGS BY DIRECTORS

1 March 2004 to 28 February 2005

COMMITTEES	BOARD	DIRECTORS' AFFAIRS	AUDIT	REMUNERATION	RISK
Number of meetings during the period under review	**6**	**2**	**3**	**2**	**2**
CJ Borstlap *	4	–	–	–	–
AP du Plessis	6	–	–	–	–
MS du P le Roux	6	2	3	2	1
D Lockey **	1	0	–	–	–
MC Mehl	6	2	–	–	2
NS Mjoli-Mncube ***	5	1	–	–	0
JF Mouton	6	2	–	–	–
CA Otto	6	2	3	2	2
JG Solms	6	2	3	2	–
R Stassen	6	–	–	–	–
J van Z Smith	6	2	3	–	2

* *Mr CJ Borstlap resigned effective 6 October 2004.*

** *Mr D Lockey joined the board on 23 December 2004.*

*** *Ms NS Mjoli-Mncube joined the risk committee effective 22 September 2004, after the last meeting for the year.*

ANNEXURE B – COMPOSITION OF THE BOARD AND BOARD COMMITTEES

	COMMITTEES	PURPOSE	COMPOSITION	QUORUM	MEETINGS
1.	Board of directors	The board of directors is responsible for the strategy and overall management of the company	**4 non-executive directors** JF Mouton (Chairman) MS du P le Roux D Lockey CA Otto **4 independent non-executive directors** MC Mehl (Prof) NS Mjoli-Mncube (Ms) JG Solms J van Z Smit (Dr) **2 executive directors** R Stassen (CEO) AP du Plessis (FD)	A majority of directors for the time being in office of which at least 50% must be non-executive	6 times a year
2.1	Executive management committee	Responsible for operational decision making and approvals of administrative nature on an ongoing basis	R Stassen AP du Plessis CG van Schalkwyk (CE – Risk management) GM Fourie (CE – Operations)	3 members	Once every week
2.2	Management committee	Responsible for operational decision making and implementation of strategic decisions approved by the board	R Stassen (Chairman) AP du Plessis CG van Schalkwyk CG Fischer (CE – Marketing and Corporate Affairs) GM Fourie C Oosthuizen (CE – Information technology) L Venter (CE – Human resources) A Olivier (CE – Business development)	3 members	Once a month (members located at head office meet weekly to report on operational matters)

ANNEXURE B – COMPOSITION OF THE BOARD AND BOARD COMMITTEES

	COMMITTEES	PURPOSE	COMPOSITION	QUORUM	MEETINGS
3.	Directors' affairs committee	Responsible for evaluation of board effectiveness; senior management and board succession planning; corporate governance	All non-executive directors are members of this committee	4 members	Twice a year
4.	Audit committee	Oversees financial controls, reporting and disclosure	J van Z Smit (Chairman) MS du P le Roux CA Otto JG Solms R Stassen **Independent attendee** DG Malan (External audit partner – PricewaterhouseCoopers) **Management attendees** J-HC de Beer (Compliance officer) AP du Plessis (Financial management) J Gourrah (Internal audit) CG van Schalkwyk (Risk management) (Secretary)	50% of members of which 50% must be non-executive directors	Three times a year
5.	Remuneration committee	Directors' and senior executives' remuneration is discussed and determined as well as levels of remuneration, adjustment thereof at intervals and, when applicable, additional remuneration such as bonuses and incentives, including share incentives	CA Otto (Chairman) MS du P le Roux JG Solms **Management attendees** R Stassen L Venter	3 members	Twice a year

	COMMITTEES	PURPOSE	COMPOSITION	QUORUM	MEETINGS
6.	Risk committee	Identification of all risks and assists the board in reviewing the risk management systems and processes and the significant risks facing the company.	J v Zyl Smit (Chairman) MS du P le Roux * MC Mehl NS Mjoli-Mncube CA Otto **Management attendees** J-HC de Beer AP du Plessis J Gourrah R Stassen CG van Schalkwyk	3 members NS Mjoli-Mncube *	Twice a year
7.	Corporate communications committee	Provides advice on obtaining maximum positive exposure for Capitec Bank and reviews communication strategy.	D Lockey (Chairman) MS du P le Roux NS Mjoli-Mncube **Management attendee** CG Fischer	3 members	Twice a year

** Ms Mjoli-Ncube replaced Mr le Roux as member of the risk committee effective 22 September 2004.*

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of the shareholders of Capitec Bank Holdings Limited ("Capitec" or "the company") will be held in the auditorium, The Spier Conference Centre, Spier, Lynedoch Road, Stellenbosch, on Wednesday, 25 May 2005, at 12:00 to transact the following business:

ORDINARY BUSINESS TO BE PASSED BY ORDINARY RESOLUTION

1. To consider and, if accepted, approve the audited annual financial statements of the company for the year ended 28 February 2005 which are incorporated in the consolidated financial statements of the Capitec Bank Holdings group.

2. To re-elect as a non-executive director Mr D Lockey, who retires in terms of article 80.2.1 of the company's articles of association.

   Summary curriculum vitae of Desmond Lockey
   Mr Lockey, aged 43, obtained a BA (Hons) in Business Management and Administration from Stellenbosch University (2001).

   He is the chief executive officer of Arch Equity Limited, a black empowerment investment company, and a director of PSG Group Limited, both listed companies. He is also a director of various other companies. He was a representative at the multi-party negotiating forum that negotiated the transition to democracy in South Africa. He served as a member of Parliament from 1984 to 2004.

   He is the chairman of the corporate communications committee and a member of the directors' affairs committee of Capitec.

3. To re-elect as a non-executive director Mr MS du P le Roux, who retires by rotation in accordance with the articles of association of the company and, being eligible, offers himself for re-election.

   Summary curriculum vitae of Michiel Scholtz du Pré le Roux
   Mr le Roux, aged 55, obtained a BComm LLB from Stellenbosch University (1972).

   Prior to his appointment as non-executive director of Capitec, he served as chief executive officer of Capitec. His experience includes having served as managing director of NBS Boland Group and BoE Bank. He also served as managing director of Distillers Corporation (SA) Limited for 15 years.

   He is a member of the audit, remuneration, corporate communications and directors' affairs committees of Capitec.

4. To re-elect as a non-executive director Mr JF Mouton, who retires by rotation in accordance with the articles of association of the company and, being eligible, offers himself for re-election.

   Summary curriculum vitae of Johannes Fredericus Mouton
   Mr Mouton, aged 58, obtained a BComm (Hons) from Stellenbosch University (1969) and qualified as a chartered accountant (SA) in 1973.

   Mr Mouton has served as chairman of the boards of Capitec and Capitec Bank since inception of the group and has been directly involved in the establishment of PSG's investment in microfinance and the subsequent formation of Capitec Bank. He is the founder and chairman of PSG Group Limited and serves as non-executive director on the boards of Remgro Limited and Steinhoff International Holdings Limited. He also serves as a trustee of trusts and investment funds of Stellenbosch University. Prior to the establishment of PSG Group, Mr Mouton co-founded and served as managing director of the stockbroking firm, SMK.

   Mr Mouton is chairman of the board and the directors' affairs committee of Capitec.

5. To re-elect as an independent non-executive director Mr JG Solms, who retires by rotation in accordance with the articles of association of the company and, being eligible, offers himself for re-election.

   Summary curriculum vitae of Jan Georg Solms
   Mr Solms, aged 50, obtained a BAcc degree from Stellenbosch University (1976) and qualified as a chartered accountant (SA) in 1978.

   He has extensive experience in the financial and securities environment and became a member of the JSE in 1981. Since then he has been a partner/director of various stockbroking

firms such as PLJ van Rensburg & Partners, Bosman & Co, Mechiel du Toit, Solms & Co (the latter became Investec's stockbroking division when it was sold to Investec Bank in 1995), Investec Securities and both Independent Securities (Pty) Limited and Independent Securities Holdings (Pty) Limited, the latter two of which he is currently an executive director.

Mr Solms is a member of the audit, remuneration and directors' affairs committees of Capitec.

6.1 To ratify the directors' remuneration for the financial year ended on 28 February 2005 as disclosed in the annual financial statements; and

6.2 Authorise the remuneration committee of the board to determine the directors' remuneration for the financial year ending on 28 February 2006, subject to ratification by the company in general meeting. This mandate will allow the company to remunerate the directors bi-annually at the end of August 2005 and February 2006 respectively.

7. To reappoint Messrs PricewaterhouseCoopers as auditors of the company to hold office until the conclusion of the next annual general meeting of the company.

8. To authorise the directors to determine the remuneration of the auditors.

9. To authorise the payment of a cash dividend of 30 cents per share, payable in cash on Monday, 13 June 2005, to the shareholders of the company.

SPECIAL BUSINESS

To consider and, if deemed fit, pass the following resolutions as special and/or ordinary resolutions as the case may be, with or without modification:

10. Special resolution number 1

Resolved that the company be authorised by a general approval to repurchase any of the ordinary shares issued by the company, upon such terms and conditions and in such amounts as the directors may from time to time decide, but subject to the provisions of sections 85 to 88 of the Companies Act, 1973 (Act 61 of 1973), as amended, the Listings Requirements from time to time of the JSE Securities Exchange South Africa ("JSE") and the articles of association of the company, provided always that :

- this general approval shall expire at the date of the company's next annual general meeting in 2006 or 25 August 2006, whichever is the earlier;
- the repurchase will only be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty (reported trades are prohibited);
- an announcement must be published when the company has acquired, on a cumulative basis, 3% of the number of shares it 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;
- aggregate repurchases under this general authority will not exceed 20% of the company's issued share capital of that class in any one financial year as at the date this authority is granted;
- the company will not make the repurchases at a price more than 10% above the weighted average of the market value of the securities for the five business days immediately preceding the date on which the transaction is effected;
- the company will, at any point in time, appoint only one agent to effect any repurchase(s) on the company's behalf;
- the company will only undertake a general repurchase of securities if, after such repurchase, at least 500 public shareholders as defined in the Listings Requirements of the JSE continue to hold at least 20% of the company's issued ordinary shares;
- the company will not repurchase its shares during any prohibited period as defined in par 3.67 of the Listings Requirements of the JSE.

11. Special resolution number 2

Resolved that the company, insofar as it may be necessary to do so, hereby approves of, as a general approval, and authorises the acquisition by any subsidiary of the company of shares issued by such subsidiary and/or by the company, upon such terms and conditions and in such amounts as the directors of such subsidiary/ies may from time to time decide, but subject to the provisions of sections 85 to 89 of the Companies Act, 1973 (Act 61 of 1973), as amended, the articles of association of the

company and insofar as it may be applicable, the Listings Requirements from time to time of the JSE Securities Exchange South Africa ("JSE"), provided always that:

- this general approval shall expire at the date of the company's next annual general meeting in 2006 or 25 August 2006, whichever is the earlier;
- repurchase of securities in the company will only be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty (reported trades are prohibited);
- an announcement must be published when the subsidiary has acquired, on a cumulative basis, 3% of the number of shares the acquiree 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 any company of its own securities under this general authority may not exceed 20% in the aggregate of the acquiree company's issued share capital of that class in any one financial year as at the date this authority is granted and in the case of the subsidiary acquiring shares in the company, limited to an aggregate of 10% of the company's issued capital as at the date this authority is granted;
- the subsidiaries will not acquire securities in the company at a price more than 10% above the weighted average of the market value for the five business days immediately preceding the date of acquisition;
- the subsidiaries will, at any point in time, appoint only one agent to effect any purchase(s) of the company's securities;
- the subsidiaries will only undertake an acquisition of the company's securities if, after such acquisition, at least 500 public shareholders as defined in the Listings Requirements of the JSE continue to hold at least 20% of that class of the company's issued securities;
- the subsidiaries will not purchase any shares in themselves or the company during any prohibited period as defined in paragraph 3.67 of the Listings Requirements of the JSE.

12. Special resolution number 3

Resolved that in terms of section 56 (4) of the Companies Act, 1973 (Act 61 of 1973) and subject to the registration by the Registrar of Companies of the shortened name of the company in terms of section 43 of the Companies Act, 1973 (Act 61 of 1973), and the Registrar of Banks in terms of section 56(1)(a) of the Banks Act, 1990 (Act 94 of 1990), the memorandum of association of the company be amended by deletion of the entire paragraph 1(b) and the substitution thereof with the following new paragraph 1(b):

"1(b) The shortened form of the name of the Company is:

Capitec."

13. Special resolution number 4

Resolved that, in terms of section 75(1)(a) of the Companies Act, 1973 (Act 61 of 1973), as amended and article 29.1 of the articles of association of the company, the authorised share capital of the company be and is hereby increased from R1 000 000 to R2 000 000 by the creation of 100 000 000 non-redeemable, non-cumulative, non-participating preference shares with a par value of R0,01 each, the rights and conditions of which are set out in article 140 of the articles of association of the company, to be adopted in terms of special resolution number 6.

14. Special resolution number 5

Resolved that in terms of section 56(4) of the Companies Act, 1973 (Act 61 of 1973), as amended, section 56(1)(a) of the Banks Act, 1990 (Act 94 of 1990) and subject to the passing of special resolution number 4, the memorandum of association of the company be and is hereby amended by the deletion of the entire paragraph 8(a) and the substitution thereof with the following new paragraph 8(a):

"8(a) Par value:

The share capital of the company is R2 000 000 (two million Rand) divided into:

(i) 100 000 000 (one hundred million) ordinary shares with a par value of R0,01 (one cent) each;
(ii) 100 000 000 (one hundred million) non-redeemable, non-cumulative, non-participating preference shares of R0,01 (one cent) each;
(iii) the amount of redeemable preference shares with a par value are NIL;"

15. Special resolution number 6

Resolved that, subject to the passing and registration of special resolutions number 4 and 5, the company's articles of association

be and are hereby amended by inserting the following new article 140 as follows:

140. Non-redeemable, non-cumulative, non-participating preference shares

The following terms shall attach to the 100 000 000 non-redeemable, non-cumulative, non-participating preference shares of R0,01 each in the share capital of the company:

140.1 for purposes of this article 140 –

140.1.1 **"business day"** means any day other than a Saturday, Sunday or statutory public holiday in the Republic of South Africa;

140.1.2 **"deemed value"** means the deemed value of each preference share for purposes of calculating the preference dividend, being an amount determined by the directors at the time of allotment and issue of the first preference shares, notwithstanding the actual issue price of a preference share (that is the nominal value of the preference share plus a premium thereon) which may vary because of a difference in the premium at which the preference shares may be issued from time to time;

140.1.3 **"Income Tax Act"** means the Income Tax Act, 1962 (Act 58 of 1962), as amended or substituted from time to time;

140.1.4 **"issue price"** means the actual issue price of each preference share, being the par value of a preference share plus the premium at which a preference share is allotted and issued;

140.1.5 **"preference dividend"** means a non-cumulative, non-participating, preference cash dividend calculated in accordance with article 140.2.4;

140.1.6 **"preference dividend calculation date"** means the last day of February and 31 August of each year;

140.1.7 **"preference dividend payment date"** means a date at least 5 (five) business days prior to the date on which the company pays its ordinary dividend, if any, in respect of the same period, but in any event the preference dividend shall be payable not later than 120 (one hundred and twenty) business days after the last day of February and 31 August, respectively;

140.1.8 **"preference dividend rate"** means, subject to article 140.2.7 below, a rate determined by the directors at the time of allotment and issue of the first preference shares, which will not exceed the prime rate;

140.1.9 **"preference shares"** means the non-redeemable, non-cumulative, non-participating preference shares of R0,01 each in the share capital of the company;

140.1.10 **"prime rate"** means the publicly quoted basic rate of interest expressed as a percentage per year, compounded monthly in arrear and calculated on a 365 (three hundred and sixty five)-day year factor (irrespective of whether or not the year is a leap year) from time to time quoted by the corporate bankers of the Capitec group as being its prime overdraft rate as certified by any manager of such bank, whose appointment and/or designation need not be proved. A certificate from any manager of the bank concerned as to the prime rate at any time shall constitute *prima facie* proof thereof.

140.2 The following are the rights, privileges, restrictions and conditions which attach to the preference shares:

140.2.1 The issue price for each tranche of preference shares to be issued will be determined by the directors at the time of allotment thereof.

140.2.2 Each preference share will rank as regards dividends and a repayment of capital on the winding-up of the company prior to the ordinary shares, and any other class of shares in the capital of the company not ranking prior to or *pari passu* with the preference shares. The preference shares shall confer on the holders, on a per preference share and equal basis, the right to a return of capital on the winding-up of the company of an amount equal to the aggregate of the par value and premium of the preference shares then in issue, divided by the total number of preference shares in issue in priority to any payment in respect of any other class of shares in the capital of the company not ranking prior to or *pari passu* with the preference shares.

140.2.3 Each preference share will confer upon the holder thereof the right to receive out of the profits of the

company which it shall determine to distribute, in priority to any payment of dividends to the holders of any other class of shares in the capital of the company not ranking prior to or *pari passu* with the preference shares, the preference dividend calculated in terms of article 140.2.4 below.

140.2.4 The preference dividend shall be calculated:

140.2.4.1 by multiplying the deemed value of the preference shares by the applicable preference dividend rate applicable on the preference dividend calculation date (determined on a 365-day year factor, irrespective of whether the year is a leap year or not), on a daily basis, in arrear, but never compounded, for the appropriate period referred to in article 140.2.4.2 below; and

140.2.4.2 from the date following a preference dividend calculation date until and including the preference dividend calculation date immediately following, provided that the first dividend payment, in respect of each tranche of preference shares issued, shall be calculated from the issue date up to and including the next preference dividend calculation date.

140.2.5 The preference dividend shall, if declared:

140.2.5.1 accrue on the preference dividend calculation date, calculated in accordance with 140.2.4.2 above;

140.2.5.2 be payable on the preference dividend payment date; and

140.2.5.3 failing payment by the relevant preference dividend payment date, considered to be in arrear.

140.2.6 If a preference dividend is not declared by the company in respect of the period to which such preference dividend calculation date relates, the preference dividend will not accumulate and will accordingly never become due to the holders of the preference shares and payable by the company whether in preference to payments to any other class of shares in the company or otherwise.

140.2.7 If there is an amendment or amendments to the Income Tax Act which results in the preference dividends being taxable in the hands of the preference shareholders and which results in payment of the preference dividend becoming a deductible expense for the company, provided such amendment is uniformly applicable to all corporate taxpayers and not only because of the particular circumstances of the company or any preference shareholder, the percentage of the prime rate referred to in article 140.1.8 above will be increased by the company. Such increase will be equal to the lower of the reduced cost for the company or the uniformly reduced income in the hands of corporate taxpayers, which cost savings or reduced income would not have arisen but for such amendments to the Income Tax Act. If such amendments to the Income Tax Act do not result in the company incurring reduced costs in servicing the preference shares, then, notwithstanding that such amendment may result in a decrease in the after-tax returns of any preference shareholder on its holding of preference shares, no amendment shall be made to the percentage of the prime rate contemplated in article 140.1.8 above. The company shall require its auditors to verify whether it is obliged to increase the percentage of the prime rate referred to in article 140.1.8 above in accordance with this article 140.2.7. The auditors in deciding whether such increase is required in terms of this article 140.2.7 shall act as experts and not as arbitrators or quasi-arbitrators and their decision in the absence of manifest error shall be final and binding on the company and all preference shareholders. The costs of such auditors shall be borne and paid by the company.

140.2.8 Save as set out in articles 140.2.2, 140.2.3, 140.2.6 and 140.2.7 above, the preference shares shall not be entitled to any further participation in the profits or assets of the company nor on a winding-up to any surplus assets of the company.

140.2.9 The holders of the preference shares shall be entitled to receive notice of and be present but not to vote, either in person or by proxy, at any meeting of the company, by virtue of or in respect of the preference shares, unless either or both of the following circumstances prevail at the date of the meeting:

140.2.9.1 the preference dividend or any part thereof remains in arrear and unpaid as determined in accordance with article 140.2.5.3 after 6 (six) months from the due date thereof; and

140.2.9.2 a resolution of the company is proposed which resolution directly affects the rights attached to the preference shares or the interests of the holders thereof, including a resolution for the winding-up of the company or for the reduction of its capital, in which event the preference shareholders shall be entitled to vote only on such resolution.

140.2.10 At every general meeting of the company, at which holders of preference shares as well as other classes of shares are present and entitled to vote, a preference shareholder shall be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value of the preference shares held by him bears to the aggregate amount of the nominal value of all shares issued by the company.

140.2.11 Notwithstanding the provisions of article 140.2.2, no shares in the capital of the company ranking, as regards rights to dividends or, on a winding-up as regards return of capital, in priority to the preference shares, shall be created or issued, nor will the rights for the time being attached to the preference shares be modified, amended, added or abrogated, without

140.2.11.1 the prior sanction of a resolution passed at a separate class meeting of the holders of the preference shares in the same manner *mutatis mutandis* as a special resolution; or

140.2.11.2 the consent in writing of the holders of at least 75% (seventy five percent) of the preference shares.

At every meeting of the holders of the preference shares, the provisions of these articles relating to general meetings shall apply, *mutatis mutandis*, except that a quorum at any such general meeting shall be persons holding or representing by proxy at least one quarter of the issued preference shares provided that if at any adjournment of such meeting a quorum is not so present, the provisions of the articles relating to adjourned general meetings shall apply, *mutatis mutandis*.

16. Ordinary resolution number 1

Resolved that 7 192 841 of the unissued ordinary shares in the authorised share capital of the company be placed under the control of the directors until the next annual general meeting of the company and that they be hereby authorised to issue any such shares as they may deem fit, subject to the Companies Act 1973 (Act 61 of 1973), as amended, the articles of association of the company and the Listings Requirements of the JSE Securities Exchange South Africa.

17. Ordinary resolution number 2

Resolved that, subject to ordinary resolution number 1 being passed, the directors be hereby authorised as a general approval to allot and issue ordinary shares, options or convertible securities that are convertible into an existing class of equity securities for cash without restriction as they may deem fit, subject to the Companies Act, 1973 (Act 61 of 1973), as amended, the articles of association of the company and the Listings Requirements of the JSE Securities Exchange South Africa ("JSE"), provided that:

- this general approval shall expire at the date of the company's next annual general meeting in 2006 or 25 August 2006, whichever is the earlier;
- any such issue will only be securities of a class already in issue, or limited to such securities or rights that are convertible into a class already in issue;
- the securities will be issued only to the public as defined in the Listings Requirements of the JSE and not to related parties;
- during the period permitted in terms of this general approval, the general issues of shares of a specific class in the aggregate will not exceed 10% of the company's issued share capital in that class at the date of the first such issue. The securities of a particular class will be aggregated with the securities that are compulsorily convertible into securities of that class; and, in the case of the issue of compulsorily convertible securities, aggregated with the securities of that class into which they are compulsorily convertible. The number of securities of a class which may be issued shall be based on the number of securities of that class in issue, added to those that may be issued in future at the date of

such application less any securities of the class issued or to be issued in future arising from options/convertible securities issued during the current financial year, plus any securities of that class to be issued pursuant to a rights issue (which has been announced, is irrevocable and is fully underwritten), or acquisition (which has had final terms announced), may be included as though they were securities in issue at the date of application;

- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 10% of the weighted average traded price as determined over 30 business days prior to the date of the directors' resolution authorising the issue, or where no announcement is required and none has been made, the date of issue of the shares concerned. The JSE should be consulted for a ruling if the company's securities have not traded in such 30 business day period;
- at least 75% of the shareholders present in person or by proxy at the annual general meeting cast their vote in favour of this resolution.

18. Ordinary resolution number 3

Resolved that, subject to special resolution numbers 4, 5 and 6 above being approved and registered, all the non-redeemable, non-cumulative, non-participating preference shares in the authorised but unissued preference share capital of the company be and are hereby placed under the control of the directors of the company who are hereby authorised and empowered, subject to the provisions of the Companies Act 1973 (Act 61 of 1973), as amended, the Listings Requirements of the JSE Securities Exchange South Africa, the Banks Act 1990 (Act 94 of 1990), as amended and the company's articles of association, to allot, issue and otherwise dispose of such shares to such person/s on such terms and conditions and at such times as the directors may from time to time in their discretion deem fit until the next annual general meeting of the company or 25 August 2006, whichever is the earlier.

The securities will be issued only to the public as defined in the Listings Requirements of the JSE and not to related parties.

19. To transact such other business as may be transacted at an annual general meeting.

EXPLANATORY NOTES

The reasons for and effect of the six special resolutions listed above are:

Special resolution number 1 – General authority to purchase own shares

The reason for this special resolution is that the company seeks a general authority to repurchase its own ordinary shares in the market subject to specific statutory requirements. The directors have no present intention of making any purchases under this authority but believe that the company should retain the flexibility to take action if future purchases could be considered desirable and in the best interests of shareholders.

In terms of the Listings Requirements of the JSE any general repurchase by the company must, *inter alia*, be limited to a maximum of 20% of the company's issued share capital in any one financial year of that class at the time the authority is granted.

The directors intend only to use this authorisation to repurchase if there is in their opinion no doubt that, after such repurchase:

- the company and the group will each be able to repay its debt in the ordinary course of business for a period of twelve months from the date of this annual general meeting;
- the assets of the company and the group, valued in terms of Generally Accepted Accounting Practice, will respectively exceed the liabilities of the company and the group for a period of twelve months from the date of this annual general meeting; and
- the share capital and reserves and working capital of the company and the group will be adequate for ordinary business purposes for a period of twelve months from the date of this annual general meeting.

The effect of this special resolution, if passed, is to grant a general authority to the directors of the company to repurchase its own ordinary shares in the market subject to the provisions of the Companies Act, 1973 (Act 61 of 1973), as amended, the articles of association of the company and the requirements of the JSE Securities Exchange South Africa, where applicable.

Special resolution number 2 – General authority to subsidiaries to purchase shares

The reason for this special resolution is that the company seeks a general authority to empower directors of subsidiaries to resolve that said subsidiaries acquire shares issued by such subsidiaries and/or by the company in terms of the Companies Act, 1973 (Act 61

of 1973), as amended, their respective articles of association and the requirements of the JSE Securities Exchange South Africa, when applicable.

In terms of the Listings Requirements of the JSE, any general purchase by a company of its listed shares must, *inter alia*, be limited to a maximum of 20% of the issued share capital of the acquiree company in any one financial year of that class at the time the authority is granted, subject, in terms of the Companies Act, 1973 (Act 61 of 1973), as amended, to a maximum of 10% in the event that it is the company's share capital that is repurchased by a subsidiary.

The authorisation to subsidiaries to acquire their own shares or shares in the company will only be exercised by the directors of the subsidiaries if, in the discretion of the board of the company, circumstances should merit and if there is in their opinion no doubt that, after such repurchases:

- the company, relevant subsidiaries and group will each be able to repay its debt in the ordinary course of business for a period of twelve months from the date of this annual general meeting;
- the assets of the company, relevant subsidiaries and the group valued in terms of Generally Accepted Accounting Practice, will respectively be in excess of the liabilities of the company, relevant subsidiaries and the group for a period of twelve months from the date of this annual general meeting; and
- the share capital, reserves and working capital of the company, relevant subsidiaries and the group will be sufficient to meet the respective needs of the company, relevant subsidiaries and the group for a period of twelve months from the date of this annual general meeting.

The effect of this special resolution, if passed, is to grant a general authority to the directors of the company's subsidiaries to repurchase shares issued by such subsidiaries and/or by the company subject to the provisions of the Companies Act, 1973 (Act 61 of 1973), as amended, the articles of association of the subsidiaries and the company and the requirements of the JSE Securities Exchange South Africa, where applicable.

Special resolution number 3 – Authority to register "Capitec" as shortened name

The reason for this special resolution is that the company seeks authority in terms of the Companies Act, 1973 (Act 61 of 1973), as amended, and the Banks Act, 1990 (Act 94 of 1990) to register "Capitec" as shortened form of the name of the company. The company is denoted as "Capitec" on the lists of the JSE Securities Exchange South Africa and accordingly registration of such shortened form of its name is desirable. The company presently has no shortened form of its name registered with the Registrar of Companies.

The effect of this special resolution will be that the shortened form of the name of the company will be "Capitec".

Special resolution number 4 – Authority to increase share capital

The reason for this special resolution is to increase the authorised share capital of the company to ensure that the company has sufficient unissued preference shares available to issue in future. The company may issue, allot and/or apply to list the new preference shares on the JSE in the Specialist Securities – "Preference Shares" sector by way of a private placement and/or offer for subscription in the next twelve months in accordance with its capital management strategy in terms of special resolution numbers 4 and 5 whereby it seeks to raise cost-effective permanent capital.

The effect of this special resolution is that the authorised share capital of the company will by the creation of 100 000 000 preference shares of R0,01 each, be increased from R1 000 000 to R2 000 000.

Special resolution number 5 – Alteration of memorandum

The reason for this special resolution is, pursuant to the approval of special resolution number 4, to authorise the alteration of the company's memorandum to reflect the increase in the company's authorised share capital as contemplated in special resolution number 4.

The effect of this special resolution will be that the company's memorandum will reflect the increase in the company's authorised capital subject to the approval of special resolution number 4.

Special resolution number 6 – Approval of the terms attaching to the new preference shares

The reason for special resolution number 6 is to approve the terms attaching to the new preference shares created in terms of special resolution number 4. The effect of this special resolution is to incorporate such terms and conditions into the company's articles of association as new article 140.

General information in respect of directors and management (pages 14 and 15), major shareholders (page 64), material change (page 31), directors' interests in securities (page 28) and the share capital of the company (page 47) is contained in the annual report to which this notice is attached.

The company is not involved in any legal or arbitration proceedings, nor are any proceedings pending or threatened of which the company is aware that may have or have had, in the previous 12 months, a material effect on the company's financial position.

The directors, whose names are given on page 14 of the annual report, to which this notice is attached, collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the notice contains all information required by the JSE Listings Requirements.

Special resolutions 1 and 2 are renewals of resolutions taken at the previous annual general meeting held on 26 May 2004.

VOTING

Shareholders entitled to attend and vote at the general meeting may appoint one or more proxies to attend, speak and vote thereat in their stead. A proxy need not be a member of the company. A form of proxy, in which are set out the relevant instructions for its completion, is enclosed for use by a certificated or dematerialised shareholder with "own name" registration who wishes to be represented at the general meeting. Completion of a form of proxy will not preclude such shareholder from attending and voting (in preference to that shareholder's proxy) at the annual general meeting.

Proxy forms must be delivered or posted to Computershare Investor Services 2004 (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) to be received by no later than 12:00 on Monday, 23 May 2005.

On a poll ordinary shareholders will have one vote in respect of each share held and on a show of hands shareholders present in person, by proxy or by authorised representative shall have one vote each.

Beneficial owners who have dematerialised their shares through a CSDP or stockbroker, other than those in "own name" must provide the CSDP or stockbroker with their voting instruction. Alternatively, they must request the CSDP or stockbroker to provide them with a letter of representation should they wish to attend the meeting in person in terms of the custody agreement entered into between the beneficial owner and the CSDP or stockbroker.

By order of the board

CG van Schalkwyk
Company secretary

19 April 2005

FORM OF PROXY

Capitec Bank Holdings Limited (Incorporated in the Republic of South Africa)
Registration number 1999/025903/06) ("Capitec" or "the company")
(JSE share code: CPI ISIN: ZAE000035861)

For use of shareholders who
(1) are registered as such and who have not dematerialised their Capitec ordinary shares, or
(2) hold dematerialised Capitec ordinary shares in their own name,
at the annual general meeting of ordinary shareholders of the company to be held in the auditorium, The Spier Conference Centre, Spier, Lynedoch Road, Stellenbosch, on Wednesday, 25 May 2005, at 12:00.

Beneficial owners who have dematerialised their shares through a CSDP or stockbroker, other than those in "own name" must provide the CSDP or stockbroker with their voting instruction. Alternatively, they must request the CSDP or stockbroker to provide them with a letter of representation should they wish to attend the meeting in person in terms of the custody agreement entered into between the beneficial owner and the CSDP or stockbroker.

I/We (BLOCK LETTERS please) _____

of _____ (address)

being the registered holder(s) of _____ ordinary shares hereby appoint:

1. _____ of _____ of failing him/her,

2. _____ of _____ of failing him/her,

3. the chairman of the meeting,
as my proxy to vote on my/our behalf at the annual general meeting to be held on 25 May 2005 and at each adjournment thereof for purposes of considering and, if deemed fit, passing, with or without modification, the special resolutions and ordinary resolutions to be proposed thereat and to vote for and/or against the resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name/s in accordance with the following instructions (see notes on the opposite page):

	Number of shares		
Ordinary business	In favour of	Against	Abstain
1. Approve annual financial statements			
2. Re-elect Mr Desmond Lockey as a director			
3. Re-elect Mr M S du P le Roux as a director			
4. Re-elect Mr JF Mouton as a director			
5. Re-elect Mr JG Solms as a director			
6.1. Ratify the directors' remuneration up to 28 February 2005			
6.2 Authorise the remuneration committee of the board to determine the directors' remuneration for the period 1 March 2005 up to 28 February 2006			
7. Reappoint auditors			
8. Authorise the directors to approve the auditors' remuneration			
9. Authorise payment of a cash dividend of 30c per share			
Special business			
10. Special resolution number 1 (general approval to the company to repurchase shares issued by the company)			
11. Special resolution number 2 (general approval to any subsidiary of the company to repurchase shares issued by such subsidiary and/or by the company)			
12. Special resolution number 3 (approval to register "Capitec" as a shortened name)			
13. Special resolution number 4 (approval to increase share capital)			
14 Special resolution number 5 (approval to amend the memorandum of association to reflect the new authorised share capital)			
15. Special resolution number 6 (approval to amend articles of association by inserting new article 140)			
16. Ordinary resolution number 1 (approval to place 7 192 841 of the unissued ordinary shares in the authorised share capital of the company under the control of the directors)			
17. Ordinary resolution number 2 (general approval to issue new ordinary shares for cash)			
18. Ordinary resolution number 3 (approval to place all the non-redeemable, non-cumulative, non-participating preference shares in the unissued preference share capital of the company under the control of the directors and authority to the directors to allot, issue and otherwise dispose of such shares as they may deem fit)			

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

Signed at _____ on this _____ day of _____ 2005.

Signature(s) _____
Assisted by (where applicable) (state capacity and full name)

_____

Each Capitec shareholder is entitled to appoint one or more proxy(ies) (who need not be a shareholder(s) of the company) to attend, speak and vote in his/her stead at the annual general meeting.

NOTES TO THE FORM OF PROXY

1. A Capitec shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space(s) provided, with or without deleting "the chairman of the annual general meeting". The person whose name appears first on the form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. A Capitec shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of ordinary shares to be voted on behalf of that member in the appropriate box provided. Failure to comply with the above will be deemed to authorise the chairman of the general meeting, if he/she is the authorised proxy, to vote in favour of the resolutions at the general meeting, or any other proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit, in respect of all the ordinary shares concerned. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or his/her proxy, but the total of the votes cast and in respect whereof abstentions are recorded may not exceed the total of the votes exercisable by the shareholder or his/her proxy.

3. When there are joint registered holders of any shares, any one of such persons may vote at the meeting in respect of such shares as if he/she is solely entitled thereto, but, if more than one of such joint holders be present or represented at any meeting, that one of the said persons whose name stands first in the register in respect of such shares or his/her proxy, as the case may be, shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member, in whose name any shares stand, shall be deemed joint holder thereof.

4. Every member present in person or by proxy shall, on a poll, have one vote for every ordinary share held, whereas on a show of hands, members present in person, by proxy or by authorised representative shall have one vote each.

5. Forms of proxy must be completed and returned to be received by the transfer secretaries of the company, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), by not later than 12:00 on Monday, 23 May 2005.

6. Any alteration or correction made to this form of proxy must be signed in full by the signatory/ies and not initialled.

7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's secretaries or waived by the chairman of the annual general meeting.

8. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.

9. The chairman of the annual general meeting may reject or, provided that he is satisfied as to the manner in which a member wishes to vote, accept any form of proxy which is completed other than in accordance with these instructions.

Beneficial owners who have dematerialised their shares through a CSDP or stockbroker, other than those in "own name" must provide the CSDP or stockbroker with their voting instruction. Alternatively, they must request the CSDP or stockbroker to provide them with a letter of representation should they wish to attend the meeting in person in terms of the custody agreement entered into between the beneficial owner and the CSDP or stockbroker.

SHAREHOLDERS' DIARY

Financial year-end	28 February 2005
Profit announcement	30 March 2005
Annual report	April 2005
Annual general meeting	25 May 2005
Interim report	September 2005
Dividend:	
Last date to trade to be considered for the dividend payment	Friday, 3 June 2005
Record date in respect of the dividend payment	Friday, 10 June 2005
Payment date	Monday, 13 June 2005
Share certificates may not be dematerialised, both days inclusive, from	6 June 2005 to 10 June 2005

ADMINISTRATION AND ADDRESSES

Registration number:	1999/025903/06
Auditors:	PricewaterhouseCoopers Inc
Directors:	CJ Borstlap (resigned 6 October 2004) AP du Plessis MS du P le Roux D Lockey (appointed 23 December 2004) Prof MC Mehl Ms NS Mjoli-Mncube JF Mouton CA Otto JG Solms R Stassen Dr J van Zyl Smit
Secretary:	CG van Schalkwyk
Registered address:	10 Quantum Street Techno Park Stellenbosch 7600
Postal address:	PO Box 12451 Die Boord Stellenbosch 7613
Website:	www.capitecbank.co.za

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