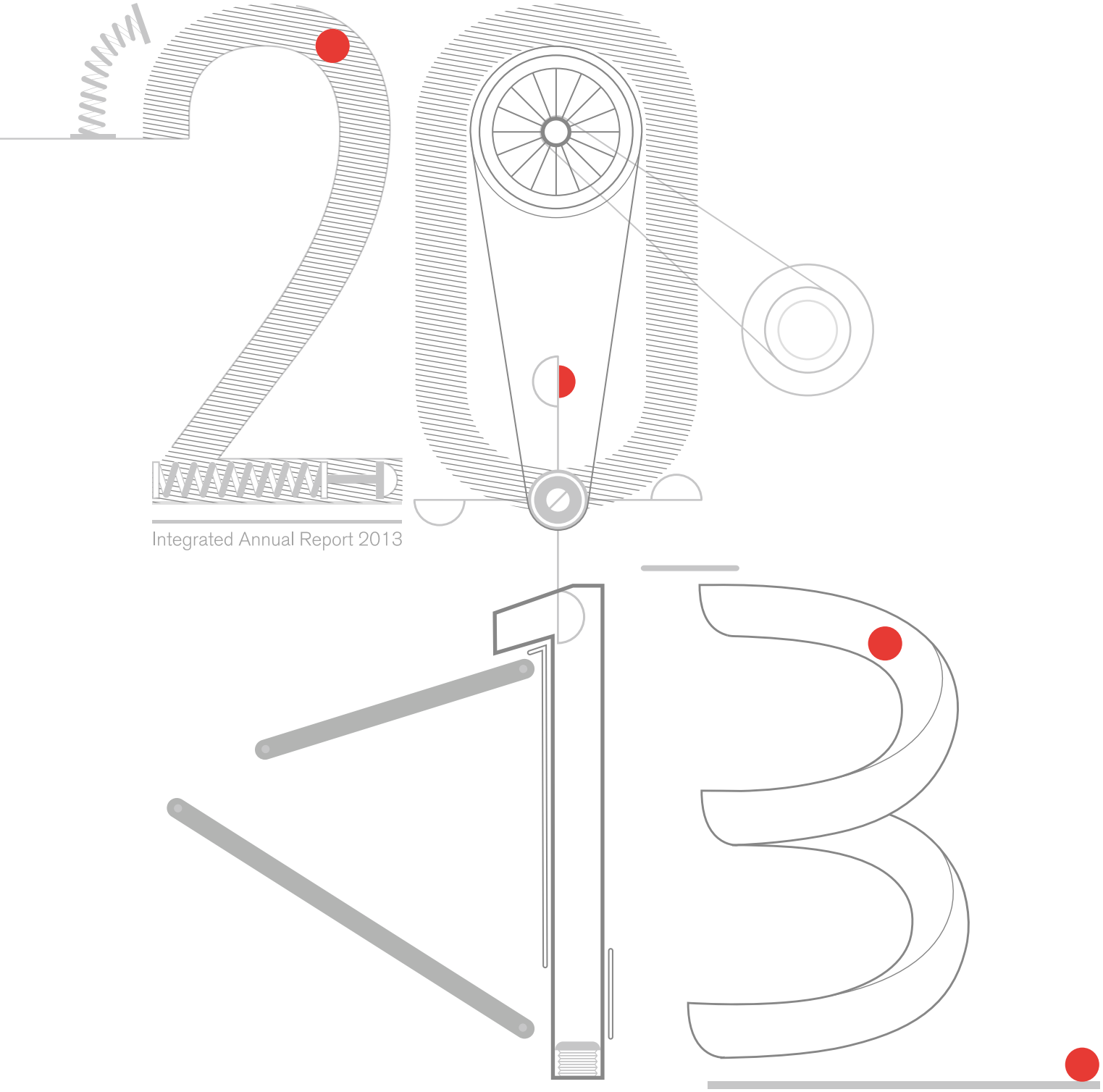
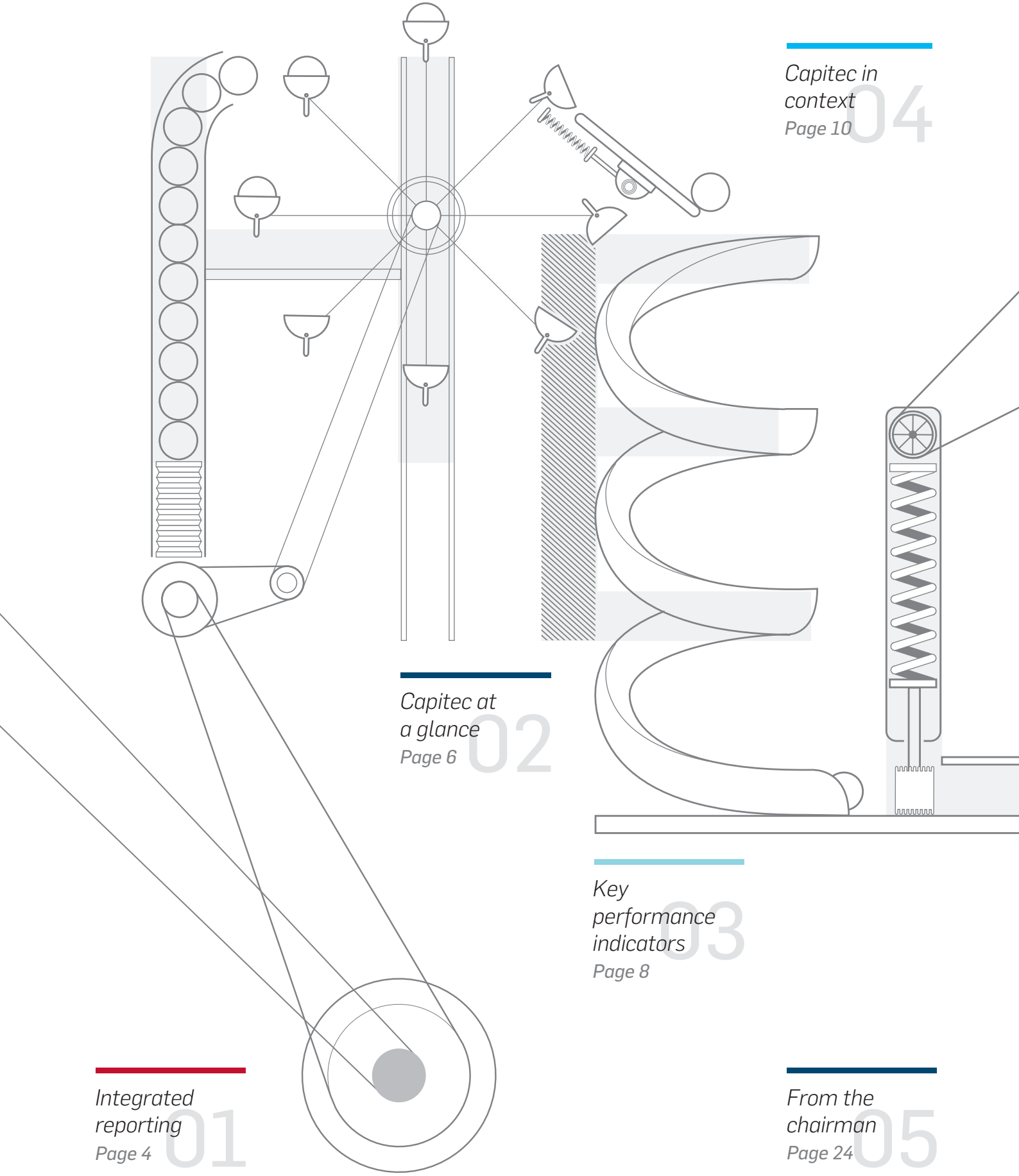
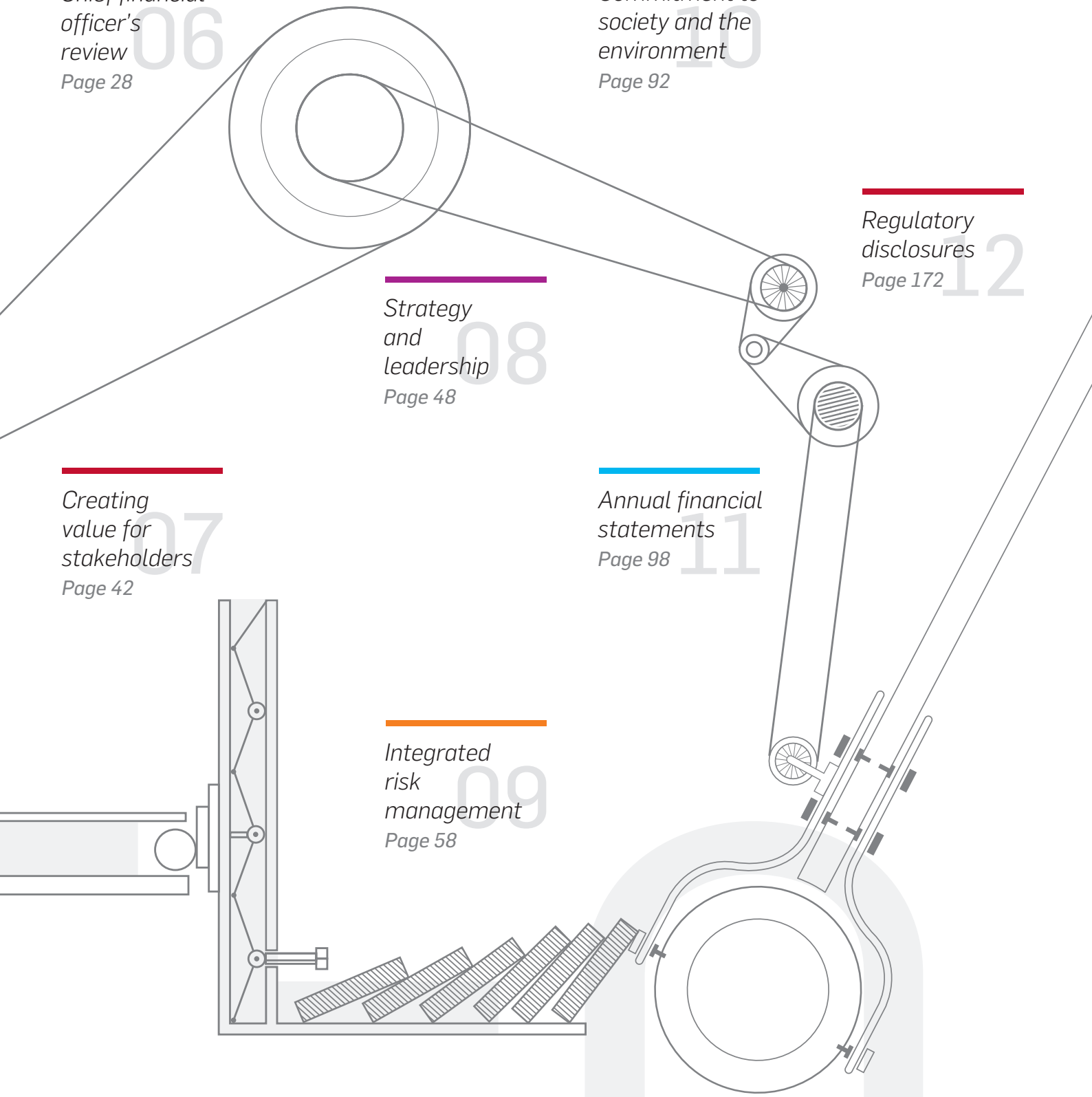


CAPITEC BANK HOLDINGS LIMITED

Integrated Annual Report 2013





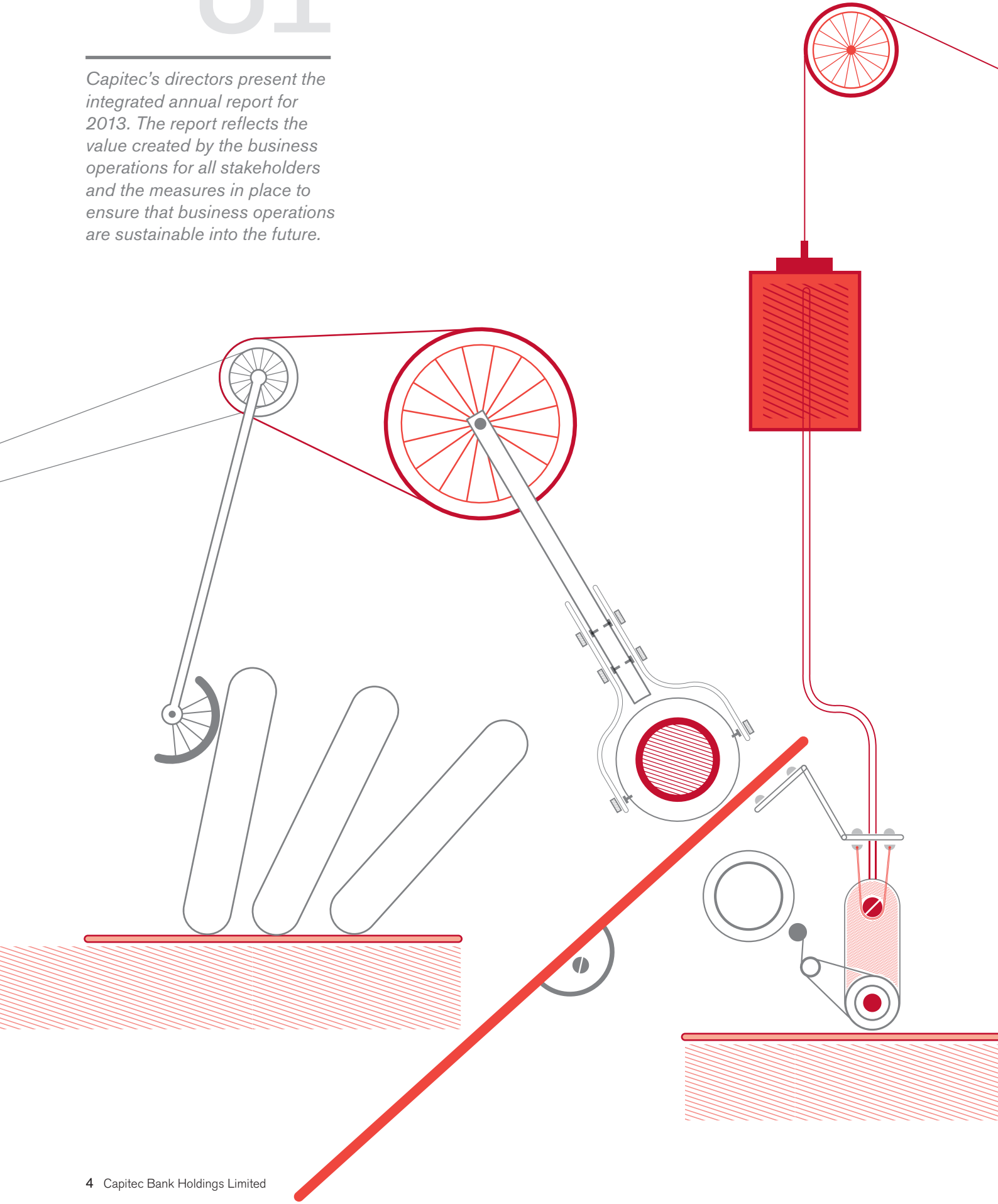
Forward-looking statements

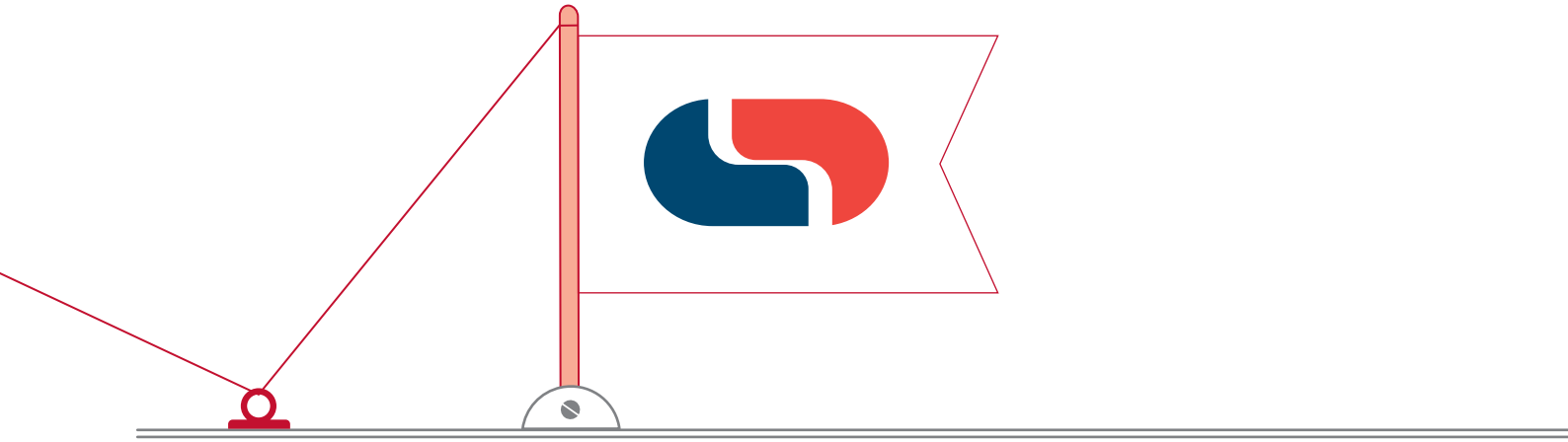
Certain statements in this document constitute "forward-looking statements". All statements other than statements of historical facts included in this document, including, without limitation, those regarding the financial position, revenue and profitability (including, without limitation, any financial or operating projections or predictions), business strategy, prospects, plans and objectives of management for future operations of Capitec are forward-looking statements. Some of these statements can be identified by forward-looking terms, such as "anticipate", "believe", "could", "estimate", "expect", "forecast", "intend", "may", "plan", "will" and "would" or similar words. However, these words are not exclusive means of identifying forward-looking statements.

Forward-looking statements and any other predictions contained in this document involve known as well as unknown risks, uncertainties and other factors which may cause the actual results or performance of Capitec to differ materially from those expressed or implied by such forward-looking statements. Capitec makes no representation or warranty, express or implied, that the operating, financial or other results anticipated by such forward-looking statements will be achieved. Accordingly, users of this document should not place undue reliance on these forward-looking statements. Capitec expressly disclaims any obligation to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in Capitec's expectations with regard thereto.

Integrated reporting 01

Capitec's directors present the integrated annual report for 2013. The report reflects the value created by the business operations for all stakeholders and the measures in place to ensure that business operations are sustainable into the future.





Capitec's approach

The purpose of this report is to provide simple, transparent feedback to stakeholders regarding the organisation's strategy, performance, governance and prospects. It is concise and aims to provide stakeholders with an overview of the economic impact of the business operations, the material issues affecting the organisation and the manner in which these are addressed. Sustainability of the business is an overarching objective and the approach to sustainability is reflected throughout this report.

This report was compiled utilising the guidance in King III, the Global Reporting Initiative's (GRI) sustainability reporting guidelines and the International Integrated Reporting Council (IIRC) framework for integrated reporting, but lengthy standard disclosures have been avoided to ensure that it remains relevant to Capitec and its stakeholders.

Scope and boundary

This report encompasses Capitec's operations, which are conducted exclusively within South Africa, and covers the period from 1 March 2012 to 28 February 2013. Integrated reports are prepared on an annual basis and the most recent previous report published for the 2012 year is available on Capitec's website.

Capitec is a bank controlling company that is listed on the JSE Limited. Capitec Bank, a wholly owned subsidiary, is the company in which all material operations are housed. It contributed 95% of Capitec's profit for the financial year ended 28 February 2013 (2012: 88%) and as such it is the focus of this report. There has been no material change to the products and services it offers since the publication of the previous report. The remaining subsidiaries in the group are listed in chapter 2, which briefly describes their activities and contribution to Capitec's financial position and results.

On 31 January 2013 a 47% stake in Key Distributors (Pty) Limited ('Key') was disposed of to the management of the said company. Key was accounted for as a subsidiary in Capitec's 2012 results in terms of International Financial Reporting Standards (IFRS). Capitec's remaining stake at 28 February 2013 amounts to 28% and is accounted for as an investment in an associate in terms of IFRS. Except for disclosures in the annual financial statements, Key is not included in the scope of this report.

Governance and assurance

This report was prepared in accordance with the Companies Act and Banks Act of South Africa, the JSE Listings Requirements, the King III code and IFRS. The board of directors believes that it adequately addresses the material issues faced by Capitec and approved it on 26 March 2013.

Assurance regarding the annual financial statements is provided by the Independent Auditor's report contained therein and, where considered appropriate, external sources have been used to provide independent information.

Enquiries

Enquiries regarding the content of this report can be forwarded to the company secretary in the following ways:

E-mail: enquiries@capitecbank.co.za
Post: PO Box 12451, Die Boord, Stellenbosch, 7600
Telephone: +27 (0)21 809 5900

Capitec at a glance

02

Board of directors

16.6%

(2012:18.6%)

Executive management committee

3.3%

(2012: 3.5%)

PSG Group

28.5%

(2012: 32.6%)

Black ownership

11.9%

(2012: 13.6%)

Free Float

39.7%

(2012: 31.7%)

Capitec Bank Holdings Limited

1999/025903/06
Registered bank controlling company
Listed on the JSE Limited – Banks sector
Incorporated in RSA

100%

Capitec Properties (Pty) Limited

1998/007658/07
Property holding company
Incorporated in RSA

100%

Capitec Bank Limited

1980/003695/06
Retail Bank
Incorporated in RSA
www.capitecbank.co.za

Products	*Transacting, Saving, Credit* — *For individuals*
Clients	*4.7m (2012: 3.7m)*
Branches	*560 (2012: 507)*
Employees	*8 308 (2012: 7086)*
Revenue	*R10.7bn (2012: 7.4bn)*
Profit after tax	*R1.5bn (2012: R971m)*
Total assets	*R38.3bn (2012: R23.6bn)*
Funding	*Equity: R8.3bn (2012: R4.8bn)*
	Debt: R30.0bn (2012: R18.8bn)

100%

Dormant companies

Incorporated in RSA
Keymatrix (Pty) Limited
1999/010617/07
Keynes Rational Corporate Services (Pty) Limited
1999/014817/07

28%

Key Distributors (Pty) Limited

2001/000964/07
Fast-moving consumer goods distributor
Incorporated in RSA

Share of associate profit after tax: R0.2m

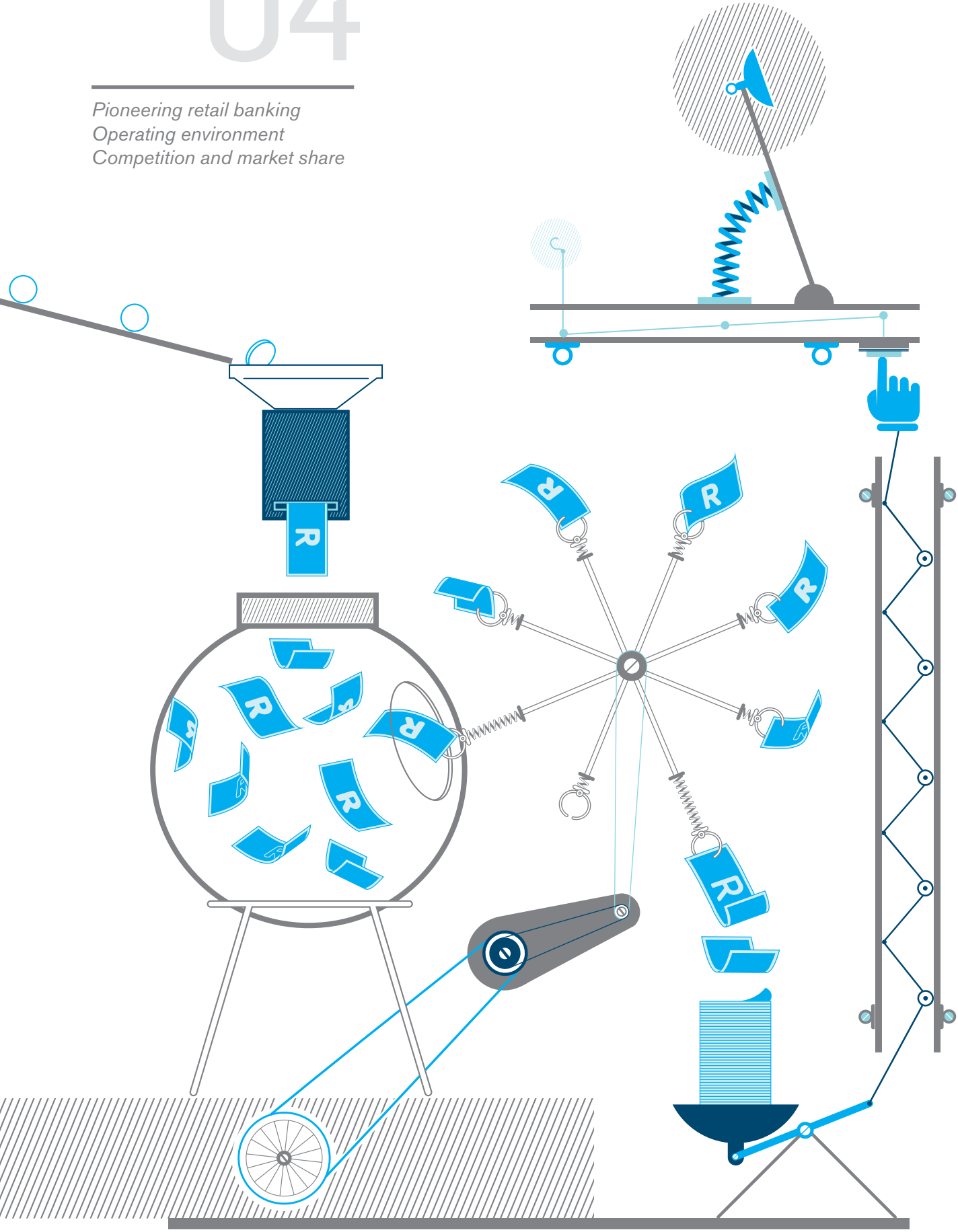
Key performance indicators 3

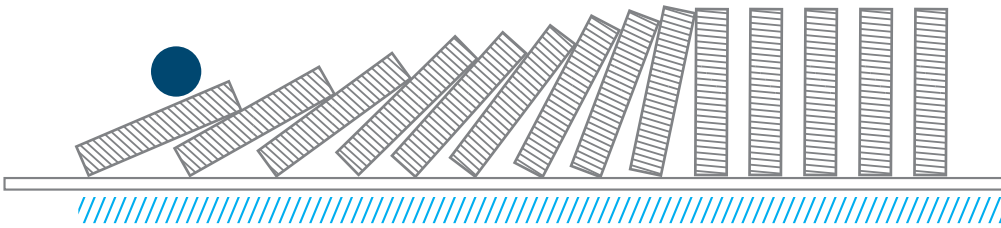
		2013	2012	Change %	2011	2010
Profitability						
Interest on loans	R'm	**7 085**	4 347	63	2 809	1 764
Net loan fee income	R'm	**1 153**	1 471	(22)	1 151	986
Net transaction fee income	R'm	**1 349**	836	61	532	295
Interest paid	R'm	**(1 663)**	(1 022)	63	(751)	(491)
Other banking income	R'm	**–**	14		–	2
Income from banking operations	R'm	**7 924**	5 646	40	3 741	2 556
Net loan impairment expense	R'm	**(2 659)**	(1 604)	66	(988)	(548)
Net banking income	R'm	**5 265**	4 042	30	2 753	2 008
Banking operating expense	R'm	**(2 994)**	(2 486)	20	(1 813)	(1 368)
Non-banking operations	R'm	**7**	3		–	2
Tax	R'm	**(673)**	(464)	45	(284)	(193)
Preference dividend	R'm	**(21)**	(19)	11	(16)	(14)
Earnings attributable to ordinary shareholders						
• Basic	R'm	**1 584**	1 075	47	640	435
• Headline	R'm	**1 584**	1 078	47	640	437
Net transaction fee income to banking operating expenses	%	**45**	34		29	22
Net transaction fee income to net banking income	%	**26**	21		19	15
Cost-to-income ratio banking activities	%	**38**	44		48	54
Return on ordinary shareholders' equity	%	**27**	29		34	32
Earnings per share						
• Attributable	cents	**1 519**	1 122	35	757	525
• Headline	cents	**1 519**	1 125	35	757	527
• Diluted attributable	cents	**1 498**	1 096	37	730	509
• Diluted headline	cents	**1 498**	1 099	36	730	511
Dividends per share						
• Interim	cents	**169**	125	35	85	55
• Final	cents	**405**	300	35	205	155
• Total	cents	**574**	425	35	290	210
Dividend cover	x	**2.6**	2.6		2.6	2.5
Assets						
Net loans and advances	R'm	**27 935**	16 863	66	10 071	5 225
Cash and cash equivalents and money market funds	R'm	**7 143**	4 551	57	2 842	2 567
Investments	R'm	**2 023**	1 199	69	989	1 306
Other	R'm	**1 246**	1 009	23	538	390
Total assets	R'm	**38 347**	23 622	62	14 440	9 488
Liabilities						
Deposits	R'm	**29 000**	17 692	64	10 450	7 360
Other	R'm	**834**	744	12	539	400

		2013	2012	Change %	2011	2010
Total liabilities	R'm	**29 834**	18 436	62	10 989	7 760
Equity						
Shareholders' funds	R'm	**8 513**	5 185	64	3 451	1 728
Capital adequacy ratio	%	**41**	39		41	37
Net asset value per ordinary share	cents	**7 212**	4 962	45	3 418	1 896
Share price	cents	**18 800**	18 500	2	15 901	8 200
Market capitalisation	R'm	**21 515**	18 367	17	14 850	6 805
Number of shares in issue	'000	**114 442**	99 282	15	93 388	82 983
Operations						
Branches		**560**	507	10	455	401
Employees		**8 308**	7 194	15	5 331	4 154
Active clients	'000	**4 677**	3 706	26	2 829	2 122
ATMs						
• Own		**640**	550	16	479	417
• Partnership		**1 914**	1 526	25	1 182	821
• Total		**2 554**	2 076	23	1 661	1 238
Capital expenditure	R'm	**473**	381	24	235	149
Loan sales						
Value of loans advanced	R'm	**25 401**	19 393	31	14 318	8 645
Number of loans advanced	'000	**3 760**	4 648	(19)	3 907	2 899
Average loan amount	R	**6 756**	4 172	62	3 665	2 982
Repayments	R'm	**19 159**	16 173	18	12 117	8 288
Gross loans and advances	R'm	**30 658**	18 408	67	10 916	5 607
Loans past due (arrears)	R'm	**1 777**	932	91	626	350
Arrears to gross loans and advances	%	**5.8**	5.1		5.7	6.2
Provision for doubtful debts	R'm	**2 723**	1 545	76	845	382
Provision for doubtful debts to gross loans and advances	%	**8.9**	8.4		7.7	6.8
Arrears coverage ratio	%	**153**	166		135	109
Loan revenue	R'm	**7 983**	5 660	41	3 800	2 603
Loan revenue to average gross loans and advances	%	**32.5**	38.6		46.0	58.9
Gross loan impairment expense	R'm	**2 932**	1 780	65	1 088	620
Recoveries	R'm	**273**	176	55	100	72
Net loan impairment expense	R'm	**2 659**	1 604	66	988	548
Net impairment expense to loan revenue	%	**33.3**	28.3		26.0	21.1
Net impairment to average gross loans and advances	%	**10.8**	10.9		12.0	12.4
Deposits						
Wholesale deposits	R'm	**11 679**	7 162	63	3 954	3 669
Retail call savings	R'm	**10 335**	6 348	63	3 933	2 346
Retail fixed savings	R'm	**6 844**	4 015	70	2 316	1 148

Capitec in context 04

Pioneering retail banking
Operating environment
Competition and market share





Pioneering retail banking

Capitec was established to provide essential banking services to all South Africans. It conducts its operations through Capitec Bank, a retail bank that has changed the landscape of South African banking.

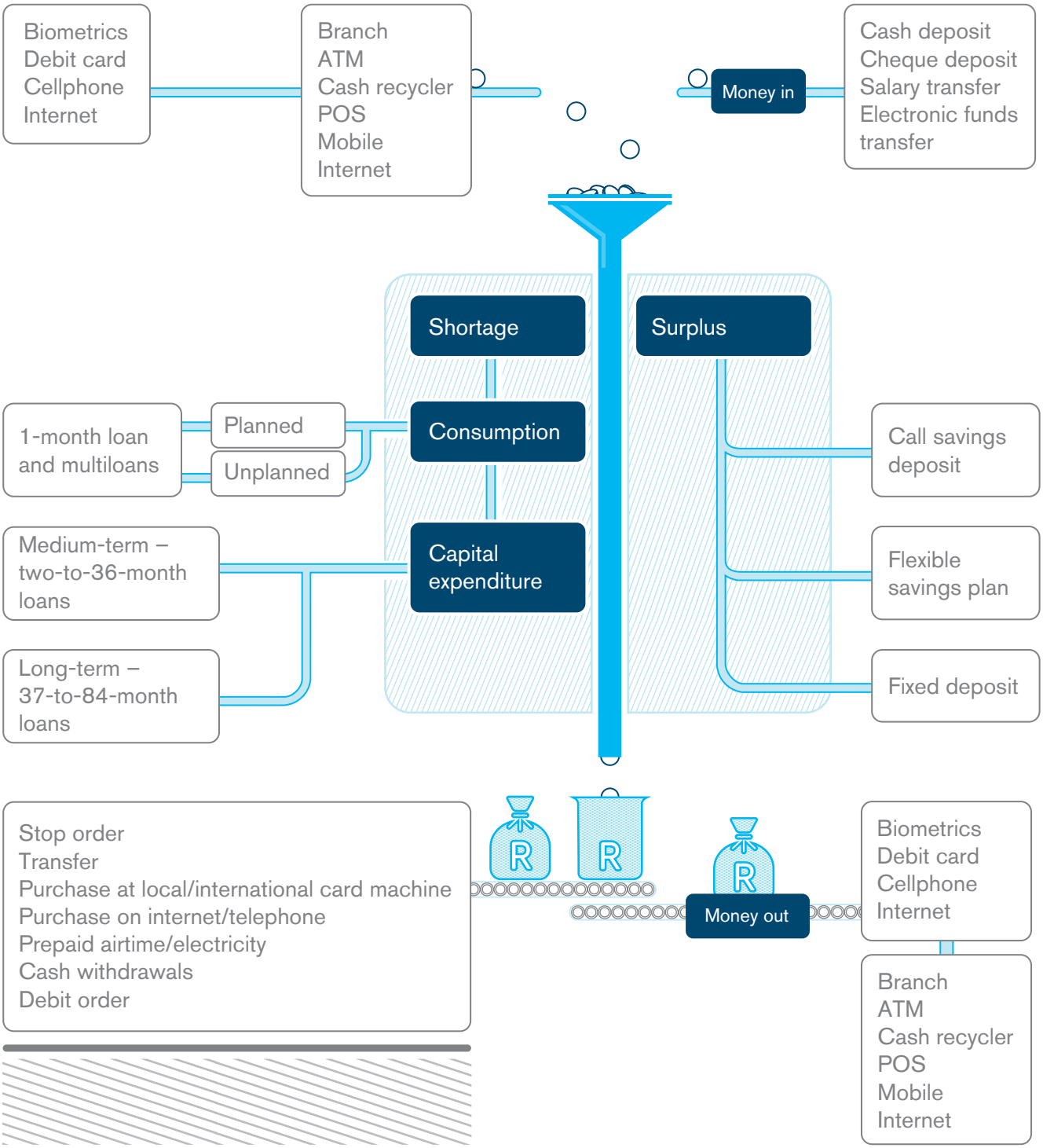
The impact made by Capitec since its establishment is reflected in its being named a Great Brand of Tomorrow by Credit Suisse in 2010, one of only 27 brands worldwide to receive this award and the only South African brand to do so. Credit Suisse rated its top brands on the criteria of innovation, aspiration and scale.

Capitec was also named as the top performing company of the top 100 companies on the JSE in 2012 by the Sunday Times. This accolade is based on the 5 year growth performance of the share price. Capitec has won this accolade twice, the first time being in 2010.

Capitec was incorporated in South Africa on 23 November 1999, registered as a bank controlling company on 29 June 2001, and was listed in the Banks sector of the JSE Limited ('JSE') on 18 February 2002. Its corporate structure is detailed in chapter 2 of this report.

Capitec Bank provides innovative transacting, saving and unsecured credit products to individuals within South Africa. The building blocks of the business are affordability, accessibility, personal service and simplicity. The bank seeks to differentiate itself from other banks by providing a unique experience through price, positioning, service and product.

It defines retail banking as the basic needs of the consumer associated with transacting (receiving and paying money), saving money in times of surpluses and borrowing money in times of shortages as illustrated in the diagram on the next page.


Biometrics
Debit card
Cellphone
Internet
Branch
ATM
Cash recycler
POS
Mobile
Internet
Money in
Cash deposit
Cheque deposit
Salary transfer
Electronic funds transfer
Shortage
Surplus
1-month loan and multiloans
Planned
Unplanned
Consumption
Call savings deposit
Medium-term – two-to-36-month loans
Capital expenditure
Flexible savings plan
Long-term – 37-to-84-month loans
Fixed deposit
Stop order
Transfer
Purchase at local/international card machine
Purchase on internet/telephone
Prepaid airtime/electricity
Cash withdrawals
Debit order
R
R
R
Money out
Biometrics
Debit card
Cellphone
Internet
Branch
ATM
Cash recycler
POS
Mobile
Internet

The bank has focused all its creative effort over the past few years on delivering a unique bank system that makes banking as easy and convenient as possible for clients. All accounts, access channels and information services are designed around this simplified approach to give clients value-added money management solutions.

The focus is on implementing solutions that assist retail bank clients (consumers who regularly deposit an income stream for a minimum defined period) to manage their money better and make use of their available funds more easily and conveniently.

Pioneering products

The bank's unique Global One product suite is customisable and offers single-point access to transacting, saving and credit. Global One provides a transaction account to every client, including lending clients, and interest is earned from the first rand.

The savings platform is open-ended with no restrictions to the features in each account. Clients can choose the number of accounts required, the deposit amounts preferred, whether the accounts are fixed and the terms of each savings option.

The credit platform calculates maximum loan value and term based on affordability and client behaviour, leaving clients to select the exact loan amount, term and repayment amounts that suit them. The credit offer is continuously adjusted and during the reporting period the maximum credit amount increased to R230 000 (2012: R150 000), the maximum credit term increased to 84 months (2012: 60 months) and pricing was reduced. The inclusion of higher-value loans with longer terms has attracted higher income clients and is expected to continue to do so. The implementation of stricter credit scoring criteria ensures that we don't over-extend clients.

Simplified, transparent pricing

The Global One transaction account and all ancillary accounts attract a single monthly administration fee of R4.50. Prices are fixed per transaction, regardless of the value, except for cash deposit fees which are fixed per R100.

Capitec Bank's continued commitment to low-cost banking is reflected in the annual changes to transacting fees. Transaction fees did not increase in March 2011, and in March 2012 the only change to the fee structure was to reduce the cost of internet and mobile payments from R2.75 to R1.50. Fees from March 2013 remain unchanged except for withdrawals from Capitec Bank ATMs, which increased to R4.30 (2012: R4.00) and the cash deposit fees per R100 which increased to 50 cents for deposits at ATMs (2012: 40 cents) and R1 for branch deposits (2012: 80 cents).

SMSs are delivered on every transaction if requested and month-end messaging provides balances, fees incurred and interest paid to the client.

Positioning to enhance accessibility

Capitec Bank's multichannel distribution network provides clients with various solutions to meet their needs.

The branch network has expanded by approximately 50 branches per year for the past three years and branches are positioned in areas that make it convenient for clients to conduct their banking in the normal course of their daily activities. The careful selection of sites, in major shopping centres where consumer traffic is guaranteed, has also ensured steady client acquisition.

Banking hours are extended and include minimum hours from 08:00 to 17:00 on weekdays, 08:00 to 13:00 on Saturdays and 09:00 to 13:00 on Sundays.

The ATM network has expanded to 640 own ATMs and 1 914 ATMs operated in partnership. Plans include the increased placement of ATMs independent of branches and expansion of the number of cash recycling machines. In addition, clients can make low-cost cash withdrawals through all Checkers, Shoprite, Pick n Pay, Boxer, Pep and selected Spar stores and any other retailer that provides a cash back at point-of-sale (POS) service.

Internet and mobile banking was introduced two years ago and the functionality of these services has recently been expanded. They are available to clients at no extra cost. These channels attract younger, higher income clients who prefer the convenience they offer.

Unique service

Branch managers are the custodians of client service at Capitec Bank and are located in the front of branches to ensure a focus on service ownership and encourage feedback from clients regarding their experiences. Management continuously evaluates service delivery at the key points of client interface. This includes extensive visits to branches by senior executives to meet with clients.

The real-time delivery of all money management solutions, including the credit offer, makes it possible for clients to leave a branch with their needs having been addressed immediately. Paperless transacting simplifies and speeds up processes without compromising security and control for clients. A 'cashless' branch environment, which is accessible and inviting, minimises the risk of robbery and violence on the premises.

Growing client numbers per branch have put pressure on service time and quality over the past year. However, the planned branch expansion programme and the revised service process, which will be implemented during the coming year, are expected to improve the client experience and reduce the waiting time before service. The revised service process will include the following benefits:

- Side-by-side consulting to simplify processes
- Product and service options are clearly set out for clients to choose from, thereby supporting decision-making
- Agreement management with digital signatures
- Central verification of electronic documentation
- Re-engineered branch processes with integrated queue management

Employees

Capitec Bank's success depends upon its ability to recruit and retain executive management and other key employees as our unique service experience depends on them. We employ a holistic talent management framework and our approach is to make Capitec Bank a great place to grow and develop.

At the end of the reporting period Capitec Bank employees numbered 8 308 (2012: 7 086). Employee turnover for the year amounted to 13.2% (2012: 12.0%) which is in line with the average annual staff turnover for the financial services industry of 13.2% as per the PricewaterhouseCooper (PwC) salary and wage movement trends report based on data to September 2012.

Talent acquisition

The principle of hire for potential (attitude and aptitude) and train for skill is applied for entry-level positions. This is supported by a well-designed induction programme and ongoing learning interventions. Selection processes are detailed and thorough in determining the best fit.

In support of Capitec Bank's service experience the focus is to appoint individuals in the branch network that can speak the client's language and an effort is made to appoint people from each branch's local community.

Internal career progression is guided by a promotional ratio of 80%, which has been successfully achieved over the past few years by effectively utilising job opportunities created by the growth of the business.

An internal sourcing function was established to deal with the volume of operational employees required for the expanding branch network. Unique candidate application methods and response handling are employed. Cost and time taken to recruit an employee and dependence on recruitment agencies have therefore decreased.

The implementation of an e-Recruitment system will facilitate quicker turnaround times, improved information management, better talent reach, improved consistency in communication with candidates and higher levels of engagement.

Talent management

Capitec Bank has a positive image in the job market due to the growth of the organisation and the brand. Employee development must be accelerated and people management processes must be streamlined to meet the challenges of rapid growth. The talent management strategy is focused on developing employees on the job, ensuring that the right people, with the right skills and capabilities, are in the right roles and are engaged and focused on the right activities.

The talent management project started in 2012 is progressing well towards the development of an integrated talent management framework that includes best practice talent acquisition, role induction, talent identification and development, and longer-term career and succession management. Line managers will be developed and empowered to manage this process.

Learning and development

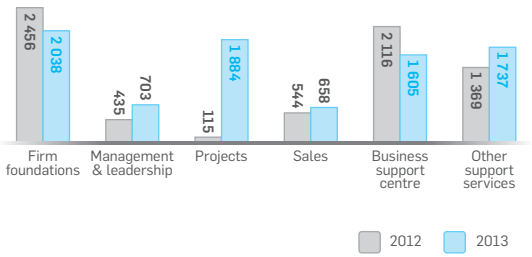
Learning and development initiatives are focused on developing employees and their performance to support continued business growth. Learning programmes aim to enable employees to adapt to ongoing changes in the business and industry, to create pride in and loyalty to the brand (which strongly influences client service), to improve overall performance levels (including personal client service) and to improve the management and leadership capacity of employees and line managers.

Emphasis is placed on the reduction of time to competence, the use of smarter technology and the translation of learning to improvements in business results and client satisfaction. The drive remains to empower employees, ensure personal growth and the succession of key individuals through professional development opportunities. This includes opportunities such as the Study Assistance programme, an internal bursary scheme for employees.

During the reporting period, 730 employees were promoted (2012: 665) due to the success of ongoing development initiatives.

Training interventions grew to 8 625 (2012: 7 035) as illustrated below.

NUMBER OF EMPLOYEES ATTENDING COURSES



Employee relations

Constructive labour relations are fostered through employee-related policies, the communication of these policies to employees and constant monitoring that all policies and practices comply with the applicable legislation. Two-way communication is consistently encouraged and the emphasis on acceptable conduct creates a culture that supports the growth of the company. During the reporting period there was no industrial action and no collective bargaining was required as Capitec Bank is a non-unionised bank.

Employment equity

Diversity is an organisational strength especially in light of the diversity of Capitec Bank's client base. The organisation is committed to providing equal opportunities to all employees and aims to build a diverse, high-quality staff profile. Employment Equity is promoted through proactive, long-term focus, rather than reactive, short-term compliance only. Succession planning is in place in the operations division and being planned for roll-out into all areas of the bank. Internal and external candidates are actively sought that have both potential and are from the designated groups.

An employment equity survey and focus group discussions that were conducted in early 2012 to determine what employment barriers exist within the organisation formed the foundation of the employment equity plan submitted to the Department of Labour. The content of this plan was integrated into the talent management strategy to ensure a proactive, business integrated approach to employment equity.

The table below reflects the EEA2 reporting information submitted for the reporting period November 2011 to October 2012, as per the Department of Labour's statutory reporting requirements.

CAPITEC BANK WORKFORCE

	Male				Female				Foreign nationals	
	African	Coloured	Indian	White	African	Coloured	Indian	White	Male	Female
Top management	1	–	–	16	–	–	–	–	–	–
Senior management	6	6	2	83	6	1	–	17	3	–
Middle management	62	31	13	155	42	26	10	81	4	–
Junior management	527	268	43	210	953	455	68	235	4	2
Semi-skilled	1 044	298	65	125	2 410	576	86	160	–	8
Unskilled	1	–	–	–	–	2	–	–	–	–
Total permanent	**1 641**	**603**	**123**	**589**	**3 411**	**1 060**	**164**	**493**	**11**	**10**
Temporary employees	11	4	–	7	30	10	2	17	1	1
Total employees	**1 652**	**607**	**123**	**596**	**3 441**	**1 070**	**166**	**510**	**12**	**11**

Operating environment

The global economy

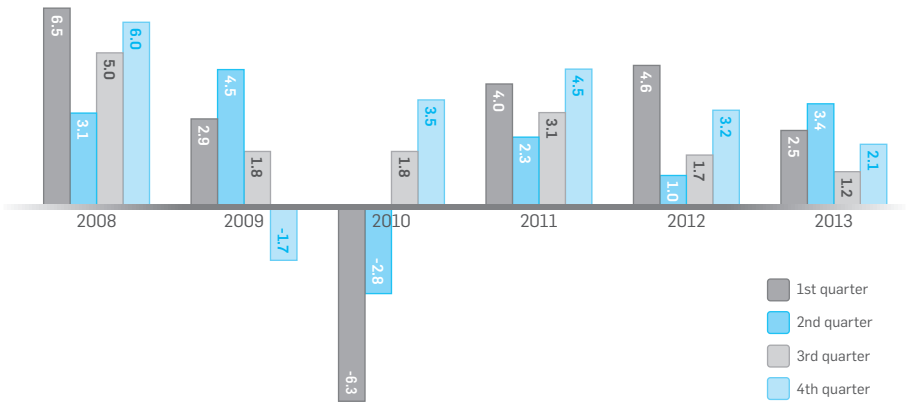
Recent volatility in the international capital markets and the global economy affected the South African economy as a whole and the volatility in global financial markets since 2008 has led to generally more difficult earnings conditions for the financial sector.

Declines in the economic growth of South Africa's major trading partners, such as the European Union, have adversely impacted South Africa's balance of trade and the global economic outlook remains relatively weak.

Economic conditions in South Africa

The South African economy remains vulnerable to slowing global demand and declining domestic growth rates. South African GDP growth rates are reflected in the adjacent chart.

GDP GROWTH BY QUARTER (%)



Source: Stats SA

The South African National Treasury's economic growth expectation for 2013 remains low at 2.7%, increasing to 3.5% for 2014 and 3.8% for 2015.

The total South African population grew from 44.8 million in 2001 to 51.8 million in 2011 according to Statistics South Africa (Stats SA) (Population census 2011), but 22.8% of South Africans of workable age are unemployed (Stats SA: Labour force survey December 2012). This remains one of the impediments to growth and, along with low economic growth, has led to labour unrest and civil protests in recent months.

Inflation has steadily increased from 4.4% in 2010 to 5.7% for December 2012 driven by increasing energy costs and the rising cost of living. These factors place increased pressure on the disposable income of households.

The SARB repo rate, partly influenced by prevailing inflation rates, has remained at 5% since July 2012. The low ceiling rates on lending in terms of the National Credit Act of 2005 are therefore compressing net interest margins.

The South African unsecured credit market

The total South African credit market has been significantly influenced by various developments over the past five years. These developments led to increased use of unsecured credit, including also by higher income clients.

The National Credit Act of 2005 ('NCA')

The NCA impacted the credit market in the following ways:

- A restructuring of the credit industry from secured to unsecured credit and the stagnation of the asset finance and hire purchase segments of the market
- Consumers using unsecured credit as life improvement finance
- Increased unsecured credit amounts from a maximum of R10 000 to currently R230 000 and ongoing reduction of pricing
- The opportunity to borrow larger amounts over a longer period at a lower price, allowing consumers to maintain monthly instalments at levels similar to payments on smaller, shorter-term loans
- The disappearance of the many small informal lenders and the entry of the traditional banks into the unsecured credit market
- An increase in credit active clients with a proportionate increase in default clients
- The significant decline of employer-based lending to insignificant levels of the total unsecured credit market

The international credit crisis in 2008

The international credit crisis resulted in the following changes in the credit industry:

- Large banks worldwide increased the requirements to obtain mortgage bonds.
- Credit criteria became more stringent and credit advanced reduced significantly.
- The number of mortgage clients has stagnated on 1.8 million since 2007.
- The number of secured credit agreements has declined by 1.5 million since 2007.
- Mortgage bonds for home improvements and home furnishing were retracted.
- Pricing on mortgages increased to the riskier profile of client.
- Pricing at prime minus levels changed to prime plus levels.
- Banks were encouraged to enter the unsecured market to seek alternative income streams.

Funding requirements for banks defined by Basel III

The implementation of Basel III in January 2013 will lead to, amongst other things:

- Increased funding and own capital requirements
- Increased cost of funding in the shorter term
- More conservative credit providing

Urbanisation, formal housing and electrification of houses

Growing urbanisation, growth in formal housing and the electrification of houses has expanded the potential credit market. Statistics SA reflects that 2.6 million additional formal houses were provided between 2002 and 2010. The majority of these houses are provided with formal services such as electricity and water. This drives a significant demand for home furnishings, appliances and heating devices.

Growing middle class consumer segment

AMPS research identifies an increase in consumers in the LSM5 – 7 categories from 31% of the population in 2001 to 49% in 2011. This growth confirms the increasing living standard of the average South African over the past 10 years.

Trends in the South African credit market

The trends in the South African secured and unsecured credit market over the last number of years are reflected in the tables that follow.

Agreement type	2009 R'm	2010 R'm	2011 R'm	To 3rd quarter 2011 R'm	To 3rd quarter 2012 R'm	Trend 2010/2009 %	Trend 2011/2010 %	Trend 2012/2011 %
Mortgages	75 493	97 633	109 801	80 487	80 271	29	12	–
Secured credit	81 196	98 674	118 583	85 189	99 814	22	20	17
Credit facilities	25 776	33 998	53 974	37 378	51 038	32	59	37
Unsecured credit	32 874	51 976	83 314	56 862	73 723	58	60	30
Short-term credit	3 907	5 481	6 664	4 816	4 482	40	22	(7)
Total credit granted	**219 246**	**287 761**	**372 336**	**264 732**	**309 328**	**31**	**29**	**17**
Value of unsecured credit granted – size of agreements								
R0K-R3K	866	867	1 296	892	1 034	–	50	16
R3.1K-R5K	1 948	2 092	2 953	2 037	1 877	7	41	(8)
R5.1K-R8K	3 211	3 717	5 003	3 469	3 461	16	35	–
R8.1K-R10K	2 833	3 084	4 147	2 858	2 991	9	34	5
R10.1K-R15K	6 292	7 308	8 731	6 261	5 995	16	19	(4)
> R15.1K	17 723	34 908	61 184	41 345	58 366	97	75	41
Total	**32 874**	**51 976**	**83 314**	**56 862**	**73 723**	**58**	**60**	**30**
Value of unsecured credit granted by income category								
R0-R3 500	8 566	6 933	9 473	6 526	7 270	(19)	37	11
R3 501-R5 500	3 884	5 133	6 687	4 644	6 059	32	30	30
R5 501-R7 500	3 586	6 163	9 654	6 541	8 566	72	57	31
R7 501-R10K	3 735	6 420	9 690	6 728	8 833	72	51	31
R10.1K-R15K	5 866	11 323	18 016	12 370	15 360	93	59	24
> R15K	7 237	16 004	29 792	20 053	27 635	121	86	38
Total	**32 874**	**51 976**	**83 314**	**56 862**	**73 723**	**58**	**60**	**30**
Current portion of gross debtors book								
Mortgages	627 808	653 115	696 132	685 431	729 184	4	7	6
Secured credit	183 761	194 179	225 341	215 191	248 614	6	16	16
Credit facilities	100 544	108 464	116 101	111 444	129 687	8	7	16
Unsecured credit	40 043	56 731	88 927	76 229	109 050	42	57	43
Short-term credit	554	627	805	694	568	13	28	(18)
Total	**952 710**	**1 013 116**	**1 127 306**	**1 088 988**	**1 217 103**	**6**	**11**	**12**

The regulatory environment

Capitec Bank operates in a highly regulated environment and any change in the enforcement of existing regulations, as well as proposed or future regulations, will impact the business.

South African regulatory agencies have broad jurisdiction over many aspects of the bank's business, including permissible rates of interest and fees charged to borrowers, capital adequacy, marketing and selling practices, advertising, licensing agents, terms of business and permitted investments. The main legislation and bodies are detailed below.

Legislation or body	Function
The Banks Act, 1990	Protect the public by regulating and supervising the entities which take their deposits
South African Reserve Bank (the SARB)	South Africa's central bank is responsible for the regulation and supervision of the banking sector in South Africa, with the purpose of achieving a sound, efficient banking system in the interest of the depositors of banks and the economy as a whole
The National Credit Act, 2005 ('the NCA')	Legislation aimed at protecting certain types of consumers. The NCA regulates the granting of consumer credit and provides for advanced standards of consumer information. The NCA requires credit providers to register with the NCR
National Credit Regulator (the NCR)	The NCR oversees market regulation and supervision, including unsecured lending
The National Payment System Act, 1998	Regulates the South African financial settlement system in line with international practice and systematic risk management procedures
The Payment Association of South Africa (PASA)	Facilitated the introduction of payment clearing house agreements and agreements pertaining to settlement, clearing and netting agreements, and rules to create certainty and reduce systemic and other risks in interbank settlement
Consumer Protection Act, 2008	Regulates the relationship between suppliers and consumers in order to protect the rights of the consumers
Electronic Communications and Transactions Act, 2002	Guarantees the validity of agreements concluded either partly or wholly by a data message
Prevention of Organised Crime Act, 1998 (POCA)	Deals with money laundering, racketeering and criminal and civil forfeiture, and sets out the substantive money laundering offences
Financial Intelligence Centre Act, 2001 (FICA)	FICA complements POCA and provides an administrative framework to combat money laundering

Following the global economic and financial crisis, regulation and supervision of the global financial system have been and continue to be a priority for governments and supranational organisations. Specifically, the Basel Committee on Banking Supervision (BCBS) issued revised minimum global standards for banks which place enhanced emphasis on the consistency and quality of capital and on curtailing liquidity risk. The Basel III proposals were implemented from 1 January 2013 with various phase-in and transitional arrangements.

Lending in South Africa is highly regulated through the NCA, which is a consumer-focused statute that requires credit providers to perform a thorough assessment of the ability of prospective clients to repay any potential credit they may be granted. Any changes to the NCA will impact Capitec Bank's business.

Credit ratings

South Africa's sovereign rating affects the South African banking sector as a whole. The current foreign currency credit ratings and long-term outlook for South Africa are BBB+ (Negative outlook), Baa1 (Negative outlook), BBB+ (Negative outlook) from Fitch, Moody's Investors Service, Inc. ('Moody's') and Standard & Poor's, respectively, following a downgrade as at 1 October 2012.

Capitec Bank's credit ratings affect its cost of funding. On 4 March 2013, Moody's affirmed Capitec Bank's A2.za/ P-1.za national-scale issuer's ratings and changed the outlook from positive to stable. According to the rating agency, the outlook reflects their assessment of the risks associated with the continued challenging operating conditions in South Africa's unsecured lending market, which they believe will weigh on the bank's asset quality and profitability metrics.

On 28 March 2013 Moody's assigned global scale Baa3/ Prime-3 long and short-term deposit ratings to Capitec Bank. The ratings agency also assigned a D+ standalone bank financial strength rating. The ratings carry a stable outlook.

Competition and market share

Capitec Bank is subject to competition from bank and non-bank unsecured lending providers. The stagnation of the secured credit market in South Africa in recent years has led to the four largest banks in South Africa expanding their operations in the unsecured credit market. Competitors are increasingly focusing on developing product offerings that are similar to Capitec Bank's products and services, and compete for substantially the same clients.

Clients

Capitec Bank has 4.7 million active clients who contribute to the transaction income stream of the bank, reflecting growth of 26% for the reporting period. Full bank clients, who deposit an income stream with the bank, do a minimum number of typical bank transactions each month and are the key contributors to the bank's transaction income number 1.8 million. Growth at Capitec Bank is primarily focused on acquiring these clients and the potential exists to attract the remaining 2.9 million existing clients to become full bank clients.

Capitec Bank's full banking clients represent 12.8% of the 13.6 million employed South Africans *(Stats SA: Labour force survey December 2012)* indicating strong potential for growth.

The table below illustrates the trend in the number and percentage of adult South Africans who used formal banking for the past three years.

	Number in millions	% of total population
2010	20.9	63
2011	21.2	63
2012	22.5	67

Source: Finscope

Research indicates that Capitec Bank's share of the total banking market has grown from 5.4% in 2010 to 9.1% in 2012, indicating that there is still significant growth potential.

The table below indicates the level of full bank usage in the industry. This includes the use of monthly electronic payment services, card purchases, transfers, internet and mobile banking. Significant opportunities still exist in this area. The large number of clients who draw all their cash soon after it is deposited in their accounts indicates that consumers don't see the benefit of leaving money in their accounts because of low returns and unexpected fees.

Bank product usage	Number of clients in millions
Full-service banking	9.6
Monthly cash withdrawals only	5.8
Do not withdraw all cash at once	3.4
Draw all cash at once	3.7

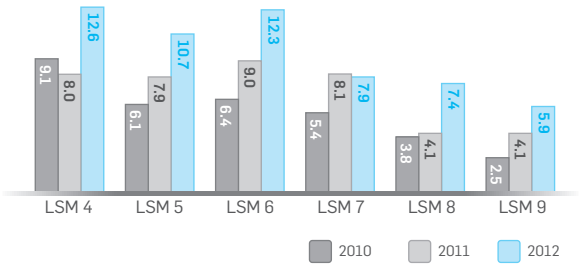
Source: Finscope

The challenge is to communicate the benefits of leaving money in their accounts and the convenience of accessing their money at low cost at retailers or via card purchases to clients. This communication will drive the acquisition of bank clients who use our full services.

Awareness measures conducted through Nielsen SA research indicate that over 35% of the market is still unaware of the value proposition of Capitec Bank. It is the ongoing objective of our marketing investment to differentiate and drive awareness of the bank's unique offer in the market. Each year the awareness levels increase and more consumers are attracted to the unique solution the bank provides.

Our marketing investment was largely focused on the middle to lower segments of the market until 2010. Over the past two years, however, marketing and distribution investment has shifted to cover the middle to upper segments of the market. The chart to the right reflects the trend in our market share by LSM group for the last three years and shows that, while market share increased across all LSM groups, the higher increases occurred in LSM groups 4, 5, 6 and 8. This indicates that Capitec Bank's offer is generating significant acquisition of middle to upper income clients.

MARKET SHARE BY LSM GROUP (%)

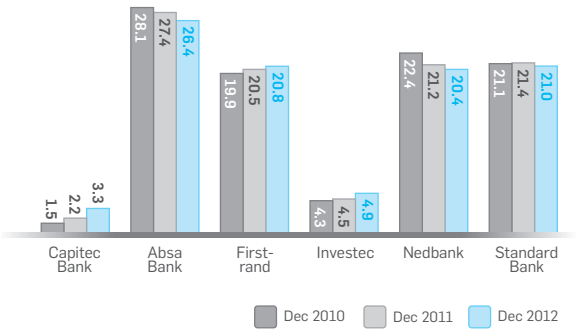


Savings

Capitec Bank's retail deposit book has grown consistently over recent years as client numbers have grown and the product offer has expanded to include fixed-term deposits.

The chart below illustrates the trend in market share relative to competitors.

MARKET SHARE OF RETAIL DEPOSITS

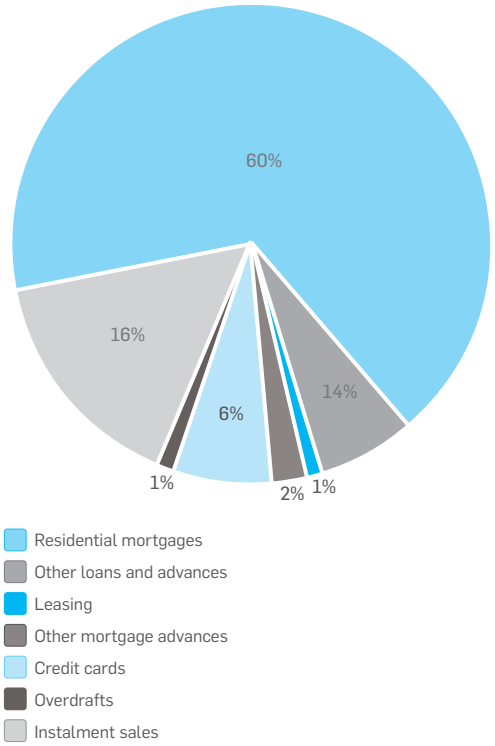


Source: BA900 regulatory disclosure

Credit market share

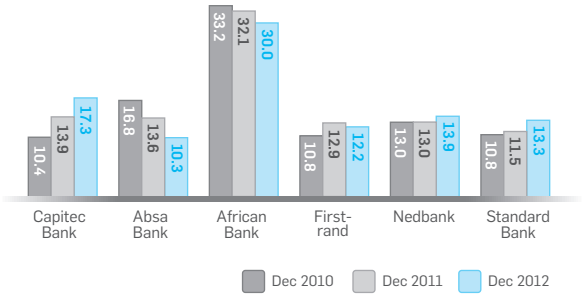
At the end of December 2012 the domestic loans and advances market book totalled R2 525 billion (excluding credit impairments). Total domestic household retail loans and advances comprised R1 258 billion of the market.

RETAIL MARKET SHARE BY PRODUCT



Capitec Bank participates only in the other loans and advances segment which represents the unsecured credit market and the trend in our market share is illustrated below.

MARKET SHARE OTHER LOANS AND ADVANCES TO HOUSEHOLDS (%)



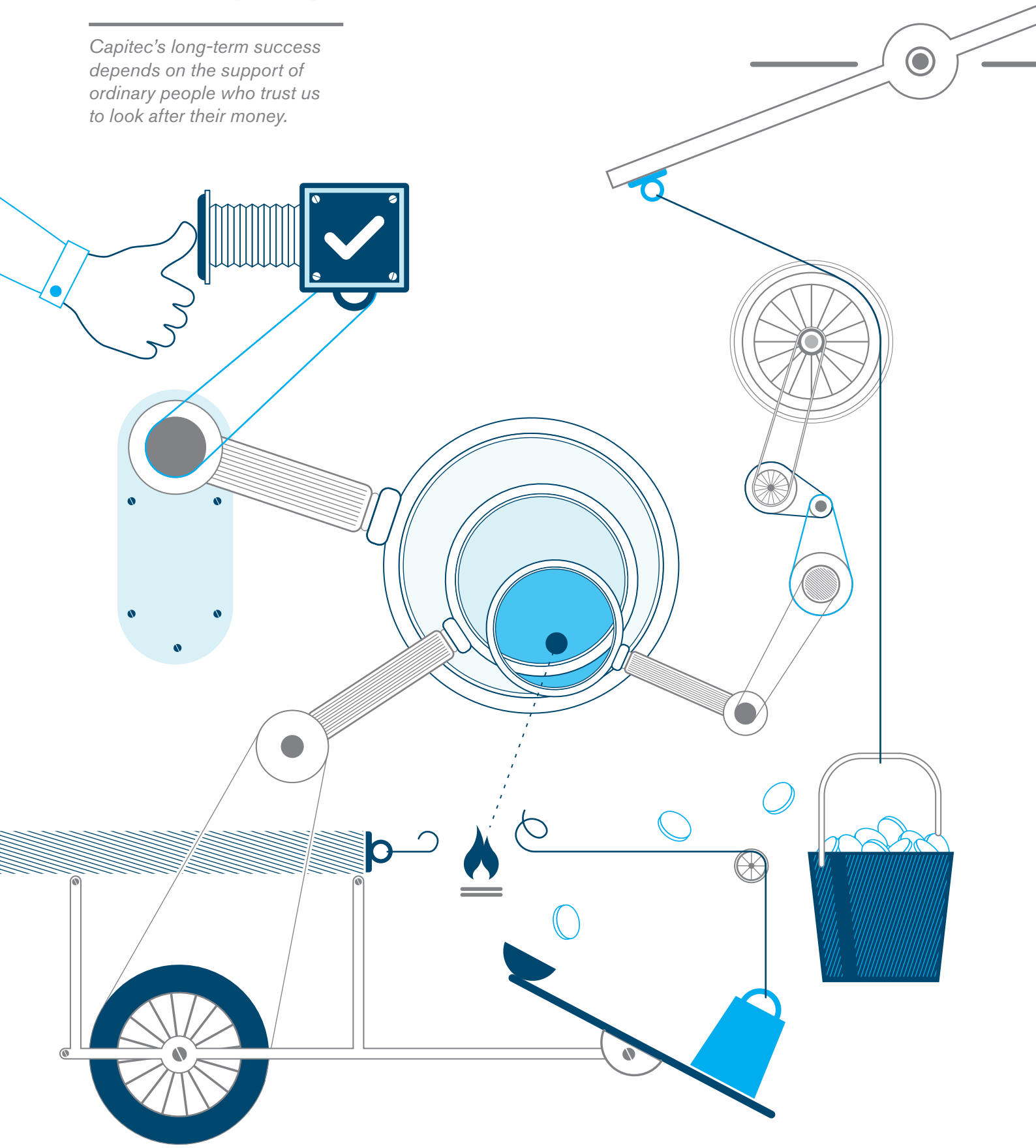
Source: BA900 regulatory disclosure

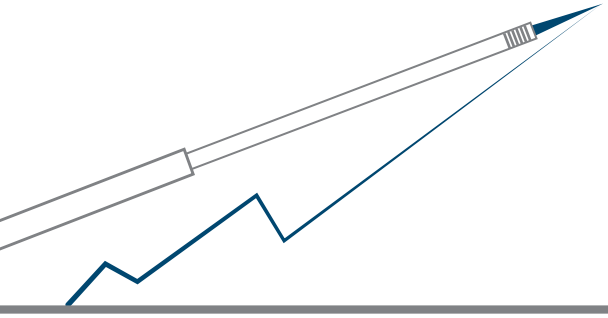
At the end of December 2012 Capitec Bank had the second largest market share in the unsecured credit market having increased its market share by 3.4% during the year.

From the chairman

05

Capitec's long-term success depends on the support of ordinary people who trust us to look after their money.





The revolution continues

In the last twelve months our earnings increased by 47% to R1 584 million. We raised R2.2 billion in new share capital through a rights issue but still managed a return of 27% on equity. We appreciate the confidence of our shareholders and the markets, but our long-term success depends on the support of ordinary people who trust us to look after their money. On this front, we have exciting news.

On the last day of our financial year, 28 February 2013, individual clients performed 2.7 million transactions on their Capitec Bank accounts. This was the busiest day of our year and is an increase of 80% on the busiest day of the previous year.

We have 971 000 clients more than a year ago using their accounts more often – some borrow from us, some save with us, some transact with us, and many do all three. We love to be their bank of choice and the number of prime clients who use us to receive their salary has increased by 45% to 1.8 million.

Net transaction fee income grew by R513 million to R1.3 billion. When a client uses a Capitec Bank card to pay for a meal at a restaurant and the restaurateur uses a card machine provided by another bank, we receive a fee of which a portion is paid over to the other bank. The net transaction fee is the portion of the fee that's ours, and it does not indicate that it is profit after costs. Transaction income covered 45% or our bank operating expenses, up from 34% last year, exceeding our target of 40% set three years ago. Our cost-to-income ratio dropped to 38%, an unusually low figure for a full-service bank with a national branch network.

People love the simplicity of our products and our easy-to-understand pricing. Many of our clients, who receive their salaries in their Capitec Bank accounts, receive more in interest than they pay in fees. Clients who incur banking fees of more than R12.50 receive a monthly sms to tell them what we charged them and how much interest we paid them. Happy clients are our best advertisement.

According to the AMPS research, our share of banking clients has grown from 5% in 2010 to 9% two years later, and 61% of all other banking clients interviewed would consider banking with us, by far the highest rating of any South African bank by clients of its competitors. We have huge growth opportunities.

Policy triumph

The growth of the unsecured lending market is a triumph for the government's ambition to extend banking to those previously excluded from banks.

The initial deregulation of interest rates in 1994 created a large and chaotic market for credit: the microloan industry was born. Subsequently larger, more structured players became dominant, reducing interest rates and, in the case of Capitec Bank, offering a complete banking service. The National Credit Act which came into force in 2007 was a landmark: the rules of credit granting were legislated and abusive practices were banned. With this regulation the market took off: in 2007 the unsecured lending industry totalled R29 billion (according to the National Credit Regulator). The industry now has a total book of R171 billion, 14% of the total South African credit market.

This phenomenal growth has been a huge boon to South Africans. Only 6% of adults in South Africa have a home loan. Nobody can grant a home loan on an informal house or on a house built on communal land. Most houses in townships do not qualify for a mortgage. Yet, every one of these homes requires financing when a bathroom or a fence is added. Excluding somebody from the credit market because of a lack of security is an attack on the human dignity of that person.

Capitec Bank has been a leader in this huge expansion of the credit market. Our maximum loan period has been extended from three to seven years. The interest rates that we charge our clients have been further reduced during the year. Dropping interest rates and lengthening payback periods resulted in much larger loans. Lower rates also convinced individuals with a higher income to use our loans. It is not so much the unsecured loan market that has expanded but a completely new market that has been created.

Capitec Bank is a real-time provider of loans. When somebody, even a completely new client, applies for a loan, that loan is approved or declined before the client leaves our branch. If approved, a new account is created and the money paid into it, available for immediate use by the borrower. Even private banks find it impossible to give real-time access to new credit to their best clients.

Our share of the unsecured market is 17%, up from 14% a year ago. This is rapid growth, but also means that we can keep on growing for a long time. Unsecured lending has become a permanent feature of the South African credit offering and will grow rather than diminish in importance. Our clients love the speed and simplicity of our loans. Even for a seven-year loan, we charge a fixed interest rate, meaning that the borrower can budget accurately knowing that the monthly payment will never increase.

Bad debts

Lending is a risky business. Bad debts ('impairments' in the sanitised language of accounting) are huge. In the past year our major cost items were (R'm):

Net impairment charges	2 659
Employment costs	1 536
All other bank operating costs	1 458
Taxes	875
Dividends (interim plus final to be paid)	931

Delinquent borrowers get more out of Capitec than our employees, the government or our shareholders.

We know that bad credit decisions are a huge risk to Capitec Bank. We are conscious of the fact that in a fast growing market past behaviour by borrowers is not necessarily an indication of future actions. We are careful in evaluating our borrowers, particularly those we grant large, long-term loans.

We react rapidly to changing circumstances. During the last few months, our arrears trend was slightly higher than expected, though still within our risk appetite. Credit criteria were immediately tightened and provisions increased.

With a rapidly growing book, one can be deluded into thinking that provisions are adequate should one look at arrears percentages only to find out later that it was not the case. We try to avoid falling into this trap and of the R2.9 billion charged to the income statement, R1.2 billion was added to the provision for doubtful debts to cater for events not yet identified, while bad debts written off increased by R675 million to R1.7 billion.

Basel III

The new international banking rules known as Basel III, were introduced after the banking crisis to strengthen banks. Basel III prescribes higher capital ratios, but also imposes measures which will be phased in over the next number of years to ensure that a bank has access to stable and long-term funding. Capitec already complies with these new rules. As at 28 February 2013 our liquidity coverage ratio was 1 534% (100% required from 2019) and our net stable funding ratio was 116% (100% required from 2018).

As a result of our rights issue, Capitec's capital adequacy ratio has remained high at 41% (2012: 39%).

Increased footprint

We have 560 branches and have opened on average 50 branches per year for the last three years. We intend opening 75 new branches in the coming year, having increased our capacity to train new employees. Branches are positioned to make it convenient for clients to conduct their banking in the normal course of their daily activities, with 104 branches situated in shopping malls.

Capitec Bank has 244 branches in cities and towns and 316 branches serving rural and semi-rural areas. We have 27

branches in central Johannesburg and our most remote branches include Bochum, 85 kilometres north of Polokwane, and Manguzi, 30 kilometres south of the Mozambique border in the north-eastern corner of KwaZulu-Natal. At our smaller branches seven employees perform on average 14 000 transactions per branch per month. Our largest branches are staffed by 16 employees that perform on average 82 000 transactions per branch per month.

We have no huge branches and would open a second or third branch in a town or neighbourhood, rather than enlarging our initial branch.

The ATM network has grown to 2 554 ATMs and the number of ATMs that are independent of branches continued to grow. During the year Capitec introduced cash recyclers that utilise the cash deposited by one client in order to provide cash withdrawals to other clients.

We have experienced dramatic growth in the purchase of airtime and electricity by cellphone. Last December 6 million such purchases were made compared to 673 000 a year ago. In the same period balance enquiries went up from 271 000 to 3.5 million. In future, the cellphone will be an integral part of banking.

Employees

Capitec Bank's success depends on its employees.

We had 8 308 permanent employees at year-end and we created 1 114 new jobs compared to a year ago. Including the filling of vacant posts, we appointed 2 419 employees during the year. In total, 28 564 applicants were short-listed and 6 014 applicants were interviewed by Capitec Bank's internal recruitment department.

Our approach is to make Capitec a great place to grow and develop. Dumisani Ncukana is an example of the power of possibilities. He has worked for Capitec since the age of 18 when he started as an ATM assistant. He has completed an MBA and is currently an operations manager in Gauteng, responsible for 92 branches.

Every new employee is given hands-on, practical training before he or she is allowed to deal with clients. Altogether 703 employees attended management and leadership courses. A total of 730 employees were promoted internally.

Capital raised

Capitec Bank undertook a successful rights offer of ordinary shares in November 2012, which raised R2.2 billion in capital. We particularly appreciate the support of our largest shareholder, the PSG Group. There should be no need for further capital in the near future.

Board of directors

Capitec mourned the passing of Merlyn Mehl in January 2013. Merlyn was a gentleman, an intellectual and a Capitec enthusiast. He served on the Capitec board since before our listing and was the lead independent director at the time of his death.

Nonhlanhla Mjoli-Mncube was appointed as the lead independent director on 31 January 2013.

The board welcomed Boel Pretorius in November 2012. An engineer with years of experience as the chief executive of Reunert, he is a valuable addition to the board.

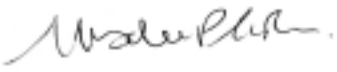
Prospects

We expect economic conditions to remain difficult but believe that our client base and transaction income will continue to grow. Responsible management of the quality of our loan book will remain a priority.

Dividends

The directors declared a final dividend of 405 cents per ordinary share on 25 March 2013, bringing the total dividends for the year to 574 cents per share.

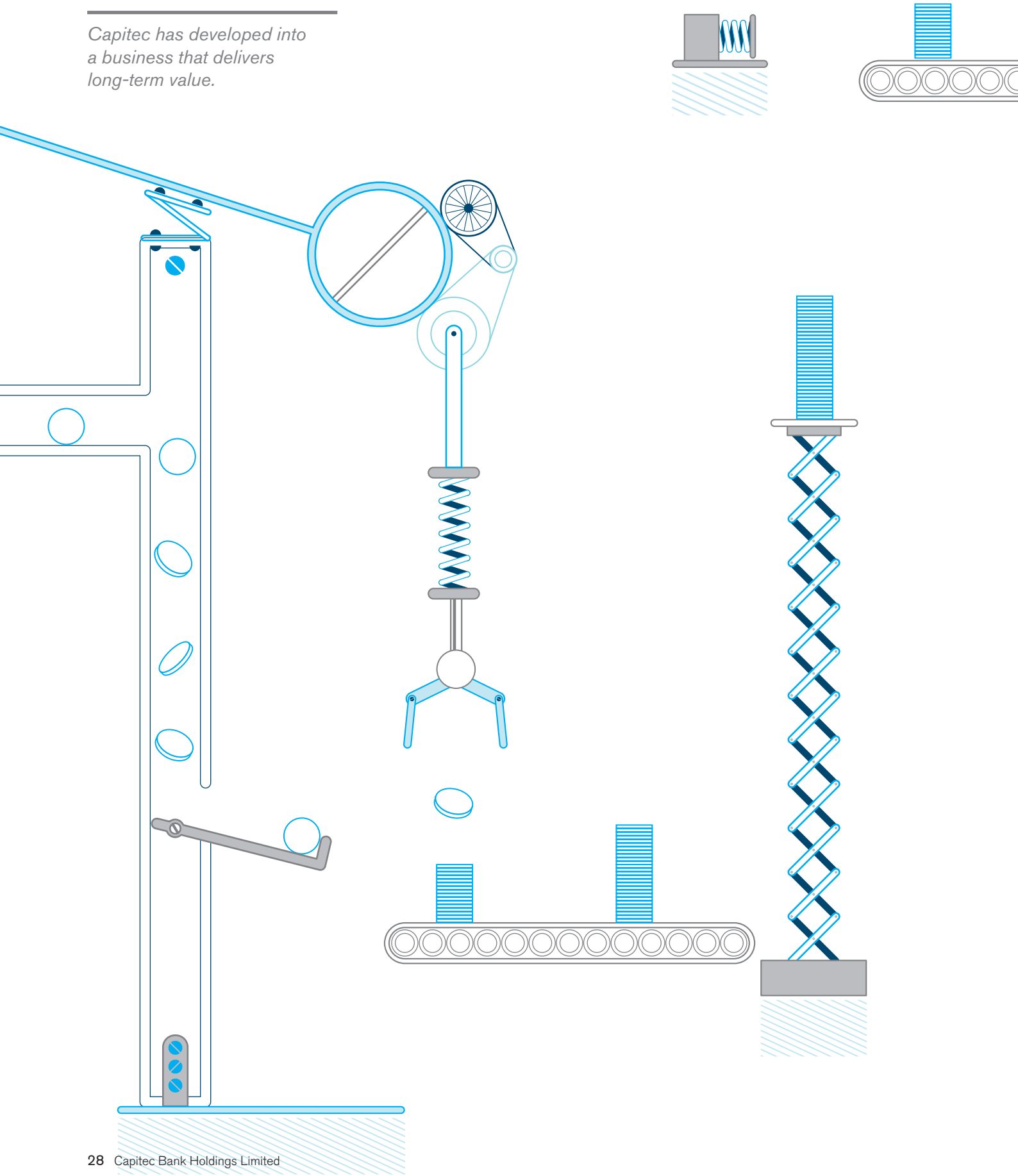
On behalf of the board

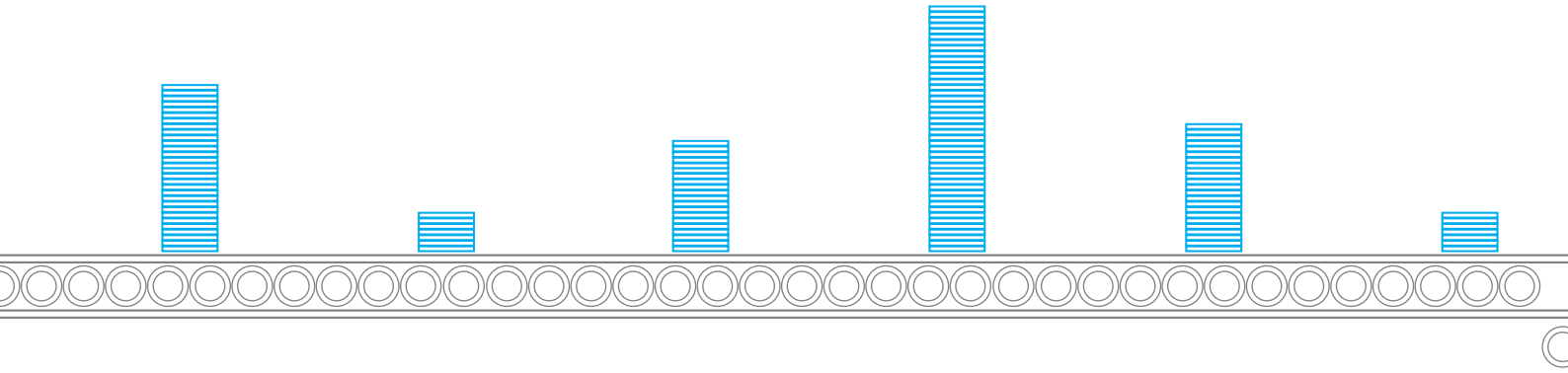


Michiel le Roux
Chairman

Chief financial officer's review 06

Capitec has developed into a business that delivers long-term value.





Sustained earnings growth

Capitec listed on the JSE Limited in February 2002. Earnings for the 2003 financial year amounted to R30 million. The organisation has since developed into a sustainable business that creates long-term value as illustrated by the compounded annual growth rates below:

Per share	Since listing in 2002 %	10 years %	5 years %
Headline earnings	31	42	42
Dividend	31	41	42
Share price	59	53	37

Capitec has maintained growth by responsibly growing its unsecured lending book and increasing transaction income. Earnings attributable to ordinary shareholders grew by 47% to R1.6 billion for the 2013 financial year.

In November 2012 a successful rights offer to ordinary shareholders raised R2.2 billion in share capital. The rights offer affected the return on equity which decreased to 27% from 29% in 2012 but is still above our target of 25%.

The debt-to-equity ratio was maintained at 3.5:1 as deposit funding increased by R11.3 billion. Retail call savings grew by 63% and totalled R10.3 billion, while retail fixed savings grew by 70% to R6.8 billion. The weighted average maturity of retail fixed funding grew from 15 months at the end of February 2012 to 18 months at the end of February 2013. Wholesale deposits amounted to R11.7 billion with a weighted average maturity of 42 months, up from 28 months on 29 February 2012.

Loan revenue grew by 41% to R8.0 billion exceeding the growth in loan sales which grew by 31% to R25.4 billion. This reflects the fact that the loan book is not mature as well as the impact of the new fixed-term credit product that was introduced in May 2012.

The gross loans and advances book grew by 67% to R30.7 billion. Loans with terms longer than 12 months grew by 73%. The impairment provision increased to R2.7 billion and represents 8.9% of gross loans and advances compared to 8.4% at the end of February 2012. During the current financial year impairment provisioning became more conservative, with impairment calculations no longer being loan-based but client-based.

The net loan impairment expense of R2.7 billion represented 10.8% of average gross loans and advances (2012: 10.9%) indicating that the majority of the R1.1 billion increase in the charge was due to loan book growth.

Net transaction fee income grew by 61% to R1.3 billion compared to R836 million for the 2012 financial year. This growth was driven by the increase in clients, the expansion of Capitec Bank's distribution network, behaviour of clients and the mix of clients towards higher earners. A total of 4.7 million active clients access Capitec Bank's solutions through a branch network that grew to 560 branches (2012: 507) countrywide, a total of 2 554 ATMs (2012: 2 076), mobile branches, internet banking, mobile banking that can be used to purchase airtime and electricity, POS purchases and cash withdrawals and money transfers at retail partners.

Net transaction fee income amounted to 26% of net banking income after impairment charges, up from 21% for the 2012 financial year. The 40% target for net transaction fee income as a percentage of operating expenses was reached and exceeded at 45% compared to 34% for the 2012 financial year. Management's new target is set at 55% by 2016.

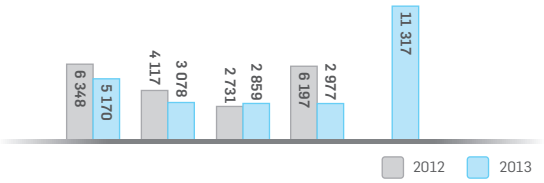
The cost-to-income ratio of banking activities improved from 44% for the 2012 financial year to 38% for the 2013 financial year. The banking income increased by 40%, while operating expenses increased by only 20%, mainly as a result of the growth in branches and employees.

Employment costs totalled 51% of operating expenses compared to 53% in the 2012 financial year.

Loans advanced ('sales')

The value of loans advanced grew by 31% to R25.4 billion[1] as reflected in the chart below.

LOAN SALES BY PRODUCT (R'm)



	(Months)					Total
	1-12	13-36	37-48	49-60	61-84	
2012	6 348	4 117	2 731	6 197	–	19 393
%	33	21	14	32	–	100
2013	**5 170**	**3 078**	**2 859**	**2 977**	**11 317**	**25 401**
%	**20**	**12**	**11**	**12**	**45**	**100**

During May 2012 Capitec Bank took credit beyond traditional personal loans by changing its offer to a single loan with a term of anywhere between one and 84 months (2012: 60 months) and a maximum amount of R230 000 (2012: R150 000). Clients can now choose their own credit plan based on their credit profile and affordability, instead of being bound by predetermined loan terms.

The impact of the new loan product is reflected in the 19% decrease in the number of loans advanced to 3.8 million and the 62% increase in the average loan amount to R6 756 compared to R4 172 for the 2012 financial year.

Sales of loans with terms longer than 12 months increased to 80% (2012: 67%) of total sales, while sales of loans with terms 12 months and shorter showed a decline of 19% compared to the previous year. The new loan product attracted in excess of 347 000 new clients to Capitec Bank and loans to new clients grew by 58% to R7.8 billion.

The actual payment performance of loans compared to expectations, as well as changing market conditions, is continuously monitored and this led to proactive tightening of the credit granting criteria in November and December 2012. The credit rules were amended to shorten the loan term for which clients qualify and more stringent affordability rules were implemented. This led to a contraction in loan sales during the last quarter of the financial year.

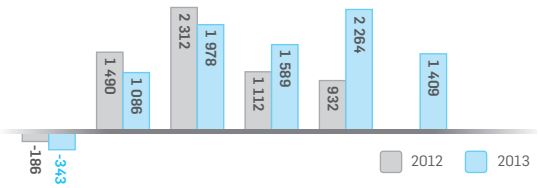
The contraction of loan sales is in line with trends in the unsecured credit market as reported by the National Credit Regulator (NCR). Unsecured credit granted for the first three quarters of 2012 increased by 30% compared to the first three quarters of 2011. This is lower than the increase of 60% for the full 2011 year compared to 2010[1].

[1] *Loans advanced are reflected net of internal loan consolidations. The NCR reflects credit granted gross of internal and external loan consolidations in its statistics. Credit granted by the market is therefore inflated.*

Loan revenue

Loan revenue, which consists of interest, origination fees and monthly administration fees net of insurance expense, grew by 41% to R8.0 billion as reflected in the chart below.

LOAN REVENUE BY PRODUCT (R'm)



	Insurance	(Months)					Total
		1-12	13-36	37-48	49-60	61-84	
2012	-186	1 490	2 312	1 112	932	–	5 660
2013	**-343**	**1 086**	**1 978**	**1 589**	**2 264**	**1 409**	**7 983**

Concurrently with the launch of the new product, loans were re-priced by a more refined pricing for risk model as a further step in Capitec Bank's strategy to reduce the cost of credit to clients.

Before the introduction of the new loan product, as is customary in the market, a client would be granted a new loan each time they identified a need for credit. The client would pay an origination fee and a monthly administration fee for each of these loans. The new loan product reduces the cost to the client because additional credit requirements are met by increasing the value of the client's existing loan. The client does not pay an additional origination fee and will only pay one monthly administration fee. The impact of the new loan product reflects in the 12% decrease in loan fee income to R1.5 billion (2012: R1.7 billion).

At the same time the differentiation of interest rates based on client risk profiles was refined and the risk categories expanded. The change to the way that origination and monthly fees are charged was also taken into account. Together with the growth in loan sales this led to an increase of 63% in interest received on loans to clients to R6.8 billion. Loans are still priced according to a predetermined return on equity calculation and are advanced at fixed interest rates so that clients are not exposed to interest rate fluctuations.

The cost of credit life and retrenchment insurance offered on loan products with terms of six months and longer is priced into our rates while competitors add these charges to their loan pricing, which is often higher than the prescribed NCA rates. The insurance expense amounted to R343 million (2012: R186 million).

Loan book, arrears and provision for doubtful debts

The gross loan book grew by R12.3 billion to R30.7 billion.

Following the introduction of the new loan product, gross loans and advances with terms longer than 12 months grew by 73% and at year-end totalled 97% of the loan book (2012: 93%). The 61-month to 84-month loan book accounts for 35% of the gross loan book.

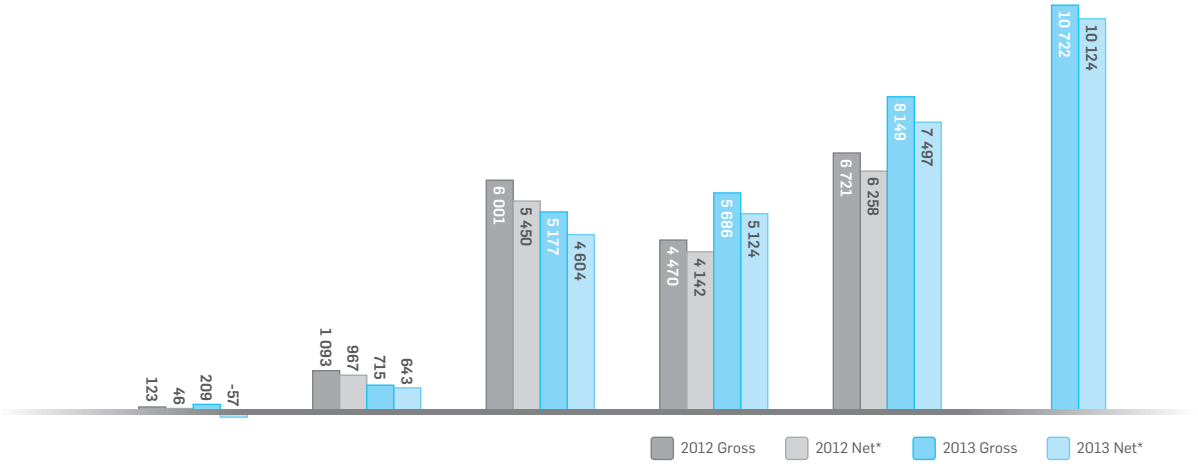
Arrears as a percentage of gross loans and advances increased to 5.8% from 5.1% at the end of February 2012.

Loans past due (arrears) comprise the full outstanding balance at risk on loans and advances that are in arrears from one day to three months, i.e. if a payment of R1 000 is missed on a loan with an outstanding balance of R30 000, the full outstanding balance of R30 000 is considered to be in arrears. The basis on which arrears is calculated became more conservative during the 2013 financial year. The arrears balance of R1.8 billion at year-end was determined on a by-client basis instead of a by-loan basis. Where a client had multiple loans and one of them was past due all of the client's loans were included in arrears. The R932 million arrears balance for 2012 was determined on a by-loan basis. Only loans that were past due were considered. If a client had more than one loan, only the loan that was actually in arrears was included.

A comparison of arrears on the two bases indicates that comparative arrears for 2012 on a by-client basis would have amounted to R1.1 billion or 5.8% of the gross loan book.

This indicates that the quality of the loan book has not deteriorated significantly. Although the arrears balance has grown by R845 million at the end of the 2013 financial year, the growth in the loan book accounts for the majority of the increase.

LOAN BOOK BY PRODUCT (R'm)



	Other	1-12	13-36	(Months) 37-48	49-60	61-84	Total
2012 Gross	123	1 093	6 001	4 470	6 721	–	18 408
2012 Provision	(77)	(126)	(551)	(328)	(463)	–	(1 545)
2012 Net*	46	967	5 450	4 142	6 258	–	16 863
2013 Gross	**209**	**715**	**5 177**	**5 686**	**8 149**	**10 722**	**30 658**
2013 Provision	**(266)**	**(72)**	**(573)**	**(562)**	**(652)**	**(598)**	**(2 723)**
2013 Net*	**(57)**	**643**	**4 604**	**5 124**	**7 497**	**10 124**	**27 935**

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

It should be noted that the above chart is not a maturity analysis. Clients repay part of the capital on each of the product types in the following month, the month thereafter and so forth. In a mature book the capital repayment for the following month will approximate the balance divided by half the term. A maturity analysis is set out in note 7 to the annual financial statements.

		Aug 2011	Feb 2012	Aug 2012	Feb 2013
Gross loans and advances	R'm	14 495	18 408	24 697	**30 658**
Loans past due (arrears)	R'm	649	932	1 075	**1 777**
Arrears to gross loans and advances	%	4.5	5.1	4.4	**5.8**
Provision for doubtful debts	R'm	1 102	1 545	1 873	**2 723**
Provision for doubtful debts to gross loans and advances	%	7.6	8.4	7.6	**8.9**
Provision/arrears coverage ratio*	%	170	166	174	**153**

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

The provision for doubtful debts as a percentage of gross loans and advances increased to 8.9% from 8.4% at the end of February 2012.

During 2013 amendments to the impairment provision model were implemented and the amended model is driven primarily by movements in arrears balances. The model impairs on a by-client basis compared to the by-loan basis previously applied. This resulted in a more conservative provision which is considered appropriate based on current economic and market conditions.

The launch of the fixed-term loan product in May 2012 introduced a refined pricing for risk model that incorporated higher expected bad rates than previously utilised. The actual performance of loans granted is monitored against the expected rates. The products have thus far performed within risk appetite but indicators of possible worsening in arrears led to the introduction of a new behavioural scorecard for credit granting in November 2012 and the addition of a cash quality indicator to enhance the pricing for risk regression model. During December 2012 the living expense percentage was increased and the minimum living expense amount was increased. The bad rate performance of loan tranches granted subsequent to the tightening of credit granting criteria is expected to be better than that on previous tranches of the fixed-term credit product.

Historically, issues relating to the renewal of contracts and the administration of salary payments to employees of various provincial government departments affected arrears in January and February, and this effect was experienced again in 2013 as these clients comprise some of our larger exposure groups.

Strikes in the mining industry which comprises 7% of our loan book affected arrears negatively during the second half of the financial year as did transport strikes. The recovery of the mining book was positive in February 2013. We continue to be concerned about the outlook for particularly the platinum mining industry as a stable industry due to tensions with unions and lower demand due to the slow recovery from the European crisis. Strikes at Eskom's Medupi power station project throughout January and February also affected more than 12 000 employees of more than 20 companies.

The tightening of credit granting by the industry as a whole has made it more difficult for clients to roll debt or extend loan terms in order to meet repayments. This is expected to have a short-term impact on arrears and consequently impairments.

While the loan book is maturing and growth will be slower due to tightened credit granting rules, arrears and impairments should reach equilibrium. However, evidence continues to show that some of our clients' instalments at other credit providers are growing faster than salaries and Capitec instalments. There is a trend developing that clients take up these loans after obtaining credit at Capitec Bank. There is also increased evidence of unemployment which affects impairment provisions. According to the Stats SA Labour Force survey in December 2012, 22.8% of South Africans of workable age are unemployed and the Adcorp employment index reported that during January 2013 the economy lost in excess of 50 000 jobs.

The breakdown of the loan book between current loans and loans in arrears, as well as the movement in the loan provision account are set out in the table below.

Analysis of loans and advances by status:

R'm	2013	%	2012	%
Gross	**28 881**		17 476	
Impairment	**(1 860)**	6	(1 015)	6
Not past due	**27 021**		16 461	
Gross	**1 777**		932	
Impairment	**(863)**	49	(530)	57
Past due	**914**		402	
Total	**27 935**		16 863	

At the end of February 2013 the weighted average outstanding term of the loan book was 48 months (2012: 37 months).

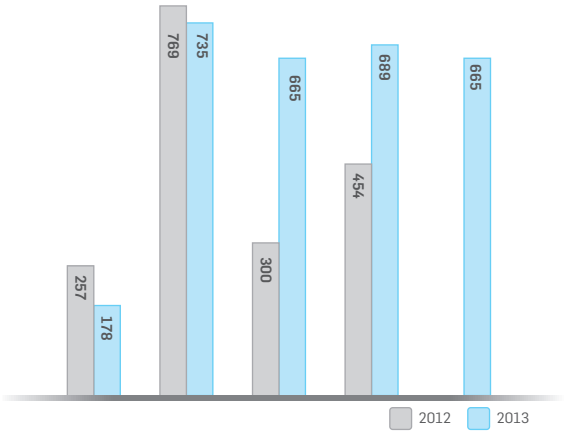
Loan impairment expense

The net loan impairment expense of R2.7 billion for the year increased by R1.1 billion compared to last year and represents 10.8% of average gross loans and advances compared to 10.9% in 2012.

Loan impairments are calculated on a client level based on historical data, and the recent patterns and events as described above are given appropriate consideration.

Bad debts written off (excluding provision movements) amounted to R1.7 billion compared to R1.0 billion for the 2012 financial year and bad debt recoveries grew from R176 million to R273 million. The R1.2 billion movement in impairment provisions was R477 million more than the 2012 financial year.

GROSS LOAN IMPAIRMENT EXPENSE
(BEFORE RECOVERIES) (R'm)



	(Months) 1-12	13-36	37-48	49-60	61-84	Total
2012	257	769	300	454	–	1 780
2013	**178**	**735**	**665**	**689**	**665**	**2 932**

The performance of the panel of debt collectors remains a focus area and central internal collections are performing to satisfaction.

The gross loan impairment expense (before recoveries) increased by R1.2 billion. This includes an increase of R1.3 billion due to loan book growth. The gross loan impairment expense before book growth decreased by R45 million due to an improvement in default rates and by R63 million due to an increase in the expected future cash flow from handed over loans.

The gross loan impairment expense in the second half of the financial year increased by R650 million compared to the first half of the year. The net increase consisted of an increase of R465 million due to loan book growth and an increase of R185 million due to the deterioration in default rates as discussed above.

The table below compares the increase in the expense for each period to the immediately preceding period:

	6 months to Aug* 2012	6 months to Feb** 2013	12 months to Feb*** 2013
Loan book growth	300	**465**	**1 260**
Change in book quality	(150)	**185**	**(45)**
Increased valuation of handed over book	(34)	**–**	**(63)**
	116	**650**	**1 152**

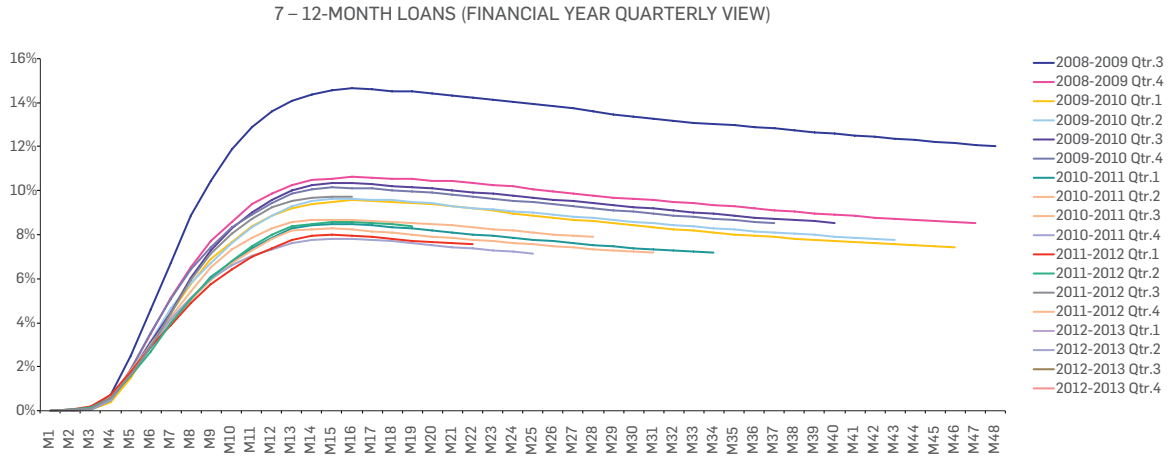
* *Six months ended August 2012 compared to the six months ended February 2012*

** *Six months ended February 2013 compared to the six months ended August 2012*

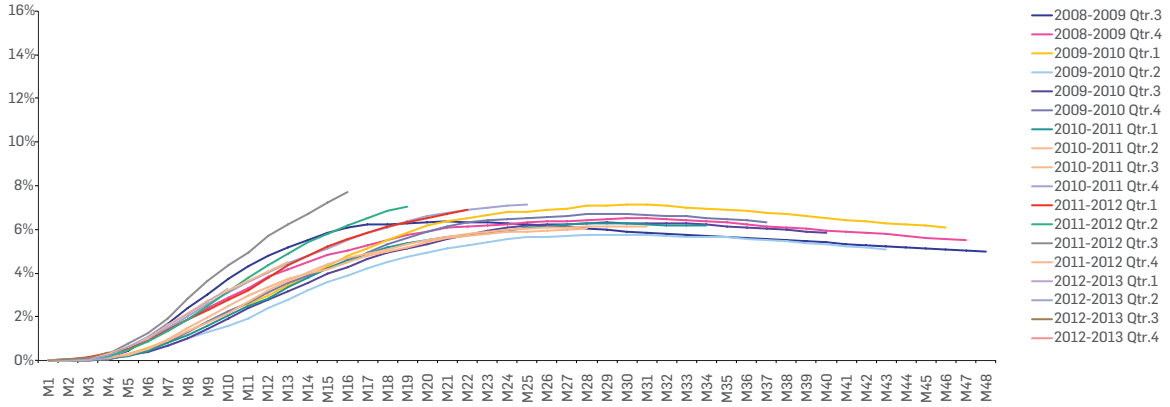
*** *12 months ended February 2013 compared to the 12 months ended February 2012*

The net impairment expense includes higher provisioning on the newer and growing loan books from 61 to 84 months. Although these products are only extended to lower-risk clients and the performance on these books is better than the more mature loan products, prudent provisioning assumptions are applied. This is because the impact of a missed instalment on a longer-term, higher-value loan is more severe at the beginning of the repayment period, as the full loan amount may be at risk. The rate of provisioning on these products exceeds the rate at which income is recognised at the beginning of the term of the loans, which we consider prudent and conservative.

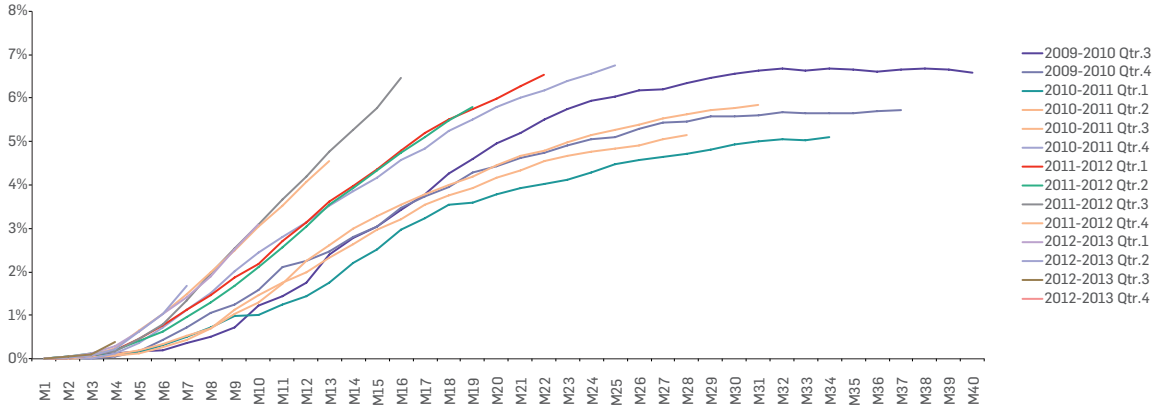
Vintage graphs

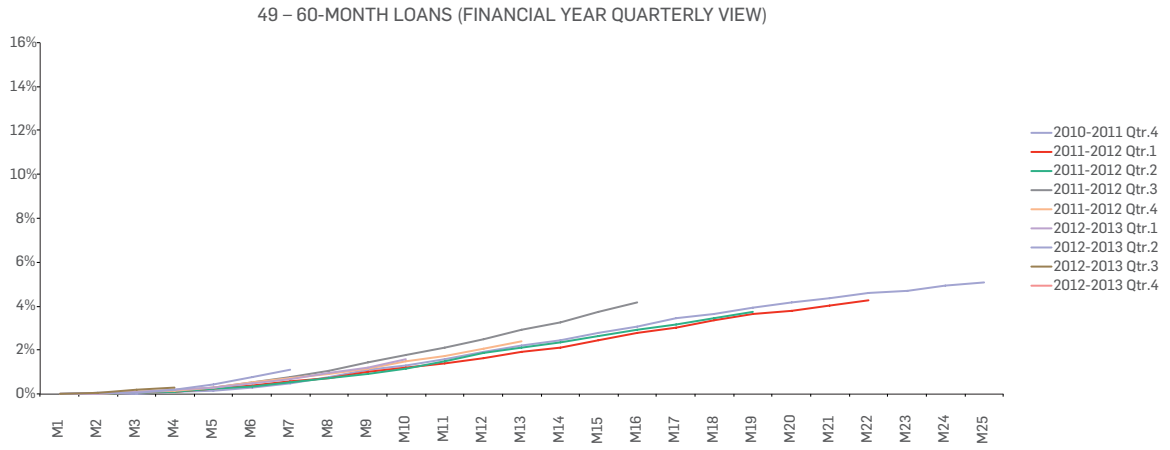


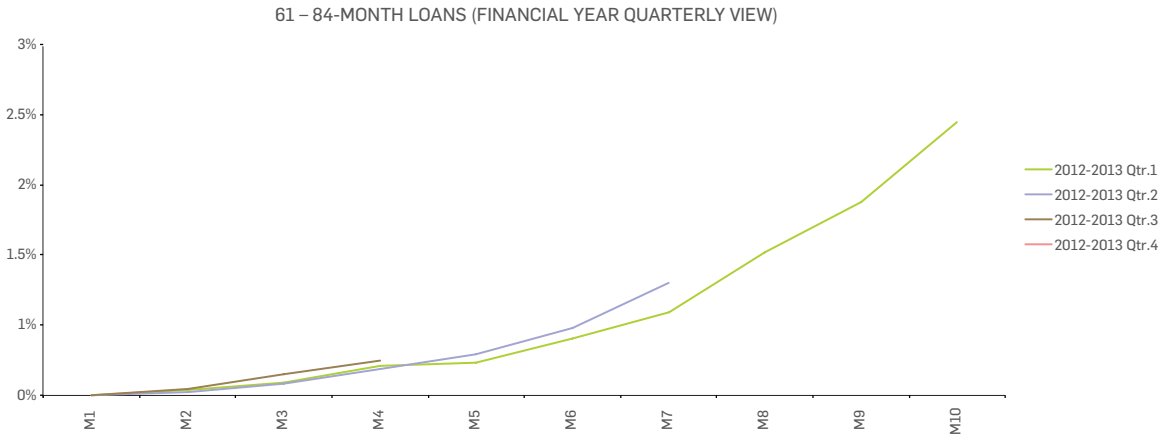
13 – 36-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



37 – 48-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)




49 – 60-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)
16%
14%
12%
10%
8%
6%
4%
2%
0%
M1
M2
M3
M4
M5
M6
M7
M8
M9
M10
M11
M12
M13
M14
M15
M16
M17
M18
M19
M20
M21
M22
M23
M24
M25
2010-2011 Qtr.4
2011-2012 Qtr.1
2011-2012 Qtr.2
2011-2012 Qtr.3
2011-2012 Qtr.4
2012-2013 Qtr.1
2012-2013 Qtr.2
2012-2013 Qtr.3
2012-2013 Qtr.4


61 – 84-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)
3%
2.5%
2%
1.5%
1%
0%
M1
M2
M3
M4
M5
M6
M7
M8
M9
M10
2012-2013 Qtr.1
2012-2013 Qtr.2
2012-2013 Qtr.3
2012-2013 Qtr.4

Transacting services

Net transaction fee income grew by 61% to R1.3 billion.

Gross transaction fee income totalled R2.1 billion and increased by 54% while transaction fee expenses, which consist of interchange charges from other banks and service providers, amounted to R752 million and grew by 43%. Fee income grew in excess of expenses largely due to the increased transaction volumes. The only change to transaction fees for the current financial year was to reduce the cost of internet and mobile payments.

Growth in fee income exceeded the 26% increase in active clients because clients using Capitec Bank as their primary bank increased from 1.2 million at the end of February 2012 to 1.8 million at the end of February 2013. In excess of 30 million transactions on average per month were processed on the banking system compared to a monthly average of 19 million for the 2012 financial year.

The number of POS machines increased from 13 206 at the end of February 2012 to 19 955 at the end of February 2013, an increase of 51%. Acquiring income from rental and commission increased by 92% to R256 million as a result of this increased presence.

Net transaction fee income amounted to 26% of net banking income after impairment charges, up from 21% for the 2012 financial year. Net transaction fee income covered 45% of banking operating expenses compared to 34% in 2012, exceeding the immediate target of 40%. Management's new target is set at 55% by 2016.

Funding

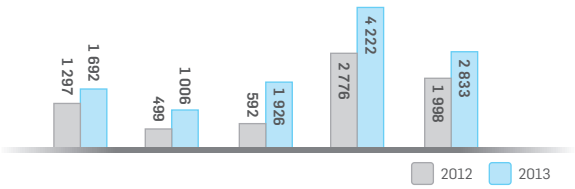
The debt to equity ratio was maintained at 3.5:1 as deposit funding increased by R11.3 billion.

Retail call savings grew by 63% and totalled R10.3 billion. The number of savings accounts increased by 42% compared to 2012, exceeding the growth in active client numbers. The average balance per account increased by 14% compared to the end of February 2012.

Retail fixed savings amounted to R6.8 billion, growth of 70%. The weighted average maturity of retail fixed funding grew from 15 months at the end of February 2012 to 18 months at the end of February 2013. The number of accounts grew by 27% compared to February 2012 and the average balance per account grew by 25%. Retail fixed savings comprised 37% (2012: 36%) of total term funding. Management's objective is to to maintain this percentage at about 40% as fixed-term retail funding remains attractive due to the lower pricing, lower concentration and lower refinancing risk.

Wholesale deposits grew by 63% to R11.7 billion, with a weighted average maturity of 42 months (2012: 28 months). Wholesale funding is well diversified and has grown during the current financial year as illustrated in the chart below.

WHOLESALE FUNDING BY NATURE (R'm)



	Local and international bilaterals	Subordinated debt – unlisted bonds	Subordinated debt – listed bonds	Listed senior bonds	Other unlisted negotiable instruments	Total
2012	1 297	499	592	2 776	1 998	7 162
2013	**1 692**	**1 006**	**1 926**	**4 222**	**2 833**	**11 679**

Liquidity

The management of liquidity continues to take preference over the optimisation of profits. Management's liquidity philosophy remains cautious and conservative. This conservatism at times results in the holding of cash in excess of immediate operational requirements.

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

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

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

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

The liquidity position as at 28 February 2013 is set out in note 28.6 to the annual financial statements.

Capital

In November 2012 a successful rights offer to ordinary shareholders at a price of R160.00 per rights offer share raised R2.2 billion in share capital. Shareholders supported the offer and only 0.6% of the 14 050 848 shares issued in terms of the offer were taken up by the underwriters.

The rights offer took place at a time when market conditions were conducive. The capital raised will be utilised in the organisation's operations over time. There should be no need to raise further capital in the near future.

The return on ordinary shareholders' equity at 27% (2012: 29%) remained above the target of 25% but was affected by the rights offer.

The group capital adequacy remained high at 41%. The impact of the organisation's activities and Basel III requirements on the ratio are reflected in the table below.

	%
2012 ratio	**39**
2013 appropriated profit	9
Capital issued	10
Subordinated debt issued	9
Dividends paid	(3)
Basel III adjustments	(3)
Loan book growth	(20)
2013 ratio	**41**

The implementation of Basel III resulted in a 3% decline in the capital adequacy ratio due to an increased risk weight on deferred tax assets and the 10% phase-out applied to perpetual preference shares and subordinated debt instruments that do not meet the new loss absorbency rules.

Credit rating

On 4 March 2013, Moody's affirmed Capitec Bank Limited's A2.za/P-1.za national-scale issuer ratings, and changed the outlook to stable from positive. The rating affirmation reflects Capitec Bank's strong loss absorption capacity and comprehensive provisioning policy. The change in the outlook to stable takes into account Moody's assessment of the risks associated with the continued challenging operating conditions in South Africa's unsecured lending market and their expectation that this will weigh on Capitec Bank's asset quality and profitability metrics.

Cost structure

The cost-to-income ratio improved from 44% for 2012 to 38% for 2013.

Banking operating expenses grew by only 20% (2012: 37%) to R3.0 billion, mainly due to growth in the branch network and corresponding growth in the number of employees. The increase in operating expenses amounted to R508 million.

Capitec Bank's branch network grew to 560 branches, an increase of 53 branches. Based on the average number of income-generating outlets for each year, the operating expense per outlet for the 2013 financial year amounted to R5.6 million compared to R5.2 million for the 2012 financial year. This represents an increase of only 8%.

Employment costs represent 51% of total operating expenses compared to 53% in 2012 and contributed R211 million of the increase in total operating expenses. Capitec Bank currently employs 8 308 people compared to 7 086 at the end of February 2012 (excluding Key Distributors' employees).

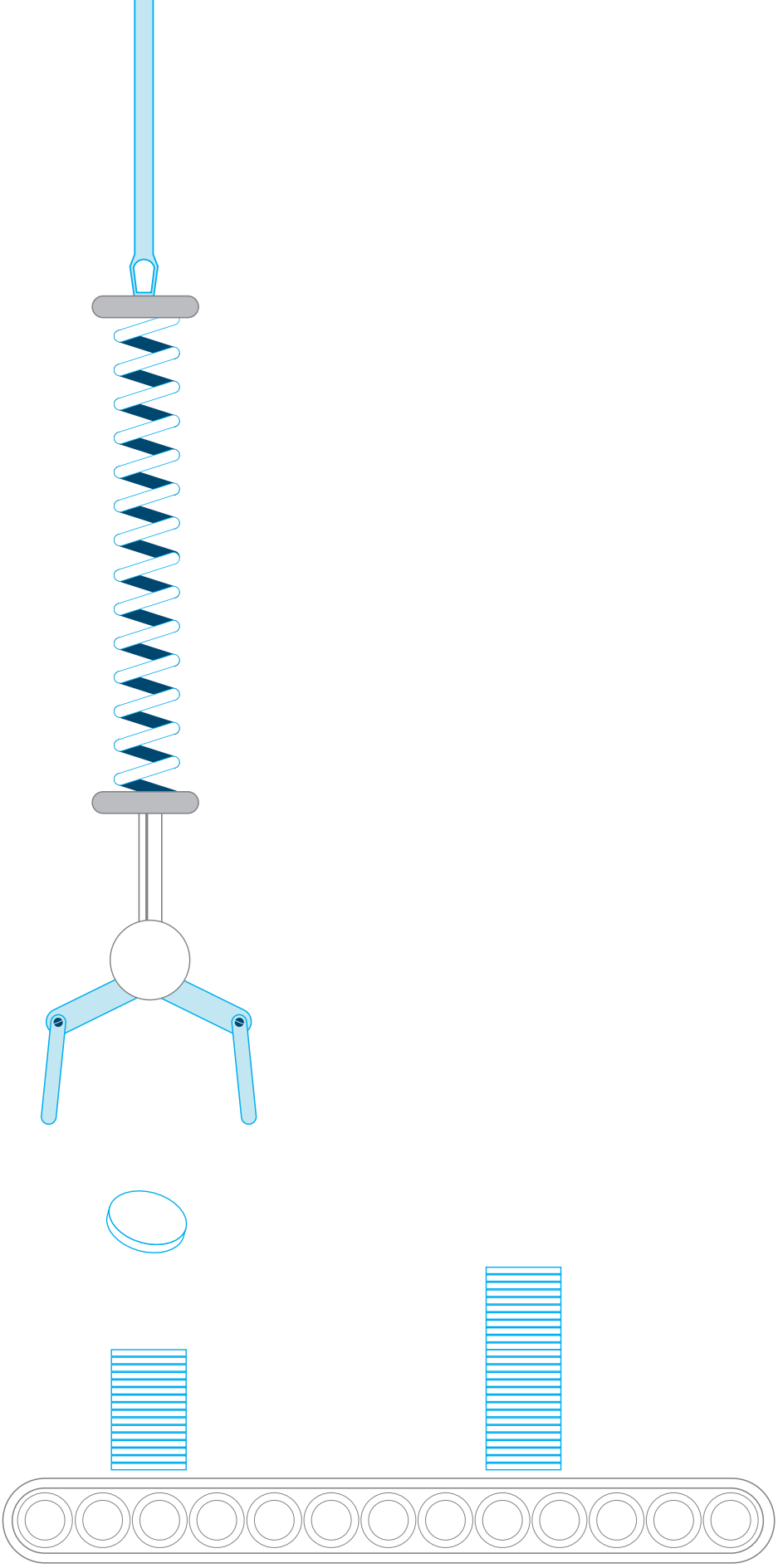
Employment costs are analysed in the table that follows.

		Strategic management	Senior management	Other employees	Total
Employees	Number	10	82	8 216	8 308
Remuneration					
Fixed cash remuneration	R'm	38	76	1 119	1 233
Cash staff performance bonus	R'm	2	2	85	89
Cash bonus bank	R'm	–	28	–	28
Share options	R'm	6	3	–	9
Share appreciation rights	R'm	67	26	–	93
Variable remuneration	R'm	85	59	85	219

Dividends

The board of directors considers the capital and funding requirements of the business before declaring dividends. The dividend cover for the past four years ranged from 2.6 to 2.5.

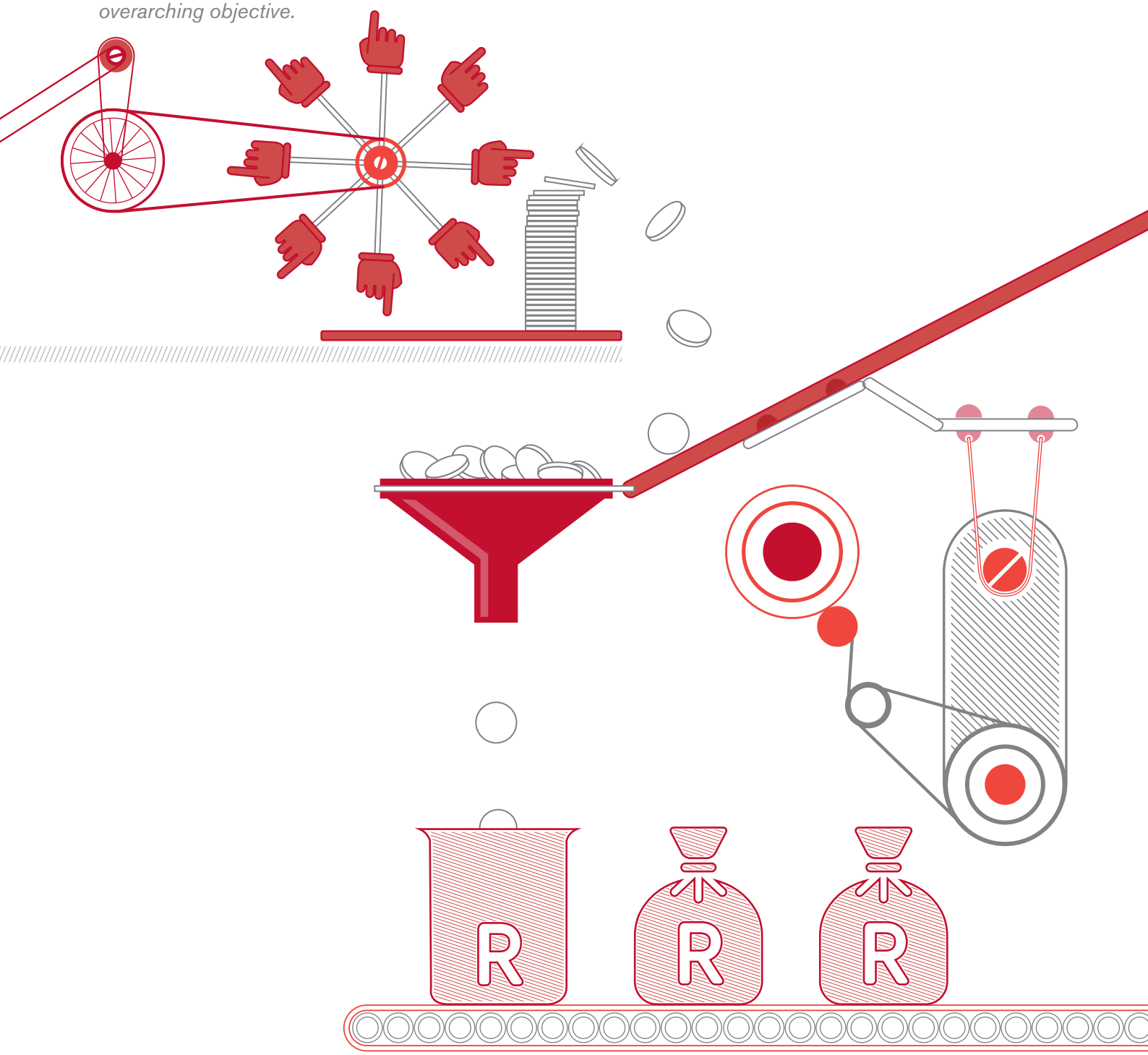
André du Plessis
Chief financial officer

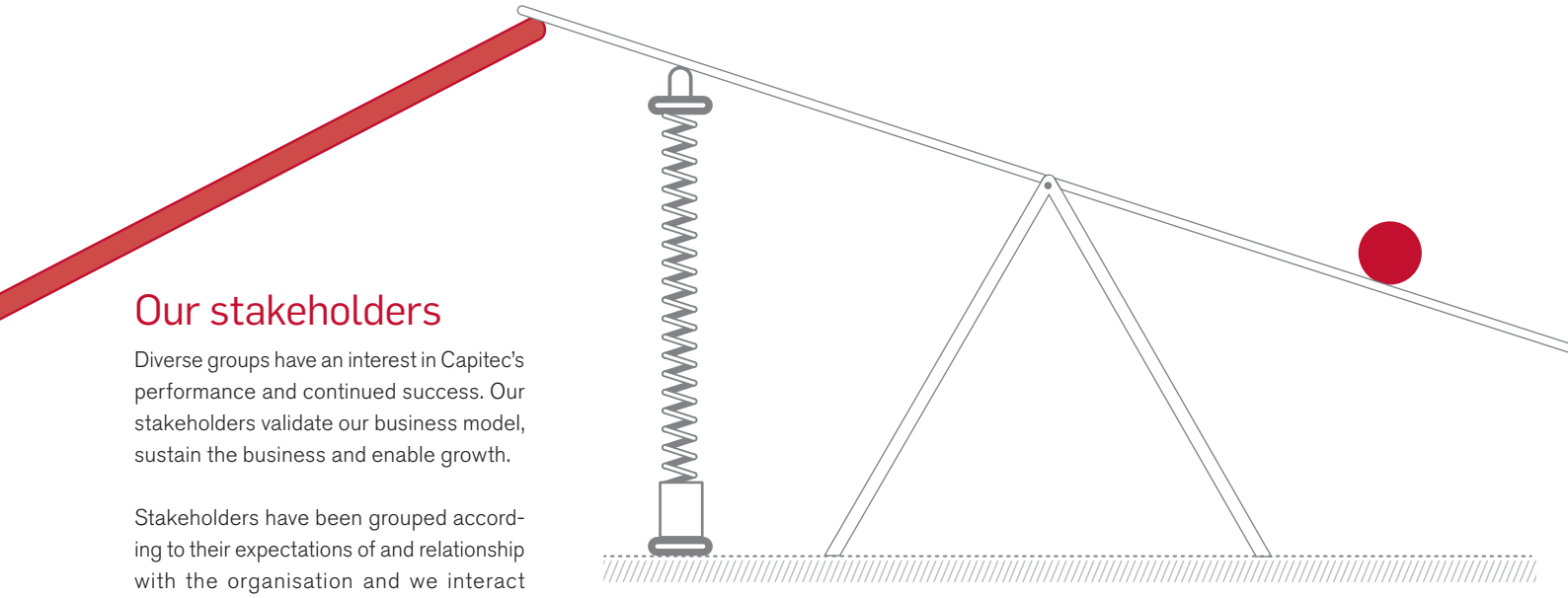


Creating value for stakeholders

07

Creating sustainable growth for stakeholders is Capitec's overarching objective.





Our stakeholders

Diverse groups have an interest in Capitec's performance and continued success. Our stakeholders validate our business model, sustain the business and enable growth.

Stakeholders have been grouped according to their expectations of and relationship with the organisation and we interact with each group on an ongoing basis. All stakeholder groups have an interest in the creation of sustainable value.

Stakeholder engagement

Clients

Feedback from regular contact with clients is regarded as an opportunity to review our ability to differentiate our offer and to evaluate the quality of service experienced by clients.

How we engage	Material issues	Our response
Face to face in branches Client surveys SMS communication Internet communication Client helpline Complaint evaluation via the call centre Formal market research Monitoring of conversations on social websites Marketing and advertising	Banking costs	Application of the principle 'know what you get, know what you pay' Simplified transparent pricing (page 13) Monthly SMS confirming bank costs Minimal transaction price increases (page 13) Continuous reduction of the cost of credit (page 26)
	Service delivery	Management monitoring of service delivery (page 14) New service system (page 14) Branch managers are custodians of client relationships (page 14) Employee selection (page 14) Training and development (page 15)
	Accessibility	Distribution expansion and new service channels (page 14, 26) Enhanced product offer (page 13, 30)

Investors, analysts and credit agencies

Investors comprise a mixture of retail depositors, shareholders, bond holders and other debt funders that facilitate continued growth in business operations and the maintenance of capital adequacy. Analysts are an important means of communication between Capitec and the investment and funding market, and the ratings assigned to Capitec Bank by credit agencies play a role in the availability and pricing of funding for operations and growth. These stakeholders expect a secure, stable organisation that offers sustainable returns and capital growth.

How we engage	Material issues	Our response
Prompt results announcements Quarterly capital adequacy updates JSE news service Financial results presentations and roadshows Integrated annual report Annual general meeting Electronic enquiry channel Ratings updates by credit agencies	Impact of global and domestic economic conditions	Continuous review of economic conditions and consideration of the impact on Capitec (page 17)
	Health of the unsecured lending market	Continuous monitoring of the unsecured credit market (page 18, 19, 23) Stringent credit risk management and proactive amendments to credit granting criteria (page 67 – 73)
	The regulatory environment	Executive management focus on changes in the environment (page 20) Prioritisation of statutory compliance (page 82) Sound capital management (page 77 – 80 and note 28.7 to the annual financial statements)
	Competition	Close monitoring of the competitive landscape (page 21 – 23) Differentiation through unique product, positioning, pricing and service (chapter 4)
	Quality of the loan book	Constant detailed analysis of loan book quality by credit decision support to ensure that we remain within our risk appetite and can proactively manage the loan book (page 31 – 33, 70 and note 7 to the annual financial statements)
	Availability of funding for growth	Conservative management of liquidity risk and focus on funding by executive management (page 39, 75 – 77 and notes 5, 6, 13 and 28.6 to the annual financial statements)

Employees

Capitec Bank's unique service approach originates from inside the organisational culture and is part of the employee experience from first contact to well after retirement. Employees are valued for their unique potential and talent. Capitec Bank's identity is that of a diverse family that finds relevance in serving its diverse client base.

How we engage	Material issues	Our response
Human resources helpdesk Employment equity forum Web-based employee portal and electronic communications (C.Net and C.Connect) Learning and development programmes Performance management process Face-to-face interactions with senior management	Market-related remuneration	Responsible remuneration practices (page 85 – 90)
	Transformation and a pleasant working environment	Employment equity forum (page 16) Employee relations management (page 16) Appropriate policies and procedures
	Job security and personal development	Talent management initiative (page 15) Learning and development programmes (page 15)

Society

Capitec Bank provides for the basic banking needs of the consumer and its business model promotes the economic welfare of the communities in which it operates. Our leadership recognises that we have an important role to play in the development of those communities and society in general.

How we engage	Material issues	Our response
Through clients Financial literacy programmes Interventions at schools Partnerships with, and support of, community-based organisations CSI investments Interactions with suppliers	Community development and upliftment	Commitment to social development (page 93, 94) Provision of employment opportunities and training (page 14, 15, 93)
	Supplier opportunities	B-BBEE criteria included in supplier evaluation (page 94)
	Environmental impact	Formulation and implementation of environmental objectives (page 95 – 97)

Government and regulators

Compliance with government and regulatory requirements contributes to the creation of a healthy banking system in South Africa, and good relationships with government and regulators give Capitec Bank the opportunity to provide input on policies and regulations that may affect its operations.

Interaction with the following government and regulatory bodies takes place regularly:

- South African Reserve Bank (SARB)
- The National Treasury department
- National Credit Regulator (NCR)
- South African Revenue Service (SARS)
- JSE Limited
- Financial Intelligence Centre

Capitec Bank participates in the following industry bodies:

- Banking Association of South Africa (BASA)
- Payments Association of South Africa (PASA)

How we engage	Material issues	Our response
Participation in banking industry and related bodies	Compliance with relevant legislation and regulations	Prioritisation of statutory compliance (page 82)
Presentations and feedback sessions Submission of required returns	Health and stability of the South African financial system	Sound capital management (page 77 – 80 and note 28.7 to the annual financial statements) Effective management of material risks (chapter 9 and note 28 to the annual financial statements)
Written responses as part of consultations Regulator surveillance	Transformation	Compliance with Employment equity legislation (page 16) Focus on B-BBEE objectives (page 94) Sound remuneration practices (page 85 – 90)

Economic value added

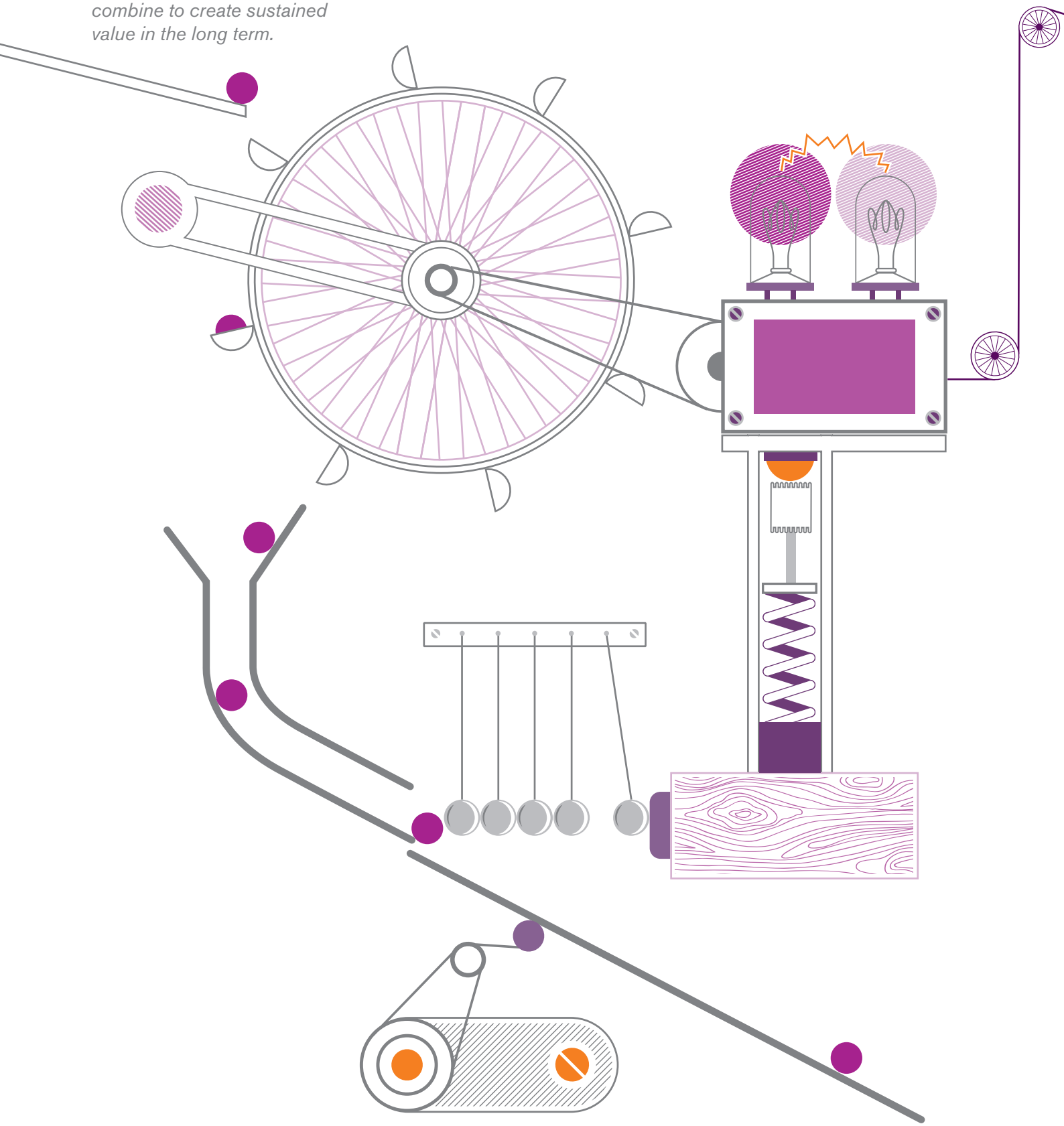
Capitec contributed value to the local economy and created wealth for its stakeholders for the current and previous reporting periods as reflected below:

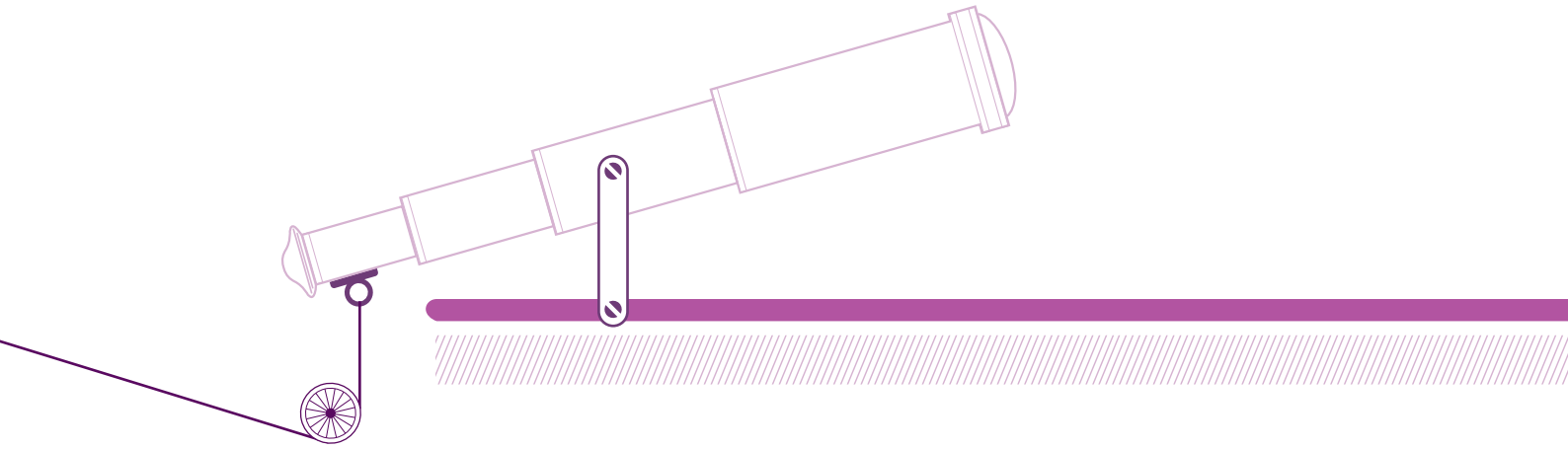
	2013 R'000	2012 R'000
Direct economic value generated		
Interest income	7 084 752	4 346 902
Loan fee income	1 496 009	1 657 018
Transaction fee income	2 100 594	1 360 308
Dividend income	9	1 532
Net movement in financial instruments held at fair value through profit or loss	(298)	12 070
Non-banking sales	243 358	217 145
Other income	204	679
Share of profit in associate	167	–
Net impairment charge on loans and advances to clients	(2 658 923)	(1 604 190)
	8 270 872	5 991 464
Economic value distributed		
To suppliers in payment of operating expenses	2 305 656	1 708 113
To employees	1 469 750	1 267 326
Ordinary dividends	467 460	317 939
Preference dividends	20 783	19 419
Interest paid to providers of wholesale funding	919 963	555 896
Interest paid to savings clients	742 550	466 478
To providers of funds	2 150 756	1 359 732
Normal tax	709 773	615 889
Value added tax	279 085	241 777
Secondary tax on companies	28 906	33 584
Unemployment insurance	9 072	6 838
Skills development levies	16 039	12 341
Property rates and taxes	(28)	96
To government	1 042 848	910 525
To the community	4 163	1 209
	6 973 173	5 246 905
Economic value retained for expansion and growth		
Retained income	1 116 338	756 982
Depreciation and amortisation	247 178	173 518
Deferred tax	(65 817)	(185 941)
	1 297 699	744 559

Our strategy and leadership

08

Appropriate strategy, focused leadership and corporate values combine to create sustained value in the long term.





Our strategy

Our strategies going forward align with the overriding objective of continuing to create sustainable value over the long term for all who have an interest in the business. The expected outcome of the combined strategy is long-term real growth in earnings and assets. Risk management, processes, people, technology and knowledge are aligned with these objectives.

Strategic, economic, social, operational, and environmental objectives are integrated into the way we do business through people, processes, technology and risk management.

Strategic objectives

- Provide unique service
- Enhance the product offer
- Grow transaction income
- Manage the cost of credit to clients
- Responsible management of regulatory and compliance risk

Economic performance objectives

- Increase headline earnings per share
- Maintain the return on equity
- Focus on cost efficiency and a lower cost-to-income ratio
- Grow the loan book responsibly within the constraints of the unsecured lending environment and market competition

Operational performance objectives

- Increase distribution network
- Improve business continuity and disaster recovery plans
- Grow employee numbers
- Train and develop employees

Social performance objectives

- Develop communities
- Build a reputation as an employer of choice

Environmental objectives

- Operate a business model that has a low environmental impact

Over the short- to medium-term (1-5 years)

What we want to achieve	How	Targeted outcomes
Grow the Capitec Bank footprint	Increase the number of branches by an average of 75 per year Increase the free-standing ATM and cash recycler network Place additional point-of-sale devices at merchants Increase the use of internet and mobile banking Increase direct selling	Greater access to our banking solutions Grow transaction income Lower cost-to-income ratio
Grow client numbers	Increase accessibility through a combination of positioning and product Offer a unique personal service experience by implementing a revised client service system Launch a credit card	The preferred retail bank for ALL South Africans
Increase market share	Increase awareness of Capitec Bank and its product offer throughout all income groups Capture the higher-net-worth individuals in the target market Create trust through simplified, transparent banking and personal service	Become the dominant retail bank in South Africa Increased earnings and shareholder value
Lower cost of credit to the client	Reduce internal cost of granting credit through enhanced and innovative technology Grow client numbers to the critical mass that will enhance cost efficiency Maintain low-cost banking model to improve cost efficiency	Optimal affordability for clients Promotion of responsible lending and a healthy credit market Increased competitive advantage Lower cost-to-income ratio
Broad-based funding book	Offer realistic, sustainable and competitive returns	An optimal mix of retail and on- and offshore wholesale funding
Contribute to the South African educational system	Implement a model in partnership with other like-minded institutions to produce better educated school leavers who can either be employed or pursue tertiary education	Develop communities Contribute to employability of South Africans

What we want to achieve	How	Targeted outcomes
Recruit and retain employees with potential	Develop and refine a remuneration and reward framework that supports the bank's skills attraction, engagement and retention strategy Implement wellness initiatives and an integrated health strategy for employees	Be an employer of choice
Environmental awareness	Focus on environmental management and define an emissions target	Operate a business model that has a low environmental impact

Over the long term (more than 5 years)

Capitec Bank's primary long-term objective is to become a preferred global retail bank.

What we want to achieve	How	Targeted outcomes
Internationalisation	Replicating Capitec Bank's low-cost banking-model on other continents in countries with similar profiles to South Africa	Value creation for clients and all other stakeholders and sustainability of the business
Virtual banking	Increase accessibility of internet and mobile banking Encourage virtual money management by providing value adding internet and mobile banking functionality Enhance the cost effectiveness of internet and mobile banking	Value creation for clients and all other stakeholders and sustainability of the business

Focused leadership

At the core of our success is focused leadership provided by an experienced and skilled board of directors and executive management committee. We pride ourselves on responsible, ethical leadership as the basis for good corporate citizenship and sustainable performance.

Board of directors

The board of directors is responsible for the Capitec group in its entirety and instructs and oversees a management and control structure that directs and executes all functions within the organisation.

Non-executive directors

Michiel Scholtz du Pré le Roux (63)
BComm LLB
Chairman of the board and the directors' affairs committee

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

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

Markus Johannes Jooste (52)
BAcc, CTA, CA(SA)

On 28 January 2011 Markus was appointed to Capitec and Capitec Bank's boards and resigned from the boards on 2 August 2012.

Petrus Johannes Mouton (36)
BComm (Maths)
Chairman of the social and ethics committee

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

Piet was appointed to Capitec and Capitec Bank's boards on 5 October 2007.

Chris Adriaan Otto (63)
BComm LLB
Chairman of the human resources and remuneration committee

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

Chris was appointed to Capitec and Capitec Bank's boards on 6 April 2000.

Independent non-executive directors

Reitumetse Jacqueline Huntley (50)
BProc LLB

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

Jackie was appointed to Capitec and Capitec Bank's boards on 14 April 2011.

Merlyn Claude Mehl
PhD (Physics)

Merlyn was appointed to Capitec and Capitec Bank's boards on 1 March 2001 and served the organisation with distinction until his passing on 30 January 2013.

John David McKenzie (66)
BSc (Chemical Eng), MA
Chairman of the risk and capital management committee

Jock serves on the boards of a number of companies. He was the chairman and chief executive officer of Caltex Petroleum Corporation until 2001. He was extensively involved in the merger of Caltex, Chevron and Texaco and was president – Asia, Middle East and Africa – of Chevron-Texaco until 2004.

Between 1997 and 2003 he was a member of a number of advisory boards in Singapore, including the American Chamber of Commerce. He was the founder president of the South Africa-Singapore Business Council and the Singapore Economic Development Board. Since 2004 he has served as a consultant to the Energy Market Authority and Temasek Holdings in Singapore and acted as the chairman of the Commission of Enquiry into the Singapore Electricity and Gas Supply Systems.

In South Africa he has consulted for, inter alia, Sasol, the South African Petroleum Industry Association's investigation into the impact of the global economic crisis on the South African oil industry and other related topics. He currently serves on the boards of Coronation Fund Managers, Sappi and Wesgro and is the chairman of the UCT Foundation and Accelerate Cape Town.

Jock was appointed to Capitec and Capitec Bank's boards on 1 March 2012.

Nonhlanhla Sylvia Mjoli-Mncube (54)
BA, MA (City and regional planning)
Lead independent director

Nonhlanhla manages her own company, Mjoli Development Group, and was the economic advisor to a former Deputy President of South Africa. She has worked as a town and regional planner in South Africa and as a survey research supervisor at Washington State University and was an executive director of a subsidiary of Murray & Roberts. She was the chairman of the National Urban Reconstruction and Housing Agency (NURCHA), the Rural Housing Loan Fund, Women for Housing and the Open Society Institute in South Africa. She is a fellow of the Massachusetts Institute of Technology (MIT, USA) and a Harvard University Leadership alumnus.

She has won several business women's awards and is a director of Pioneer Foods, Tongaat Hullett and WBHO Construction.

On 26 January 2004 Nonhlanhla was appointed to Capitec and Capitec Bank's boards.

Gerrit Pretorius (64)
BSc, BEng, LLB, PMB

Boel served on the board of Reunert from 1991 and as chief executive officer from 1997 until his retirement in 2010.

He currently serves on the boards of several companies, including Digicore Holdings, ARB Holdings, RECM and Calibre as well as Pioneer Foods.

Boel was appointed to Capitec and Capitec Bank's boards on 19 November 2012.

Jacobus Pieter van der Merwe (64)
BA, CTA, CA(SA)
Chairman of the audit committee

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

On 27 September 2007 Pieter was appointed to Capitec and Capitec Bank's boards.

Executive directors

Riaan Stassen (59)
BComm (Hons), CA(SA)
Chief executive officer (CEO)

Riaan joined Capitec Bank as managing director in 2000 and was appointed as chief executive officer of Capitec and Capitec Bank in March 2004. He gained extensive experience in wholesale distribution and banking and held senior positions in both environments before joining Capitec. Riaan was awarded the Cape Times KPMG Business Personality of the Year award in 2007. The nomination criteria for this award included business and entrepreneurial excellence and outstanding company performance.

Riaan was appointed to Capitec and Capitec Bank's boards on 1 March 2001.

André Pierre du Plessis (51)
BComm (Hons), CA(SA)
Chief Financial Officer (CFO)

André joined Capitec Bank in 2000 as the executive: financial management and was appointed as the chief financial officer of Capitec and Capitec Bank in May 2002. He has extensive experience in business advisory services, financial consulting and strategic and financial management. He was the chief executive of financial management for Boland PKS and NBS Boland Group from 1996 to 2000 and also a partner at Arthur Andersen where he was employed from 1986 to 1996.

André was appointed to Capitec and Capitec Bank's boards on 2 May 2002.

Executive management committee

In addition to the CEO and the CFO, the executive management committee comprises the following members.

Jacobus Everhardus Carstens (44)
BCompt (Hons), CA(SA)
Chief credit officer

Jaco joined Capitec Bank in 2004. He gained extensive experience in the credit environment at Old Mutual Bank from 2000 to 2004, serving at various times as head of credit, head of credit risk: policy and decision support, and assistant divisional manager: credit, pricing and decision support. Previous positions include manager at Boland Bank from 1997 to 1999 and assistant manager at Ernst & Young from 1992 to 1997.

Carl Gustav Fischer (56)
BComm (Hons), MBA
Executive: marketing and corporate affairs

Carl joined Capitec Bank in 2000. He was chief executive of marketing and support services for Boland PKS from 1999 to 2000. Previous positions include group marketing and sales director (1996-1998) and group production/operations director (1993-1996) of Stellenbosch Farmers' Winery.

Gerhardus Metselaar Fourie (49)
BComm (Hons), MBA
Executive: operations

Gerrie has been head of operations at Capitec Bank since 2000. He commenced his career at Stellenbosch Farmers' Winery in 1987 in the financial planning department, following which he was appointed as the area general manager of KwaZulu-Natal and later Gauteng.

Nathan Stephen Tlaweng Motjuwadi (46)
BA (Hons), UED, MBA
Executive: human resources

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

André Olivier (45)
BComm (Hons), CA(SA)
Executive: card services and business development

André joined Capitec Bank in 2000 and has been responsible for business development ever since. Card services was incorporated into his portfolio in 2009. He was the financial risk manager at Boland PKS, after which he was head of operations for Pep Bank, in the bank's microlending division from 1997 to 2000. He gained audit and business advisory experience with Arthur Andersen.

Christiaan Oosthuizen (58)
Executive: information technology

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

Christian George van Schalkwyk (58)
BComm LLB, CA(SA)
Executive: risk management and company secretary

Christian joined Capitec Bank as head of risk management and the company secretary in 2000. He was chief executive of credit risk and legal services at Boland PKS from 1997 to 2000. Previous positions include being a partner at Jan S de Villiers attorneys (1987-1996) and a tax consultant at Arthur Andersen (1985).

Leonardus Venter (51)
BA (Hons), MA (Industrial psychology)
Executive: business support centre

Leon joined Capitec Bank as head of human resources in 2000. He was appointed as executive: business support centre in 2009. Previous positions include human resources manager at Iridium Africa (1998-1999), manager of human resources and support at Telkom SA (1993-1997) and area personnel manager at Iscor (1986-1992).

Development members
There are two development seats on the executive management committee to provide senior employees with the opportunity to gain experience at executive level. The incumbents rotate annually and the seats were filled by Ludwe Solwandle (Manager: operational efficiency) and Chris Vermeulen (Manager: IT risk) during the 2013 financial year.

The development members for the 2014 financial year are Ernest van Riet (Manager: Loans and credit – IT Business development) and Lindi Mlilo (Business Manager: Operations – Western Cape).

Corporate values

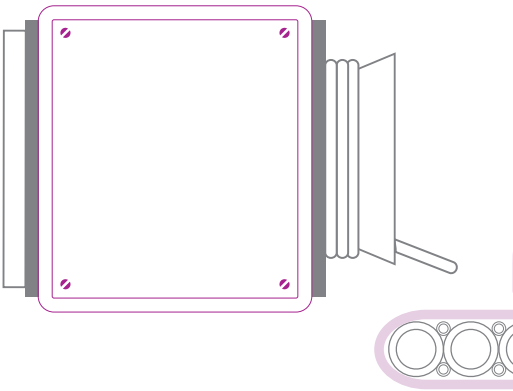
Through our values we build trust and long-term relationships, both externally with clients and internally with colleagues. The values that govern the behaviour of our employees in their interactions with clients and each other are:

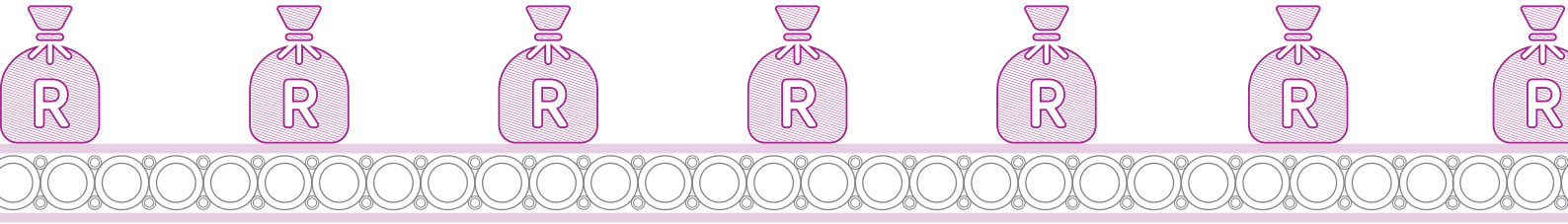
- Respect diversity
- Have integrity
- Be straightforward and transparent
- Take ownership
- Be supportive

Our approach to human rights is embodied in a statement approved by the social and ethics committee. We recognise that business contributes to economic welfare and therefore has a role to play in human progress. Sound human rights practice delivers commercial rewards for all stakeholders over the long term, and companies that apply human rights policies are better prepared to prevent human rights abuses and to deal effectively with human rights transgressions.

Extract from Capitec Bank's statement of intent

- Capitec Bank commits itself to uphold the equality and dignity of all people it engages with and to recognise their basic human rights
- The people that the bank engages with include all stakeholders which range from employees, to suppliers and to groups with vested interests such as societies
- Capitec Bank will apply the above principle without deviation and correct any contrary behaviour where it is within its power and ability to do so
- Where human rights abuse exists and it is not within the ability of Capitec Bank to correct the behaviour, the bank will disassociate itself from practitioners who commit these abuses and apply the necessary influence within the bank's ability to change behaviour





Integrated risk management

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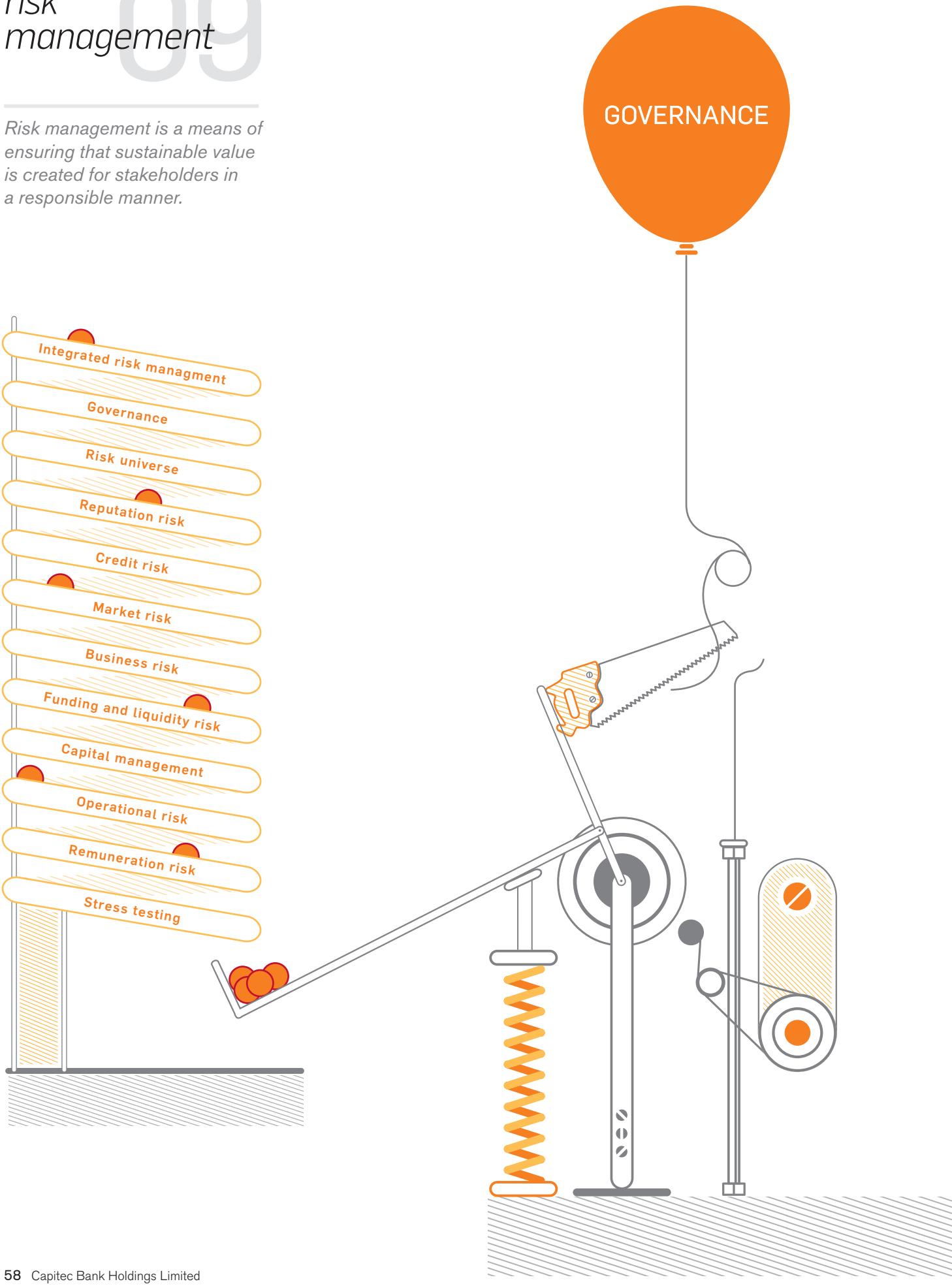
Risk management is a means of ensuring that sustainable value is created for stakeholders in a responsible manner.



Integrated risk framework

Capitec views risk management as a means of ensuring that sustainable value is created for stakeholders in a responsible manner.

We utilise integrated risk management (IRM) in the setting of strategy across the organisation. It is a structured and disciplined approach to risk management, aligning strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the opportunities, threats and uncertainties that Capitec faces. It aims to effectively balance risk and control.

Strategic, economic, operational, social and environmental objectives, as discussed in chapter 8 of this report, together with the material issues identified through interaction with stakeholders as discussed in chapter 7 of this report, form the basis for IRM. IRM is supported by ethics, performance metrics and incentives and the behaviour and effectiveness of the board.

The IRM framework consists of policies, methodologies, and allocation of responsibilities, governance and reporting structures and is based on ISO 31000, BIS Governance principles, the King III code and the Banks Act.

The primary objectives of the framework are to:

- Protect against possible losses
- Integrate risk management in all levels of decision-making
- Anticipate and mitigate risk events before they become a reality
- Ensure earnings stability
- Optimise the use of capital

Governance

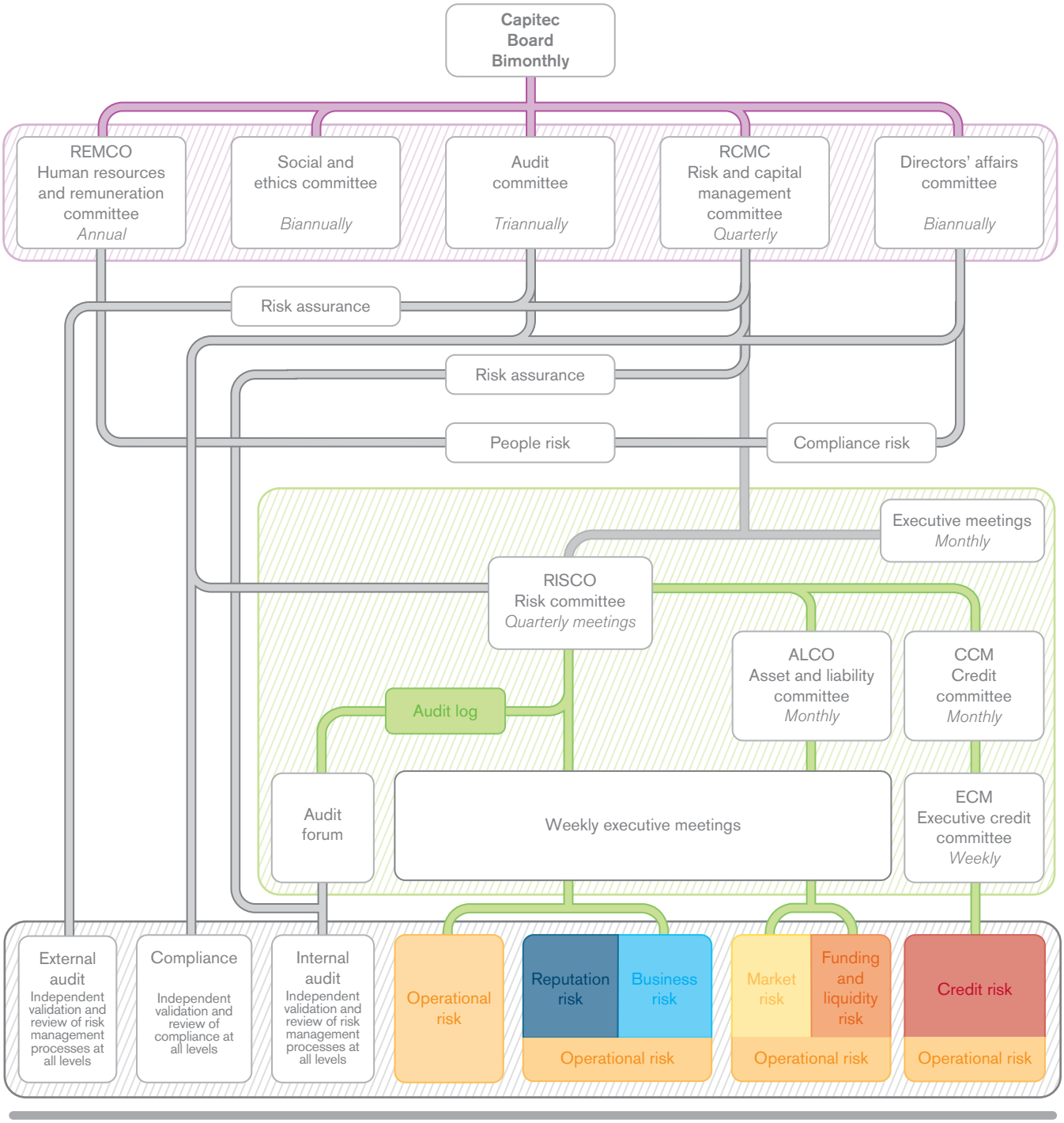
The board remains ultimately responsible for ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The board discharges its duty through policies and frameworks as well as several board committees and subcommittees. Executive management, together with these committees, manage the business through a system of internal controls functioning throughout the entity. This promotes an awareness of risk and good governance in every area of the business. Risk management is seen as the responsibility of each and every employee.

Virtually all the principles set by the King III have been applied during the reporting period, with minor exceptions. Shareholders are referred to the website (www.capitecbank.co.za) where full details regarding the application of the principles set by King III are provided.

Governance structure

The IRM governance structure consists of a number of committees with varying areas of responsibility as detailed in the diagram below.

GOVERNANCE STRUCTURE



The board of directors

The board of directors is responsible for the organisation in its entirety. It functions within the ambit of an annually reviewed charter and instructs and oversees a management and control structure that directs and executes all functions within the organisation. It also drives strategy.

Composition

A board-approved policy specifies the governance principles that ensure a balance of power and authority at board level. The board comprises a majority of eight non-executive directors, five of whom are independent non-executive directors, and the board is satisfied with this level of independent representation.

The composition of the board ensures that there is a balance of power and authority so that no one individual has unfettered decision-making powers. The roles of chairman and CEO are separated and the chairman is a non-executive director who is considered by the board to best be able to fulfil the role of chairman. Merlyn Mehl fulfilled the role of lead independent director until his passing and Nonhlanhla Mjoli-Mncube was appointed as lead independent director on 18 February 2013.

Assessment of independence

The continued independence of independent non-executive directors that have served for a period of nine years and factors that may impair their independence are evaluated. The board considered the independence of Nonhlanhla Mjoli-Mncube and resolved that she remains sufficiently independent. The independence of Jackie Huntley was also considered. Jackie was previously considered not to be independent due to the fact that she represents Coral Lagoon Investments 194 (Pty) Limited ('Coral'), a BEE partner of Capitec, but Coral's interest in Capitec reduced to less than 5% during the year. With the King III rule of thumb no longer applicable, the board could find no reason not to assess her as independent. The remainder of the independent directors have served for periods shorter than nine years.

Appointment process

All appointments to the board are formal and are conducted in terms of a board approved policy. The process is transparent and a matter for the board as a whole. The directors' affairs committee under leadership of the chairman presides over board appointments. When a vacancy exists or specific skills are required, candidates are identified and recommended to the full board for endorsement. With the board's sanction, the individual is approached and, subject to prior approval by the South African Reserve Bank (SARB), formally appointed. Shareholders have the opportunity at the first annual general meeting following the appointment of a new non-executive director, to endorse the appointment.

Development

Newly appointed board members are formally inducted through a programme comprising reading, interviews and exposure to bank operations. All board members attend training presented by the Gordon Institute of Business Science for and on behalf of the SARB and ad hoc training is presented in-house from time to time.

Performance assessment

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

The skills and expertise of the board are described in chapter 8 of this report.

Meetings and quorum

The board meets six times a year and a quorum is comprised of a majority of directors.

Committees

The following committees, comprising directors, executives and senior management, are in place to deal with specific risks facing the organisation in a structured manner and in accordance with board-approved charters.

Committee	Purpose	Composition	Quorum	Frequency and reporting
Executive management committee ('EXCO')	Operational decision-making Implementation of board-approved strategic decisions Ongoing approvals of administrative nature	R Stassen (CEO) AP du Plessis (CFO) JE Carstens CG Fischer GM Fourie NST Motjuwadi A Olivier C Oosthuizen CG van Schalkwyk L Venter Two annually elected development members	Majority of members, including at least three of the following: CEO, CFO, exec: risk management and exec: operations	Meets three times a week with an extended meeting once a month
Directors' affairs committee	Evaluation of board effectiveness Senior management and board succession planning Corporate governance	All non-executive directors	Majority of members	Meets twice a year
Human resources and remuneration committee ('REMCO')	Determining directors' and senior executives' remuneration Levels of remuneration of all employees and adjustment thereof Additional remuneration such as bonuses, incentives, share option incentives	**Non-executive directors** CA Otto (chairman) MS du P le Roux **Independent non-executive director** G Pretorius **Management attendees** R Stassen NST Motjuwadi	Majority of members	Meets once a year
Social and ethics committee	Promote the collective wellbeing of society Facilitates the sustainable growth of the Capitec group Considers matters relating to socio-economic development, equity and empowerment and good corporate citizenship	**Non-executive director** PJ Mouton (chairman) **Independent non-executive director** J Huntley **Management member** CG van Schalkwyk **Management attendees** CG Fischer NST Motjuwadi	Majority of members	Meets twice a year Reports to shareholders annually at the AGM

Committee	Purpose	Composition	Quorum	Frequency and reporting
Risk and capital management committee ('RCMC')	Identification of all risks Assists the board in reviewing the risk management systems and processes and significant risks facing the bank Capital management	**Independent non-executive directors** JD McKenzie (chairman) JP van der Merwe **Non-executive directors** PJ Mouton CA Otto **Executive director** AP du Plessis **Management attendees** J-HC de Beer (compliance officer) JE Carstens J Delport (risk officer) JJ Gourrah (internal audit) R Stassen CG van Schalkwyk	Majority of members	Meets quarterly
Large exposures committee	Approval of credit exposures in excess of 10% of bank capital.	Risk and capital management committee **Members of management** JE Carstens AP du Plessis R Stassen CG van Schalkwyk	Majority of members	Meets as required
Audit committee	Acts in terms of board-approved charter Responsible for financial disclosure and controls affecting this disclosure Custodians of corporate reporting, including the IAR – oversee the extent, format, frequency, content, quality and integrity Annually expresses opinion on the expertise, resources and experience of the CFO and financial management department as well as the internal audit environment Recommends the appointment of external auditors and oversees the results of the external audit process Sets principles for the use of the external auditors for non-audit services	**Independent non-executive directors** JP van der Merwe (chairman) JD McKenzie NS Mjoli-Mncube **Non-executive director** PJ Mouton **Independent attendee** DG Malan (external audit partner – PricewaterhouseCoopers Inc.) **Management attendees** J-HC de Beer AP du Plessis JJ Gourrah R Stassen CG van Schalkwyk **By invitation** All directors	50% but not less than two members	Meets three times a year

Attendance of meetings by board members

Committee	Board	Directors' affairs	Human resources and remuneration	Social and ethics	Risk and capital management	Audit
Number of meetings	**6**	**2**	**2**	**1**	**4**	**3**
MS du P le Roux	6	2	2	–	–	3 [1]
AP du Plessis	6	–	–	–	4 [1]	3 [1]
RJ Huntley	6	2	–	1	–	–
MJ Jooste [2]	1	–	1	–	–	–
JD McKenzie [3]	5	2	–	–	1	2
MC Mehl [5]	3	1	–	–	2	2
NS Mjoli-Mncube	6	2	–	–	–	3
PJ Mouton	6	2	–	1	3	3
CA Otto	6	2	2	–	4	3 [1]
G Pretorius [4]	2	1	1	–	–	–
R Stassen	6	–	1 [1]	–	4 [1]	3 [1]
JP van der Merwe	5	1	–	–	–	3

[1] *Attendance by invitation*
[2] *Mr MJ Jooste resigned from the boards of Capitec and Capitec Bank on 2 August 2012*
[3] *Mr JD McKenzie was appointed to the boards of Capitec and Capitec Bank on 1 March 2012 and the RCMC and audit committee on 25 September 2012*
[4] *Mr G Pretorius was appointed to the boards of Capitec and Capitec Bank on 19 November 2012 and REMCO on 31 January 2013*
[5] *Prof MC Mehl passed away on 30 January 2013*

Group boards

The Capitec Bank board is identical to that of Capitec. Messrs AP du Plessis and R Stassen officiate as directors of the other group subsidiaries which are detailed in chapter 2 of this report.

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

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

Company secretary

The company secretary acts as a conduit between the board and the organisation. The company secretary is responsible for board administration, liaison with the Companies and Intellectual Property Commission and the JSE Limited. Board members also have access to legal and other expertise, when required and at the cost of the company through the company secretary.

The qualifications and expertise of the company secretary are detailed in chapter 8 of this report. The directors' affairs committee has reviewed the qualifications, experience and competence of the company secretary through discussion and assessment and has noted that the company secretary performed all formalities and substantive duties timeously and in an appropriate manner. The committee confirmed its satisfaction in all instances.

As the company secretary is not a director of any company in the Capitec group and has to date maintained a professional relationship with board members giving direction on good governance, as and when required, the committee stated that it is satisfied that an arm's length relationship with the board is being maintained.

Conflict of interest and dealing in securities

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

Policy dictates that directors and executive management (and all employees with access to management reports) obtain clearance to trade in Capitec shares. The chairman of the board, the CEO, the CFO and the company secretary are mandated to authorise clearance to deal in Capitec shares.

No trading is allowed during closed periods or when information that may affect the share price that has not been disclosed to the public exists. Director trading as well as that of the company secretary and any of their associates is published on the JSE SENS in accordance with regulatory requirements.

Independent assurance

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

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

External audit

PricewaterhouseCoopers Inc., an international firm, are the external auditors of Capitec. We have no reason to believe that they have not acted with unimpaired independence at all times.

External audit fees are set annually in advance by the audit committee in a manner which should not impact the scope of the audit. The extent of the audit determines the audit fee. Non-audit services rendered by the external auditors are limited to ad hoc tax advice and other assurance-related services within the parameters of a policy approved by the audit committee, limiting such expense to 40% of the annual audit fee. Details of amounts paid to the external auditor are included in note 23 to the annual financial statements.

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

Internal audit

Capitec Bank has an independent internal audit department with direct access to the chairman of the board and audit committee, reporting functionally to the committee and administratively to the CEO. Internal audit functions in accordance with a charter approved by the audit committee. The charter formally defines the purpose, authority and responsibility of internal audit activity and is consistent with the Institute of Internal Auditors' definition.

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

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

The department annually submits a coverage plan to the audit committee for approval. The scope of this plan encompasses the entire business of the organisation and is prepared with the organisation's strategic objectives in mind.

Internal audit is risk-based and the internal auditors submit an annual assessment to the audit committee on the system of internal controls. Great emphasis is placed on the implementation and efficiency of systems. In addition, the operations environment is closely monitored and assurance derived that controls are adequate and operating effectively. Increased emphasis is placed on the development of centralised monitoring and continuous auditing. In this process, any deficiency detected in governance is referred to management for action. The implementation of recommendations emanating from audits is measured.

The head of internal audit is required to attend all audit and RCMC meetings and submits a report at each audit committee meeting.

Risk universe

The risk and capital management committee ('RCMC') oversees risk management in the organisation. The committee has a board-approved charter in accordance with which it assists the board in reviewing risk identification and evaluation processes and it also ensures that risk assessment is an ongoing process.

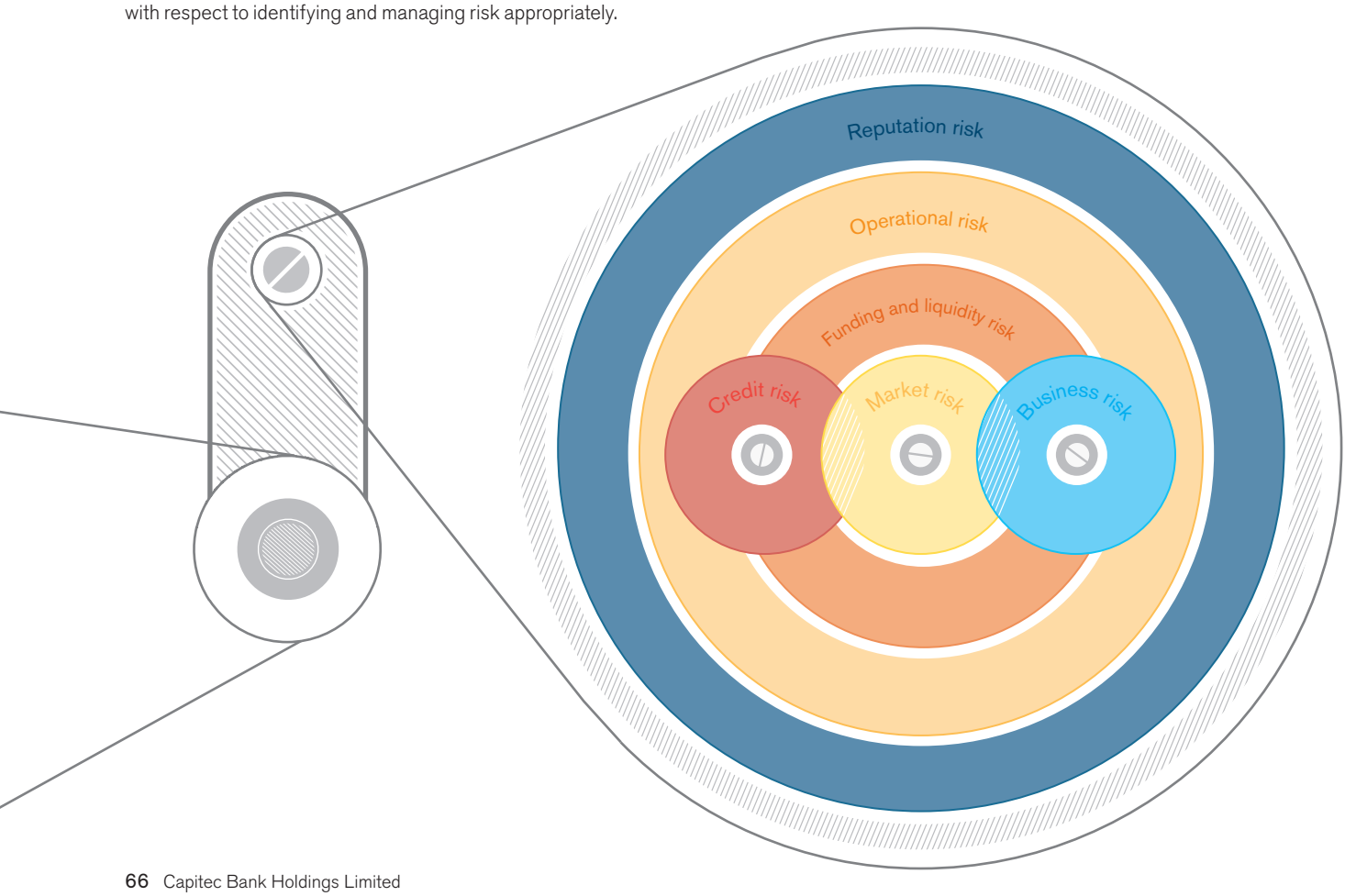
The risk universe is composed of interconnected groups of risks as illustrated in the diagram below.

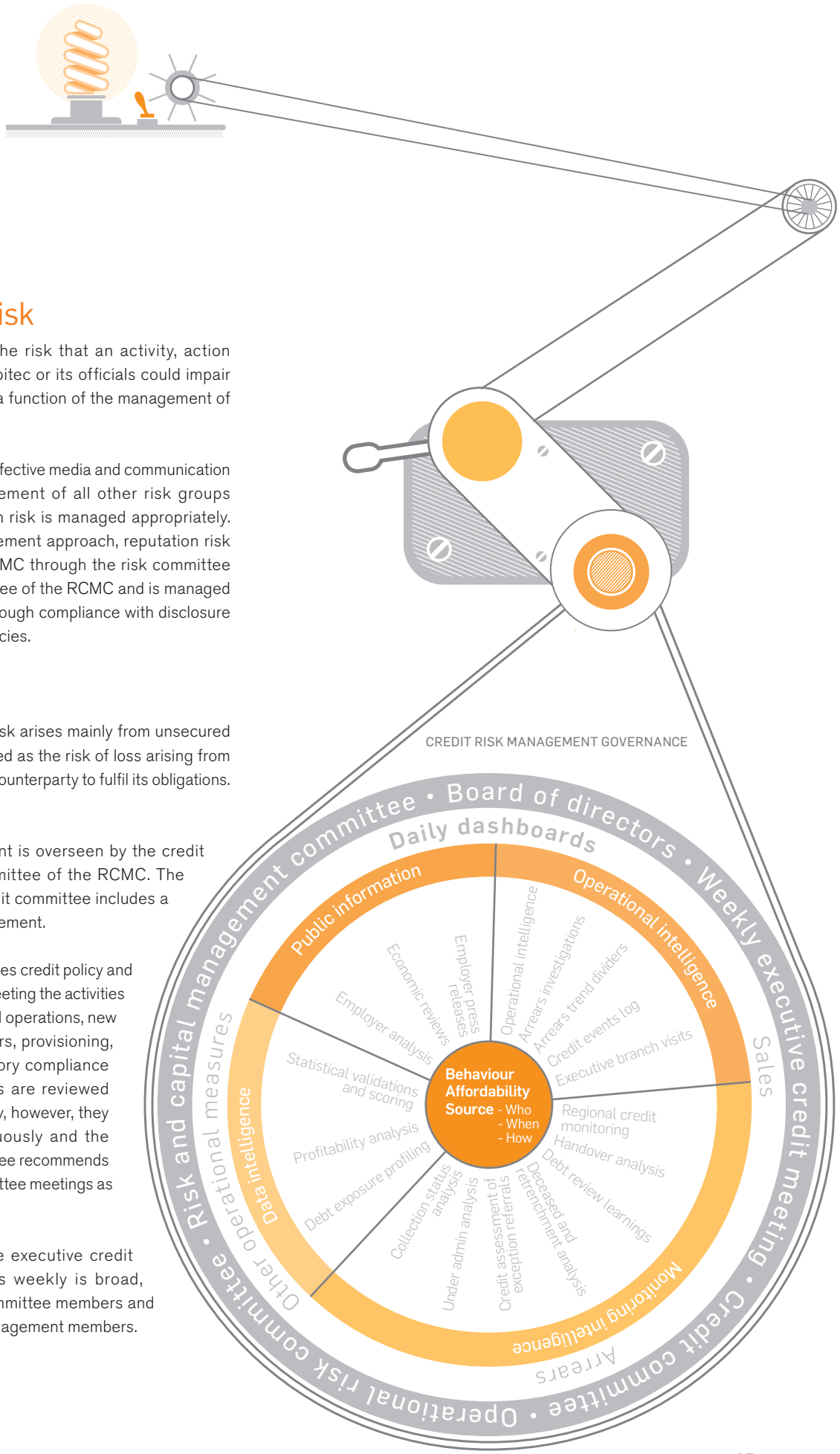
The RCMC oversees the management of these risks through subcommittees as detailed in the IRM risk governance structure and is also assisted by other structures within the organisation as described below.

Risk ownership – heads of business carry the primary responsibility for the risks in the organisation, in particular with respect to identifying and managing risk appropriately.

Risk control – the risk management department supports the business heads by providing independent oversight and monitoring across the organisation on behalf of the board and relevant committees. Risk management is headed by a chief risk officer (CRO) who is a member of EXCO who owns and maintains risk frameworks, maintains risk governance structures and manages regulatory relationships with regard to risk matters.

Independent assurance – internal audit (IA) and external audit provide independent assurance of the adequacy and effectiveness of risk management practices. The head of IA reports to the board through the audit committee chairman.





Reputation risk

The management of the risk that an activity, action or stance taken by Capitec or its officials could impair Capitec's reputation is a function of the management of all other risks.

In conjunction with an effective media and communication strategy good management of all other risk groups ensures that reputation risk is managed appropriately. In terms of the management approach, reputation risk is dealt with by the RCMC through the risk committee ('RISCO'), a subcommittee of the RCMC and is managed on an ongoing basis through compliance with disclosure and communication policies.

Credit risk

Capitec Bank's credit risk arises mainly from unsecured retail loans and is defined as the risk of loss arising from the failure of a client or counterparty to fulfil its obligations.

Governance

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

The committee determines credit policy and meets monthly. At the meeting the activities of the credit division and operations, new business results, arrears, provisioning, recoveries and regulatory compliance are evaluated. Policies are reviewed annually in their entirety, however, they are monitored continuously and the executive credit committee recommends changes at credit committee meetings as and when required.

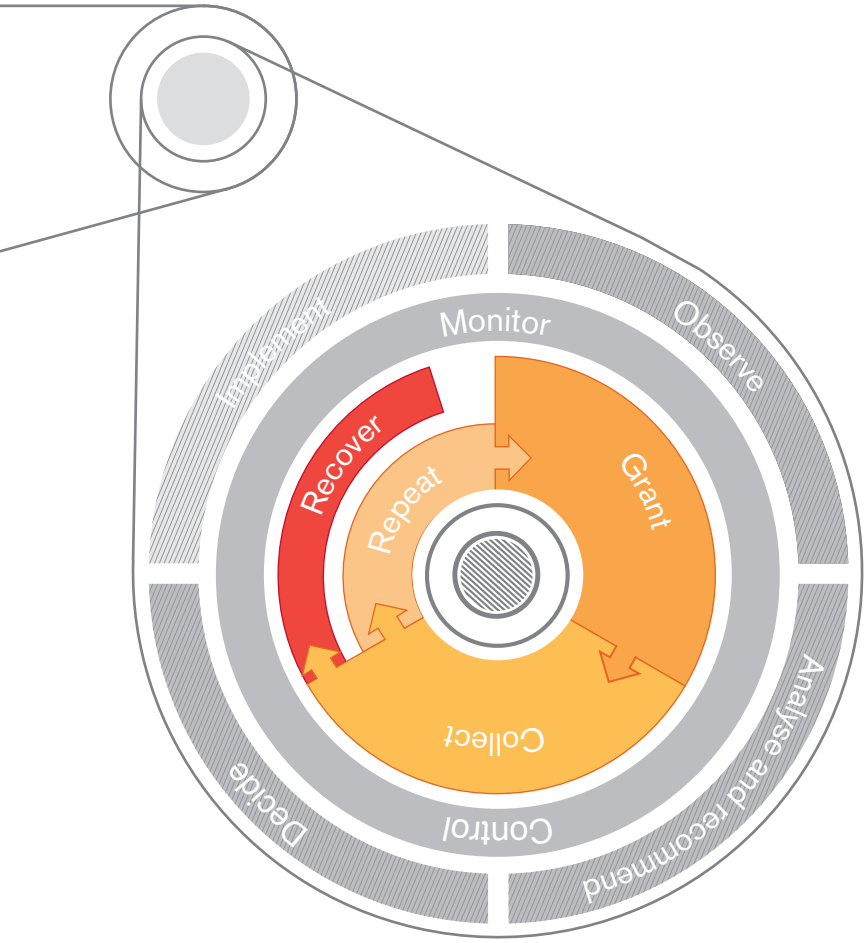
Representation on the executive credit committee that meets weekly is broad, including the credit committee members and key senior financial management members.

Capitec Bank's credit model

The credit model is reviewed and adjusted perpetually so that the credit offer meets the requirements and trends in the market and performs within the credit risk appetite.

Capitec Bank's approach to credit risk management is detailed in the diagram below.

RETAIL CREDIT RISK MANAGEMENT



CREDIT ASSESSMENT
Granting Policy:
- Application processing with sales and services system

Referral policy:
- Central assessment team (CAT)

EMPLOYER MANAGEMENT:
Central and branch
ARREARS FOLLOW-UP:
Tallyman central collections policy
- Collection Strategy
- Collection Method

CAPITEC COLLECTION SERVICES (CSS)
- Handover to and management of collection agents (legal)
- Debt review and under administrations/ sequestrations
- Deceased and retrenchment claims
- Court orders

CREDIT MONITORING
Regional credit monitoring
- Support, investigations and policy adherence
- Economic reviews
- External publications and internal analyses

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

DEVELOPMENT AND CHANGE MANAGEMENT
- Coordinate projects
- Systems development and implement credit policy changes
- System optimisation, accuracy and efficiency

Grant

The credit granting decision is based on the client's behaviour (willingness to pay), affordability (ability to pay) and source of payment (when, who and how).

Each component is determined as described in the adjacent table.

Behaviour	Affordability	Source of payment
External bureau data, internal repayment records	Client authentication, document verification, capture of income, living expenses and financial obligations as prescribed by the NCA	Salary slip details, bank statements
Bureau and custom application and behavioural scorecards, product and client rules, employment risk and debt stress indicators	Calculation of cash flow available to service debt at the lowest of a validated client cash flow calculation and a client-confirmed household affordability assessment	Employment confirmation
Fraud checks	Further mitigation is achieved through decreasing repayment-to-income parameters as the allowed loan term increases	Type of employment (employer stability)

Collect

Capitec Bank follows an employer-based collection strategy to optimise collection success. There is focus on knowledge management with constant monitoring and improvement of the quality of the employer information database to ensure proactive decision-making and improved collection success.

Capitec Bank mainly utilises the regulated NAEDO system to collect instalments on the pay dates of clients who do not deposit their salaries with the bank. Collections are mandated by clients in their loan contracts and are made from their external bank account. Where instalments are collected from a Capitec Bank account this is done under the same rules as external NAEDO debits.

Recover

When collection is unsuccessful, arrears follow-up is performed centrally from our internal call centre, run on a collection system utilising scientifically determined strategies and a predictive dialler.

Post-hand-over recoveries are conducted by a panel of external collectors (debt collectors and attorneys), who are responsible for tracing clients, re-negotiating repayment terms, instituting debit orders and, where unsuccessful, instituting legal action as a last resort. Collectors are contractually managed in terms of mandates and their performance is reviewed weekly.

Collectors, the handed-over-accounts database and recoveries are monitored by the CCS department. CCS has specialised legal skills to manage debt review applications, deceased estates, retrenchment and deceased cover claims, court orders and under administration/sequestration cases.

Capitec Bank insures loan balances against the death and retrenchment of clients and does not sell credit life insurance policies to clients.

Monitor and control

The credit operations department is tasked with knowing the unsecured credit market in South Africa and organising and sharing that knowledge systematically in order to improve the management of credit risk.

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

The tools described in the adjacent table are used to monitor credit risk.

Decide

Decision support, a specialist credit risk statistical analytics team, works closely with business to develop scorecards, scorecard recalibration, granting models, provision models and collection models that are aligned with business strategies.

All models and strategies implemented by this team are continuously reviewed to ensure that they are optimal and relevant in the context of a changing market. New models, are developed, tested and implemented.

Quality of new business	**Arrears dashboard**	**Roll rate analysis**	**Credit events log**	**Root cause analysis**
Roll rate, first payment default and arrears reports, and non-authenticated early debit order (NAEDO) success reports are early indications of the quality of loans granted	Arrears are reported daily and evaluated on product, industry, branch, regional, provincial manager and national levels	Arrears trends are monitored using roll rates from the loans system (the same profiles are submitted to the National Loans Register)	Credit events are registered on a central log and communicated to branches and operations management	Root cause analysis and continuous learning are performed by the regional credit monitoring team
Vintage graphs are utilised as a lagging measure that the quality of credit granted was in line with what was expected in terms of profitability Vintage graph trends indicate improvement or deterioration in each month's sales (a tranche) and seasonal trends can be separated from a worsening trend	Deviations in an individual employer's arrears are investigated on a daily basis to determine if there is an employer problem (e.g. strikes, retrenchments), a pay date problem, or a NAEDO processing problem	Variations of the roll rate tables are utilised to understand the rehabilitation of accounts in arrears and to derive new credit-granting rules and collection strategies	System flags drive appropriate mitigating action	All branches are reviewed every month, but branches with above average arrears are covered more extensively
Cumulative arrears for each tranche of sales are tracked at 90 days, the point of handover, and divided into the total original instalments payable (late delinquency)	Branch performance targets include arrears targets, appropriately balanced with sales and profit targets	These payment profiles form the basis of the loan impairment models and the unexpected loss calculations		
Accept rates, not taken-up rates, and turnaround are monitored from the branch to bank levels and evaluated from all business perspectives				

This team delivers solutions with real business benefits across the client credit risk life cycle. Models and scorecards are developed in SAS through data-driven analytics. The team ensures, with the help of IT, that scorecards and models are correctly implemented and monitors the effect of model adjustments.

Reports are created to gain insight into customer behaviour, market trends and a client's potential lifetime value.

Capitec Bank applies conservative accounting policies to impairment provisioning and bad debt write-offs. Refer note 2.4 to the annual financial statements.

Implement

Development and change management is a perpetual process through which strategic system enhancements are developed, coordinated and implemented. We believe that effective management of development and change enables Capitec Bank to progress strategically and effectively year on year and rapidly adapt to changes in the market.

Newly available technologies to enhance and automate business processes are investigated and key economic indicators are monitored to build a thorough understanding of the needs and financial well-being of our target market. This area is closely aligned with operational, compliance and IT risk management.

Capitec Bank maintains good relationships with the regulatory authorities and is represented on the following industry forums:

- Credit Providers Association (CPA) management committee, which deals with consumer credit data submitted to credit bureaus
- Banking Association of South Africa (BASA): Heads of credit nominated work groups and debt review forums.

Institutional credit risk

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

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

The selection of corporate insurers to insure the loan book against death and retrenchment is based on sufficient underwriting capacity.

Counterparty credit risk

Capitec Bank has very limited counterparty credit risk because it does not operate a trading book. The only exposures to counterparty credit risk are those arising on hedges entered into to mitigate risk in the banking book.

Refer also note 28.1 to the annual financial statements.

Analysis of regulatory credit exposure

Basel III exposure categories R'000	Average gross exposure[1] 28 Feb 2013	Average gross exposure[1] 29 Feb 2012	Aggregate gross year-end exposure[2] [4] 28 Feb 2013	Aggregate gross year-end exposure[2] [4] 29 Feb 2012	Exposure post risk mitigation[2] [3] [4] 28 Feb 2013	Exposure post risk mitigation[2] [3] [4] 29 Feb 2012	Risk weights[5] %
On balance sheet							
Corporate[6]	**479 184**	275 728	**643 598**	243 078	**643 598**	243 078	100
Sovereign[7]	**3 392 818**	1 559 247	**3 877 189**	1 646 386	**3 877 189**	1 646 386	0
Banks (claims < 3mths original maturity)[8]	**2 306 307**	1 273 358	**2 052 756**	2 162 873	**2 052 756**	1 601 743	20
Banks AA- to AAA (Derivatives > 3mths)	**9 955**	–	**19 075**	–	**19 075**	–	20
Banks BBB- to A (Derivatives > 3mths)	**4 050**	4 229	**2 250**	2 554	**2 250**	2 554	50
Retail personal loans							
– performing	**27 201 281**	16 108 461	**28 862 577**	17 438 315	**28 862 577**	17 438 315	75
– impaired[9]	**1 407 480**	723 723	**1 777 034**	931 742	**1 777 034**	931 742	100
Subtotal	**34 801 075**	19 944 746	**37 234 479**	22 424 948	**37 234 479**	21 863 818	
Off balance sheet							
Retail personal loans							
– retail guarantees	**500**	–	**1 000**	–	**1 000**	–	75
– committed undrawn facilities	**537**	–	**2 716**	–	**2 716**	–	75
– conditionally revocable commitments[10]	**663 422**	618 631	**725 010**	603 816	**725 010**	603 816	0
Total exposure	**35 465 534**	20 563 377	**37 963 205**	23 028 764	**37 963 205**	22 467 634	

As required by the Banks Act and Regulations (which incorporate Basel III):

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

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

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

(4) 'Corporate' and 'Bank' exposures were calculated based on an average, using daily balances for month twelve of the respective year-ends. All other items are the balances at year-end.

(5) The risk weightings reflected are the standard risk weightings applied to exposures, as required by the Banks Act. Risk weights for exposures (other than retail) are determined by mapping the exposure's Fitch International grade, rating to a risk-weight percentage using the mapping table that follows. The risk weightings for retail exposures are specified directly in the banking regulations.

(6) 97% (2012: 84%) of corporate aggregate gross year-end exposure relates to investments in money market unit trusts.

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

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

(9) An ageing of impaired advances is shown in note 7 to the annual financial statements.

(10) These commitments are a result of undrawn loan amounts. The loans are approved with a contractual repayment period of one month or less. The bank's contractual commitment is revocable should a client not meet his contractual obligations or where the bank has determined that the client's credit risk profile has changed. 17.8% (2012: 18.3%) is expected to be drawn down within one month. As these commitments are revocable, there is no capital charge in terms of the standardised approach for credit risk.

Rating grades and related risk weights

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

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

Market risk

This is the risk of a potential decrease in stakeholder's value as a result of adverse changes in the market value of assets and liabilities.

Capitec Bank is not exposed to market risk or position risk on active trading activities as understood in terms of the Banks Act because it does not operate a trading book. Exposure to market risk is largely limited to interest rate risk on the banking book.

Governance

Market risk management is overseen by ALCO, a subcommittee of the RCMC. The committee meets monthly.

Interest rate risk

This is the risk that market-driven interest rates may adversely affect profitability and the value of the balance sheet. Policy prioritises the management of the value of equity over profitability to ensure sustainability and an appropriate focus on long-term value creation.

The principal ALM (asset and liability management) policy governing the management of interest rate risk is that the taking of speculative or trading positions on the banking book should be avoided. ALCO aims to match the fixed or floating rate nature of funding with the fixed and floating rate elements of the loan book and surplus cash positions. To achieve this, long-term floating rate liabilities may be swapped to fixed rates.

Interest rate risk appetite is monitored in terms of set limits applied to the impact of changes in interest rates on the net present value of equity. Capitec has a high level of equity relative to liabilities and this allows ALCO to act on a mismatch between assets and liabilities in line with its view on interest rates. The cost of swapping floating exposure is assessed against the probability and quantum of costs that could arise from moderate to large interest rate shocks. In addition, earnings at risk is assessed using a 12-month rolling budget. Yield curve developments, money market interest rates, an economic evaluation with analysis of the likely impact on interest rates as well as a re-pricing analysis are used to address yield curve, basis and re-pricing risk.

Based on its assessment of the information available, ALCO approves interest rate pricing on funding and loan products and authorises any swap transactions.

Regulatory sensitivity analysis of equity – 200 basis point shift

	2013		2012	
	R'000	%	R'000	%
Increase	(377 110)	(3.3)	(126 619)	(2.1)
Decrease	382 024	3.4	116 378	2.0

The above analysis is calculated by modelling the impact on equity of parallel shifts of 200 basis points on the yield curve on the balance sheet. The analysis is performed on a run-off basis, using the discounted cash flow approach, in line with the requirements of the Banks Act. This provides an indication of how the value of shareholders' funds may change given a shift in interest rates.

Refer also note 28.3 to the annual financial statements.

Equity risk

Capitec does not deal in equity instruments and did not invest in any listed equities during the reporting period. At the end of the current reporting period there were no equity investments.

Currency risk

This is the risk that profitability and shareholders' equity are adversely affected by changes in exchange rates between the rand and the foreign currencies in which assets and liabilities are denominated.

Currency risk has minimal impact on Capitec Bank's operations as they are within South Africa. Capital equipment and technological support services that are imported result in limited exposure to currency fluctuations; however, these transactions are hedged by means of forward exchange contracts as and when they are undertaken.

A foreign denominated instrument was issued during the reporting period but was hedged to convert the exposure to rand on the deal date.

Refer also note 28.4 to the annual financial statements.

Hedging of market risk

The authorised use of derivative instruments is restricted to their use for risk mitigation. Interest rate swaps are used to convert floating rate funding to fixed to achieve the objective of matching the rate nature of assets and funding. Currency swaps are used to convert any foreign currency exposure arising on foreign denominated funding to rand. Any hedges used cover the complete exposure on the underlying transaction.

Refer also note 41 to the annual financial statements.

Business risk

This is the risk that non-performance against planned strategic objectives, the consequences of inappropriate strategy or a decline in sales volumes will have a negative impact on profitability.

Business risk management is overseen by the risk committee ('RISCO'), a sub-committee of the RCMC. RISCO meets quarterly. The potential impact of business risk is assessed by management using stress-testing and break-even analyses.

Daily sales volumes are monitored by executive management and the branch management operating system ensures that branches maximise sales opportunities.

Funding and liquidity risk

This is the risk that the organisation does not have access to sufficient or acceptable cash and cash equivalents to fund increases in assets and meet its obligations as they become due, without incurring unacceptable losses.

Governance

Liquidity risk is managed by ALCO that considers the activities of the treasury desk which operates in terms of an approved ALM policy and approved limits.

Liquidity is managed conservatively. The organisation operates an uncomplicated low-risk liquidity profile with the management of liquidity risk taking preference over the optimisation of interest rate risk. Capitec Bank is not exposed to the uncertainty that accompanies the use of institutional and corporate call deposits as a funding mechanism, and its asset structure, while extending in term, is still relatively short-term in nature relative to the total banking sector.

The risk tolerance measures defined in the ALM policy are as follows:

- Wholesale deposit funding is limited, in the main, to contractual maturities of at least two months
- The utilisation of short-term retail deposit funding is limited to funding net short-term cash flows
- In terms of the Banks Act, adequate liquid assets must be maintained to meet the liquid asset requirement, fund the reserve account and maintain collateral for clearing balances on the South African Multiple Option Settlement system account
- No reliance is placed on interbank facilities as a funding mechanism. Treasury management may, however, use available unsecured facilities from time to time. Usage of interbank facilities is monitored and reported

ALCO receives monthly reports that detail the management of retail call and fixed deposits, cash in the ATM network and the investment of surplus cash. Forecast cash flows, maturity analyses and compliance reports are also reviewed by the committee.

Daily cash management

Daily funding requirements are forecast taking into consideration day-to-day flows and those that relate to large single obligations. This forecast is supported by behaviour modelling to determine business as usual cash flow requirements, including stress points during the month, and adjusted for seasonal variations. ATM requirements are centrally managed and teller cash is maintained at a minimum. Portfolios of highly liquid assets are maintained and can be liquidated to meet unexpected variances in forecasted requirements.

Funding management

Management takes care in assessing the relative permanency and value distribution of wholesale and retail funding sources. For fixed-term funding efforts are directed towards managing rollover risk and actively pursuing medium- and long-term funding opportunities. For call deposits attention is focused on managing the 'core' or 'stable' element within the deposit base. This element is estimated using statistical techniques with due consideration of client behaviour. Internal definitions of core and fluctuating deposits are formally approved by ALCO.

Interest rates are reviewed daily to ensure that deposit rates remain competitive and the efficient use of cash resources and new liquidity initiatives are constantly evaluated.

Treasury management assesses the concentration risk within the funding portfolio and maintains a well-diversified wholesale and retail funding base. Refer note 14 to the annual financial statements for details of the funding portfolio.

Liquidity measurements

Contractual and behavioural liquidity mismatches

Both the contractual and behavioural mismatches benefit positively from the high component of equity funding. This creates a greater surplus of asset cash flows over liability cash flows than at banks with lower capital ratios.

The main difference between the behavioural and contractual mismatches relates to the treatment of retail call deposits. Ninety percent (2012: 91%) of retail demand deposits are reflected as stable based on a one standard deviation measure of volatility, which is considered reasonable for business as usual conditions.

The liquidity coverage ratio (LCR)

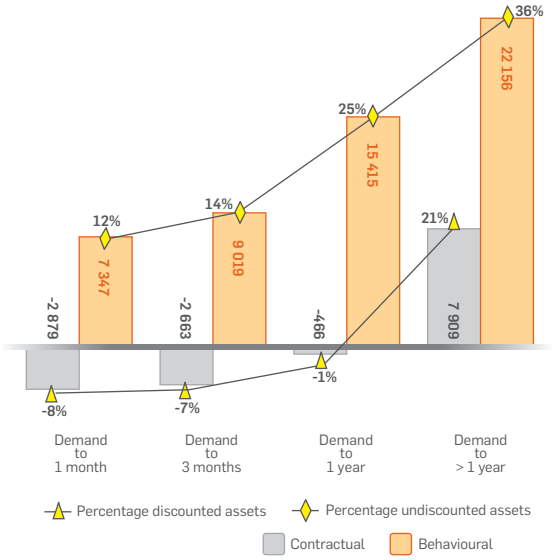
The LCR is a 30-day stress test that requires banks to hold sufficient high-quality liquid assets to cover envisaged net outflows. These outflows are calibrated using prescribed Basel factors applied to assets and liabilities in a static run-off model. Basel definitions are used to identify high-quality liquid assets.

A ratio of 100% or more represents compliance in terms of Basel III requirements. The requirement to comply is being phased in and a ratio of 60% is required by 2015.

LCR% as at 28 February 2013	Group
LCR%	1 534
High-quality liquid assets (R'm)	5 118
Net outflow [1] (R'm)	334

[1] *As Capitec has a net cash inflow after applying the run-off factors, outflows for the purpose of the ratio are deemed to be 25% of gross outflows*

CONTRACTUAL AND BEHAVIOURAL LIQUIDITY MISMATCHES R'm



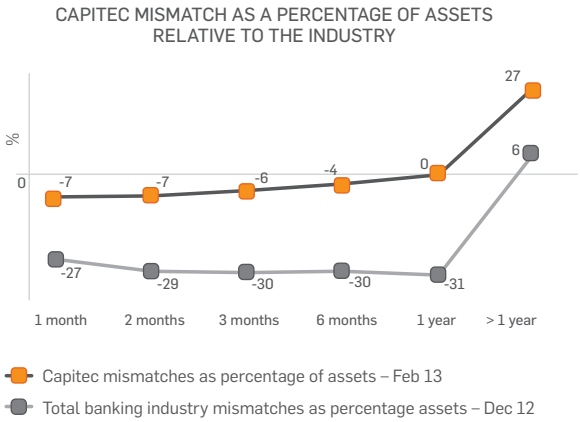
The contractual mismatch is reported on a discounted basis whereas the behavioural mismatch is reported on an undiscounted basis.

The net stable funding ratio (NSFR)

The NSFR is designed to ensure closer matching of long-term asset cash flows with long-term funding cash flows. A ratio of 100% or more represents compliance. Compliance is required by 2018.

NSFR% as at 28 February 2013	Group
NSFR%	116
Required stable funding (R'm)	27 697
Available stable funding (R'm)	32 236

Compliance with these two new Basel ratios underscores the organisation's conservative approach to liquidity.



Source: BA 300 regulatory disclosure (excludes loan impairments)

Contingency planning

A contingency funding plan (CFP) specifies qualitative and quantitative measures to identify early warning indications of liquidity stress. The plan provides management with a menu of possible actions to address potential liquidity threats. These actions cover necessary changes to the ALM strategy and communications with stakeholders. The CFP operates in conjunction with the ALM and recovery policies to ensure a coordinated approach to liquidity management.

Capital management

Risk management and capital management are directly linked. Risk capital must be held as a reserve for all residual risks that remain after cost-effective risk management techniques and risk mitigation have been applied. Residual risk exists as there is potential for unexpected losses, as well as volatility in the losses expected, to occur in the future that is not captured in terms of IFRS.

Capitec retains capital not only for risk on the existing portfolio, but also to support risk arising from planned growth. This is particularly important for our business which is in a growth phase.

Both the supply and demand factors impact capital adequacy and must be managed. Supply-side risk relates to procuring appropriate capital resources at appropriate pricing and times, to maintain capital buffers at the stipulated requirements of regulators and meet the expectations of shareholders and rating agencies. Risk management throughout the business addresses the demand-side risk, which encompasses risks that negatively impact earnings and capital.

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

Capitec's principal policies when managing capital are:

- To ensure that return on capital targets are achieved through efficient capital management, thus meeting shareholders' expectations, while ensuring that adequate capital is available to support the growth of the business
- To ensure that there is sufficient risk capital, and a capital buffer for unexpected losses, to protect depositors and shareholders and ensure sustainability through the business cycle. This approach is consistent with our long-term strategy to build value.

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

This approach prevents the adoption of high-risk/high-reward strategies and safeguards long-term sustainability while maintaining satisfactory returns for all stakeholders. Implicit in this approach is compliance with the prudential requirements of the Banks Act and the maintenance of a strong capital base to support the development and growth of the business.

Governance

ALCO assesses capital adequacy on a monthly basis and reports to the RCMC quarterly. Capital adequacy and the use of regulatory capital are reported to the SARB monthly, in line with the requirements of the Banks Act.

Quantitative information on capital adequacy is presented below and in note 28.7 to the annual financial statements.

Internal capital adequacy assessment process (ICAAP)

To achieve policy objectives, the ICAAP is ongoing and drives capital management. The ICAAP addresses the management of capital and solvency risk as well as the risks arising from the pro-cyclicality of business operations through the economic cycle.

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

Capitec aims to raise capital when conditions are conducive and the sustainability, reputational and price optimisation benefits offset any carrying cost.

Risk management is the basis of the ICAAP given the interrelationship between capital and risk management. Therefore management considers the capital required to underwrite the risks of the business. This is assessed before and after applying risk management and risk mitigation techniques so as to determine the outstanding residual risk and related capital reserving requirement.

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

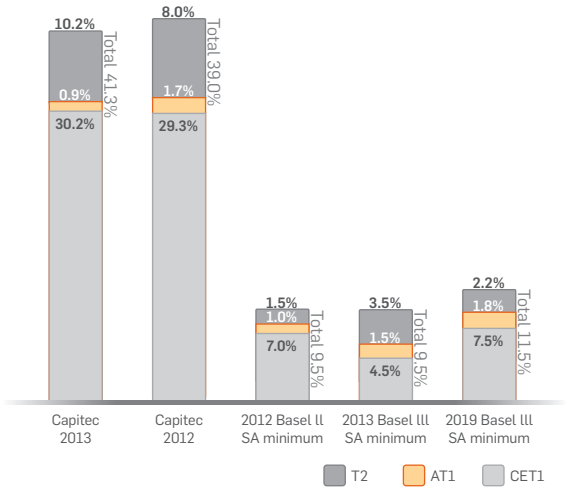
Basel calculation methods for credit and operational risk capital

The ICAAP involves assessing capital from a business and regulatory perspective. The regulatory capital requirement is calculated using a percentage applied to the risk-weighted assets of the business.

There are various methods used for the calculation of risk weights in terms of the Banks Act. As at the reporting date Capitec's calculations of risk-weighted assets for credit and equity risks in the banking book were governed by the application of the standardised approach, while its calculation of operational risk was governed by the alternative standardised approach (ASA).

Capitec operates a mono-line banking business through a portfolio of retail banking assets. All other ancillary assets exist to support this business. The ASA therefore applies a factor of 0.0525 to the average outstanding financial assets for the past three years, to arrive at a risk-weighted equivalent. The minimum capital adequacy percentage is applied to this equivalent to calculate the capital requirement. This result is subject to a minimum requirement, in terms of a specific agreement with the SARB, that operational risk capital shall constitute at least 12% of the total regulatory capital requirement, calculated for all risks.

CAPITAL ADEQUACY BY TIER



- *CET1 – common equity tier 1 capital is ordinary share capital and reserves after Basel deductions.*
- *AT1 – additional tier 1 capital – Capitec's perpetual preference shares qualify as entrylevel AT1 capital, and are subject to phasing-out in terms of Basel III as they do not meet new loss absorbency standards. They were issued by the holding company.*
- *T2 – tier 2 capital – Capitec's subordinated debt instruments qualify as entry-level T2 capital, and are subject to phasing-out in terms of Basel III as they do not meet new loss absorbency standards. Subordinated debt is issued by the bank subsidiary as the interest cost is offset against relative revenue and is regarded as third party capital, subject to phasing rules, at a consolidated level.*
- *Globally, the Basel lll minimum capital adequacy percentage is 8%.*
- *The 2012 Basel II and 2013 Basel III SA minima – include the SA country buffer of 1.5% (2019 Basel III SA country buffer: 1%). The level of this buffer is at the discretion of the SARB and it is subject to periodic review.*
- *The 2019 Basel III SA minimum include the capital conservation buffer of 2.5% which phases in from 2016. All banks must maintain this buffer to avoid regulatory restrictions on the payment of dividends and bonuses.*
- *The SA minima exclude all bank-specific buffers. Bank-specific buffers include the individual capital requirement (ICR) for specific bank risk and the domestically systemically important bank ('D-SIB') buffers. In terms of the Banks Act regulations, banks may not disclose their ICR requirement. The D-SIB requirement will be phased in over three years commencing January 2016. Current regulations state that the South African country risk buffer and the D-SIB on a combined basis cannot be more than 3.5%. The SARB is in the process of determining the D-SIB levels for individual banks.*
- *Excluded from the SA minima are the Basel III:*
  - *countercyclical buffer that can range between 0% and 2.5% at the discretion of the monetary authorities. It is not expected that this buffer will be applied on a permanent basis and only when credit growth exceeds real economic growth.*
  - *haircuts to be applied against minority and third-party capital issued by subsidiaries, which begin phasing in 2013 at 20% per year.*

The impact of Basel III on capital adequacy measurement

The implementation of Basel III resulted in a 3% decline in the capital adequacy ratio. This was due to an increased risk weight on deferred tax assets and the 10% phase-out applied to perpetual preference shares and subordinated debt instruments that do not meet the new loss absorbency rules and the subsidiary third party capital rules.

Loss absorbency

The Basel III loss absorbency rules require AT1 and T2 capital instruments to have a clause in the agreement that enables the regulator to convert them to ordinary shares or write them down in the event of the resolution of the financial institution (a bail-out by public institutions). The rule provides the regulator with alternate legal options in the event that a bank crisis must be resolved. We believe that the environment for resolution of a bank will not be significantly dissimilar from that currently in place.

All capital that does not meet the new loss absorbency requirements will be phased out over a period of 10 years, with subordinated debt being phased out at the earlier of 10 years, actual maturity or the optional call date. An overall ceiling limit that reduces by 10% per year was set on 1 January 2013, based on the outstanding capital value of non-loss absorbent AT1 and T2 instruments.

Capitec base ceiling limits for AT1 and T2 1 January 2013 were:

Tier	Instrument	R'm
AT1	Perpetual preference shares	259
T2	Subordinated debt	2 891

Leverage ratio

The leverage ratio acts as a minimum capital floor to the Basel capital adequacy framework. Capitec had a calculated regulatory leverage ratio of 5 times CET1 capital as at the end of the reporting period. The minimum requirement in South Africa is 25 times CET1 capital.

Subsidiary third party capital

Basel III limits the contribution of preference share capital and subordinated debt issued by subsidiaries in the group capital adequacy ratio. This consolidation deduction is being phased in at 20% per year, beginning 1 January 2013. This limitation aims to encourage the issue of capital by holding companies rather than by subsidiaries.

Restrictions on the transfer of regulatory capital

Given Capitec's simple structure and as all the operations are in South Africa, the only restrictions on the transfer of ordinary equity reserves relate to the statutory limitations on investments in certain associates as defined in the Banks Act. Subordinated debt issued by the bank subsidiary is not available for distribution to the holding company.

Operational risk

This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risks. Legal risk includes, but is not limited to, exposure to fines, penalties or punitive damages resulting from legal actions and private settlements.

Governance

The risk committee ('RISCO') directs, governs and coordinates all risk management processes in accordance with an approved policy. All divisional heads are members of RISCO, and the heads of the compliance, forensic, internal audit, IT risk and operational risk management units provide independent monitoring and assist business with specialist advice, policies and standards relating to various components of operational risk.

A dedicated operational risk manager is responsible for the application of the bank's policies, providing guidance in terms of best practice and for ensuring consistent implementation and reporting of material exposures or trends to the board and regulatory authorities. Line management accepts accountability for the identification, management, measurement and reporting of operational risk.

Operational risk measurement, processes and reporting

The management of operational risk is inherent in the day-to-day execution of duties by management and is a central element of the management process. Management is responsible for developing and maintaining control environments to mitigate the operational risks inherent in the business.

Risk assessment, loss data collection and the tracking of risk indicators are utilised to raise awareness of operational risk and to enhance the internal control environment with the ultimate aim of reducing losses within the accepted risk appetite. Additional related processes include the continuous consideration of the business environment and consistent review of internal control factors, as well as the analysis of operational risk causes.

Risk assessments are designed to be forward-looking and identify risks that could threaten the achievability of business objectives, together with the required set of controls and actions to mitigate the risks. Specific mitigating actions are reported to RISCO. Loss data collection and key risk indicator tracking are backward-looking and enable the monitoring of trends.

Operational risk mitigation programmes

Financial crime prevention

Financial crime is a major operational risk. A mitigation strategy that includes, amongst others, the following measures is in place:

- A zero-tolerance policy in respect of staff dishonesty
- Cooperation with government and industry role players to ensure the successful apprehension and conviction of the perpetrators of financial crime
- Effective and comprehensive investigation and recovery of losses
- Proactive identification and prevention of criminal acts against Capitec

Information regarding any irregularities received from employees, management or the independent fraud hotline, Tip-Offs Anonymous, is investigated by our forensic services department. Fraud awareness campaigns, which include e-newsletters, posters and presentations to all employees, are continually undertaken. Various channels are available to employees and clients for disclosing dishonesty in the workplace, including:

- Toll-free number
- Client care centre
- Website

To protect clients against online fraud schemes, Capitec Bank implemented enhanced internet banking security that protects clients against advanced attacks such as Man-in-the-Middle and Man-in-the-Browser. The client is protected even if his cellphone SIM card was compromised through a SIM swap.

Insurance

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

Business continuity

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

The IT disaster recovery (DR) plans form part of the company's business continuity plan and are reviewed by the Continuity Management Team (CMT) which consists of key executive committee members as well as risk and facilities managers.

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

Policies and procedures

The organisation has a dedicated policies and procedures department ('Polproc'). Polproc is responsible for the administration of policies and procedures in terms of a framework that sets minimum standards for policies. These standards govern the creation and maintenance of policies in terms of a policy life cycle and require that policies conform to the four Capitec Bank pillars, which are simplicity, affordability, accessibility and service.

Policy developers, assisted by Polproc, are required to promote awareness of policies to enable compliance. This may involve training or other interventions for users. Policy developers and line managers are responsible for assessing compliance with policies and internal audit monitors compliance with key policies in terms of their annual risk-based audit plans.

Compliance risk

Capitec Bank has a professional relationship with its regulators and, where possible, endeavours to influence the direction of policy and principles of regulation to the benefit of the banking industry as a whole. Regulators include the bank supervision department of the South African Reserve Bank, the National Credit Regulator, the JSE Limited and the Financial Intelligence Centre. We regard the interconnectedness of the banking industry and the reliance that the economy and citizens of the country place on the bank, as one of the most important drivers in our relationships with stakeholders.

Capitec Bank maintains high levels of compliance with the spirit and letter of the law. In this regard, the bank is involved at industry level with the payment industry and Basel III developments. To ensure involvement in the national payments system, Capitec Bank is a member of the Payments Association of South Africa (PASA) and is represented on multiple payments forums within the association.

The bank has a dedicated compliance function as prescribed by regulation 49 of the Banks Act. The compliance function manages the bank's compliance risk – the risk that the controls implemented by the bank to facilitate compliance with the applicable statutory and regulatory requirements are inadequate or inefficient. The compliance universe of the bank consists of all the applicable statutory and regulatory requirements of relevant legislation, regulations and industry codes as well as sound management of the bank.

The head of compliance reports directly to the chief executive officer. The compliance function performs continuous independent compliance monitoring through independent compliance monitoring officers, in accordance with an annual board-approved compliance monitoring coverage plan.

The Banks Act, Companies Act, Security Services Act, National Credit Act, National Payment System Act, Consumer Protection Act and Financial Intelligence Centre Act

have been identified as significant pieces of legislation and are the main focus of the independent compliance function and management system activities of the bank. This approach achieves a healthy balance of appropriate and sufficient compliance and efficient interaction with stakeholders and business relative to the bank's business activities. The material compliance challenges facing the bank include dealing with the imminent protection of personal information legislation; exchange control regulation and, lastly, continued and high levels of compliance with credit legislation to create a responsible and compliant credit environment.

The compliance officer reports to the audit committee at every committee meeting and submits compliance reports to both the audit committee and RCMC as required by the Banks Act. All material events of non-compliance are reported to the audit and directors' affairs committees as well as the board of directors. For the reporting period, the compliance officer submitted reports which indicated acceptable and good levels of compliance by the bank to statutory and regulatory requirements. The events of non-compliance listed were all non-material and were either rectified or are in the process of being addressed through systems and process changes. The bank supervision department of the SARB is provided with copies of these reports after every meeting of the abovementioned committees. The compliance officer has annual prudential meetings with the bank supervision department of the SARB and responds to general and ad hoc requests for discussion when required.

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

Information technology risk

Information technology forms the backbone of the service that Capitec Bank provides to its clients. Innovative application of technology has enabled the development of uncomplicated, low-priced banking products. Through innovative technology, a cost-effective business process was developed where floor space in branches is used to service clients directly, and back-office functions are centralised. Branches can remain open for longer hours and branch consultants can focus on providing personal service to clients.

During the reporting period system changes, such as simplifying the system interface as well as making the process in the branch more transparent, resulted in the client gaining more control over the in-branch processes. Pioneering use of technology, including the implementation of cash (including coins) recyclers and the development of mobile access channels, has enabled easier access to their accounts for clients.

IT governance framework

IT governance is implemented according to the Capitec Bank IT governance policy and the supporting IT governance framework. The framework is based on principles and controls as defined in international standards such as Cobit, ITIL, ISO25999 and IS027001. The governance framework defines how Capitec Bank ensures that the IT strategy is created, approved, reviewed and implemented in a manner that is always aligned with the business strategy.

The IT governance framework also defines the organisational structure as well as the policies and procedures that are required to facilitate good governance and compliance in the areas of technology and information security management.

Weekly executive management meetings, as well as formal IT prioritisation meetings, provide platforms where strategic IT matters are discussed and cross-functional priorities are aligned. Weekly meetings, focused on IT risks and potential performance issues, ensure that situations which could threaten the availability of systems or the confidentiality and integrity of information are identified and discussed on a senior management level. This ensures discussed on a senior management level. This ensures that important issues are dealt with at the correct level of urgency and focus.

IT compliance

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

Information security management system (ISMS)

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

Capitec Bank is actively involved in industry initiatives to establish well-coordinated security response mechanisms in the event of major security threats to the industry or individual banks.

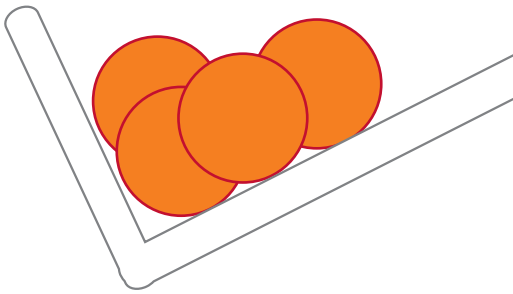
Health and safety

A comprehensive health and safety policy is in place. Riaan Stassen (CEO) is appointed in terms of Section 16(1) of the Health and Safety Act to ensure compliance with this legislation. Structures are in place to ensure that the requisite safety measures are complied with across the company.

A nine-month compliance and risk assessment programme is nearing completion and has already covered the head office and the largest regional office. The results from the assessment will be used to implement further improvements. Current monitoring includes a best practice online management system that facilitates reporting and related activities.

The employee assistance programme supports employees with personal health management, counselling services and referral to appropriate testing and medical treatment facilities. This is done through an independent service provided to employees without cost. Regular communication with employees via internal communication channels is aimed at education on subjects such as risks relating to serious diseases, prevention measures and how to deal with such illnesses.

A comprehensive life-threatening disease policy, together with the health and safety policy and the employment equity policy, promote the principles of confidentiality, non-discrimination, appropriate awareness, education, prevention and treatment of disease.



Remuneration risk

This is the risk that remuneration policies do not take into account the extent to which a transaction concluded by an employee exposes the company to risk of loss; and the time period over which these losses can emerge. For example, misalignment exists if an employee is fully rewarded for a transaction that continues to expose the company to the risk of losses in subsequent periods. Capitec's policies and procedures ensure alignment and do not incentivise risk-taking.

Governance

The human resources and remuneration committee ('REMCO') consists of two non-executive directors and an independent non-executive director and is chaired by Chris Otto. Despite not being independent as defined by King Code III, the board considers Mr Otto to be the correct person to hold the position.

REMCO's mandate is detailed in an annually reviewed board-approved charter. In support of its authority, the members of the committee have unrestricted access to all the activities, records, property and employees of the company. In addition, the committee may access external legal or other independent professional advice to execute its responsibilities as detailed in the charter. As required by Basel best practice, the committee annually considers whether the remuneration structures continue to effectively align risk-taking with remuneration.

The primary purpose of REMCO is to ensure that remuneration policies attract and retain the individuals who are able to create lasting value for stakeholders. At the same time they address remuneration risks inherent in the banking environment.

REMCO is responsible for:

- Determining, reviewing and approving the remuneration policy and ensuring that it is adhered to
- Approving annual increases
- Determining the policy for and approving executive management remuneration, including bonuses and incentive schemes
- Reviewing the remuneration of non-executive directors and recommending proposal to the board for approval at the AGM
- Fulfilling delegated responsibilities in respect of the Capitec Bank Holdings Share Incentive Trust

REMCO's philosophy in respect of remuneration is one of sustainability and the emphasis is on creating long-term value. The main component of remuneration is the guaranteed remuneration package. All variable compensation components are performance-based on the successful achievement of individual, team and company targets. No guaranteed variable remuneration is included in employment contracts.

Remuneration consists of:

- Fixed remuneration package (basic salary)
- An annual bonus to all employees based on growth in headline earnings per share
- A performance bonus for senior management (excluding strategic management) based on growth in headline earnings per share and paid out over a three-year period
- An equity-settled share option scheme for strategic management
- A cash-settled share appreciation rights scheme for strategic management
- Quarterly incentives to branches and sales teams based on performance targets

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

[1] *This refers to the permanent members of the executive management committee and a limited number of senior managers whose delivery on strategic targets is regarded as critical to achieving business objectives.*

Processes

The remuneration department conducts continuous staff remuneration benchmarking exercises, using an accredited independent and up-to-date electronic benchmarking interface. The reports and recommendations generated are submitted to REMCO. Benchmarking exercises include:

- Salary bands for the major categories of client-facing operations; employees are assessed within the context of the Capitec Bank strategy and budget. This is used for the annual salary budget
- All existing employees are assessed and those identified as outliers are flagged for the attention of the departmental executives

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

The management accounting department conducts an annual benchmarking exercise to assess the remuneration levels of executive directors. Market trends in remuneration paid to executive directors are researched based on information available in the public domain, such as annual reports. A report and recommendations are submitted to REMCO for consideration.

Non-executive board remuneration is based on a fixed-fee structure not related to attendance of meetings. The chairman of the board is paid a retainer and receives no further payment for membership of committees. Non-executive directors receive a retainer for membership of the board and for each of the board committees. No fee is paid in respect of the directors' affairs committee.

The remuneration of the executive directors and the fees paid to the non-executive directors for the 2013 financial year are detailed in note 30 to the annual financial statements. Fees for the 2014 financial year will be approved by the shareholders at the annual general meeting scheduled for 31 May 2013. The proposed fees are as follows:

Chairman of the board	R1 040 000
Chairman of the audit committee, RCMC and REMCO	R185 000
Chairman of the social and ethics committee	R44 000
Committee membership	R44 000
Board membership	R216 000

The permanent members of the executive management committee are the key decision-makers in the bank and as such they fall within the category of prescribed officers as defined in the South African Companies Act. The

composition of the committee is detailed in chapter 8 of this report. Their remuneration is detailed in note 30 to the annual financial statements.

Components of remuneration

The structure of the remuneration plans described below has not changed materially during the reporting period.

Fixed remuneration package

All employees receive a fixed remuneration package that is continuously benchmarked against competitors and the market. Fixed remuneration packages contain and define the total guaranteed cost of employment and ensure that costs are clearly defined and can be controlled. The structure does not include open-ended risks and/or liabilities.

Employees have access to the following benefits:

- Leave
- Partially paid maternity leave
- Retirement funding
- Healthcare
- Disability cover
- Death cover
- Funeral cover
- Education cover for dependants
- Financial wellness programme
- Employee assistance programme
- Education assistance programme

Executive share-based plans

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

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

Share options

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

Share appreciation rights (SARs)

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

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

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

Refer notes 37 to 39 to the annual financial statements for details regarding the executive share-based plans.

Variable performance bonuses

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

Capitec's performance is driven by a combination of innovative thinking and dedicated delivery on our objectives. To support the performance-driven culture of the organisation, a senior management bonus plan that is directly linked to profit performance is in place.

Participation is limited to senior managers and a limited number of other employees who are seen to be in leadership roles critical to the current and future success of the business. The bonus plan is linked to Capitec's year-on-year growth in headline earnings per share, and standard reward percentages are applied to a participant's guaranteed remuneration in line with earnings targets communicated at the beginning of the financial year.

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

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

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

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

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

- Improving business performance
- Supporting stakeholder ideals by allowing employees to share in the success of the business

Variable performance bonuses are awarded in two tranches. The first in December, based on the interim results, and the second in April is based on the final year-end results.

Variable sales incentive plan

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

Qualifying conditions include:

- On-standard performance for the period under review
- Clear disciplinary records/conduct during the period under review
- Timeous completion of scheduled learning sessions
- Regular work attendance during the period under review

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

Remuneration analysis

Capitec Bank		Strategic management	Senior management	Other employees	Total	Financial statement reference
Employees	Number	10	82	8 216	8 308	Key performance indicators
Remuneration awards						
Fixed	R'000	38 076	80 972	1 113 550	1 232 598	
Cash remuneration	R'000	38 076	80 972	1 113 550	1 232 598	Note 22, Note 23
Variable	R'000	148 327	94 543	84 485	327 355	
Cash staff performance bonus	R'000	3 175	1 547	84 485	89 207	
Cash bonus bank	R'000	–	27 894	–	27 894	
Share options	R'000	77 977	39 211	–	117 188	Note 22, Note 23
Share appreciation rights	R'000	67 175	25 891	–	93 066	Note 22, Note 23
Variable remuneration						
Employees receiving awards	Number	10	82	8 216	8 308	
Non-deferred	R'000	3 175	10 845	84 485	98 505	
Deferred	R'000	145 152	83 698	–	228 850	
Outstanding deferred remuneration	R'000	288 248	144 627	–	432 875	
Cash bonus bank	R'000	–	28 449	–	28 449	Note 16
Share options	R'000	150 904	65 094	–	215 998	Note 38
Share appreciation rights	R'000	137 344	51 084	–	188 428	Note 39
Deferred remuneration paid out	R'000	213 914	129 164	–	343 078	
Cash bonus bank	R'000	–	15 146	–	15 146	
Share options	R'000	128 072	77 859	–	205 931	
Share appreciation rights	R'000	85 842	36 159	–	122 001	
Employees' exposure to adjustments	R'000	288 248	144 627	–	432 875	
Implicit adjustments	R'000	288 248	116 178	–	404 426	
Post explicit adjustments	R'000	–	28 449	–	28 449	
Total remuneration exposed to adjustments	R'000	288 248	144 627	–	432 875	
Implicit adjustments	R'000	288 248	116 178	–	404 426	
Post explicit adjustments	R'000	–	28 449	–	28 449	
Reductions due to post explicit adjustments	R'000	–	–	–	–	

Alignment of risk and reward

In assessing the appropriateness of the risk/reward relationship in remuneration structures the REMCO is guided by the following:

- The inherent risks in the business model
- The risk-taking and delegation structure in place
- The status of the risk barometer as an indicator of the existence and management of risk

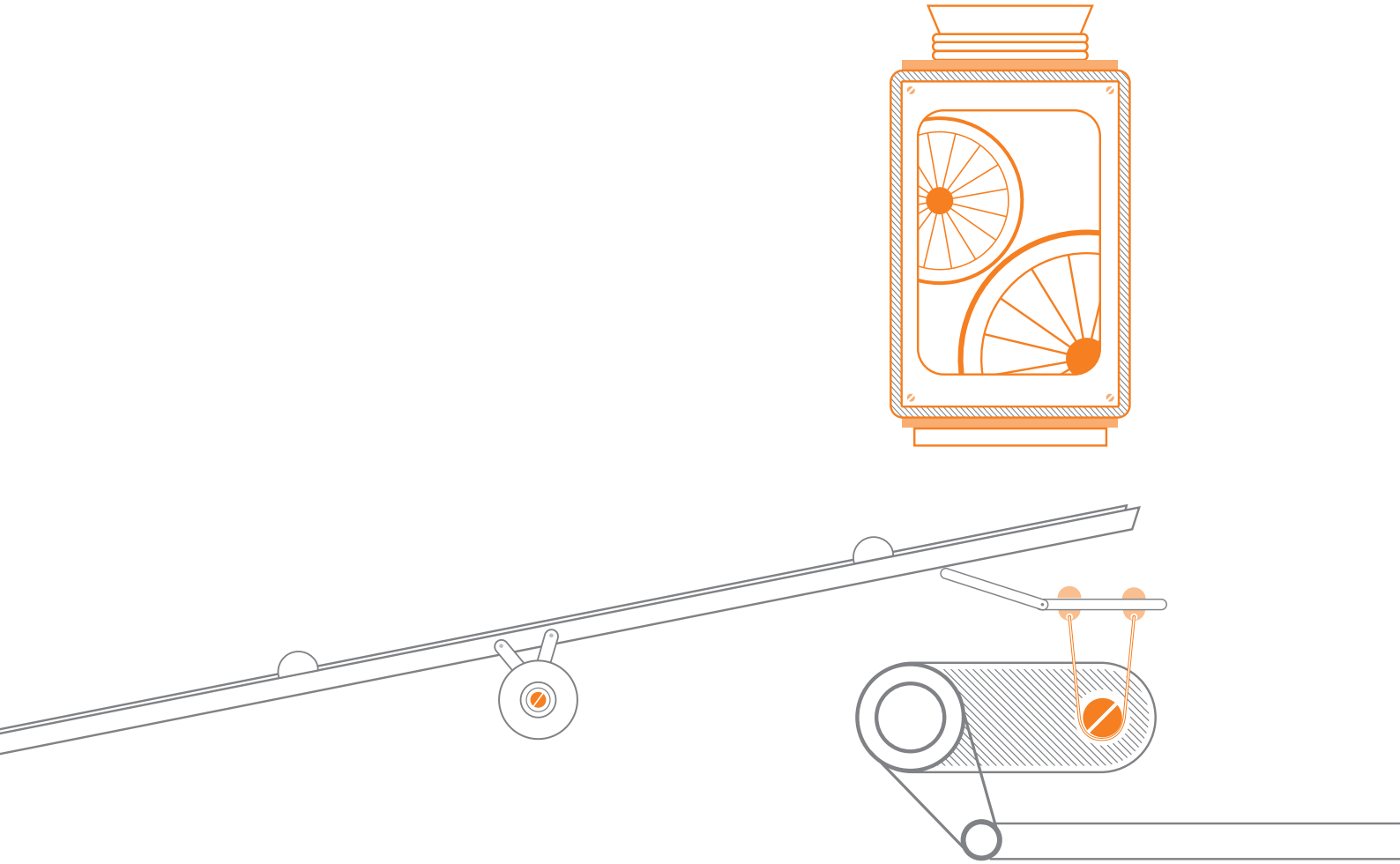
The chairman of REMCO is also a member of the RCMC and is therefore fully apprised of risk matters. REMCO considers variable incentive plans based on a measurable end result such as growth in headline earnings per share (HEPS) to be appropriate because the organisation runs a mono-lined business with strong centralised control and does not have a variety of business units with different risk profiles. HEPS reasonably captures and reflects the broad range of risks the business is exposed to and which must be managed. Deferring variable compensation over a number of years (as with the senior management bonus plan) will reasonably capture the results of risk taken over a number of financial years. Furthermore, the current method is transparent, easy to understand and communicate and is subject to annual audit.

The executive schemes are based on share price which is regarded as a reasonable metric to capture the range of risks in the business. It is especially sensitive to reputation risk and, unlike HEPS, it offers a greater potential upside and downside for executives.

Stress testing

Capitec Bank has a stress-testing programme that assists the board and management in understanding the resilience of the business model. Stress testing is conducted for credit, liquidity, interest rate and business risk, as well as for capital adequacy. Stress testing also plays a key role in changes to credit granting rules and loan pricing.

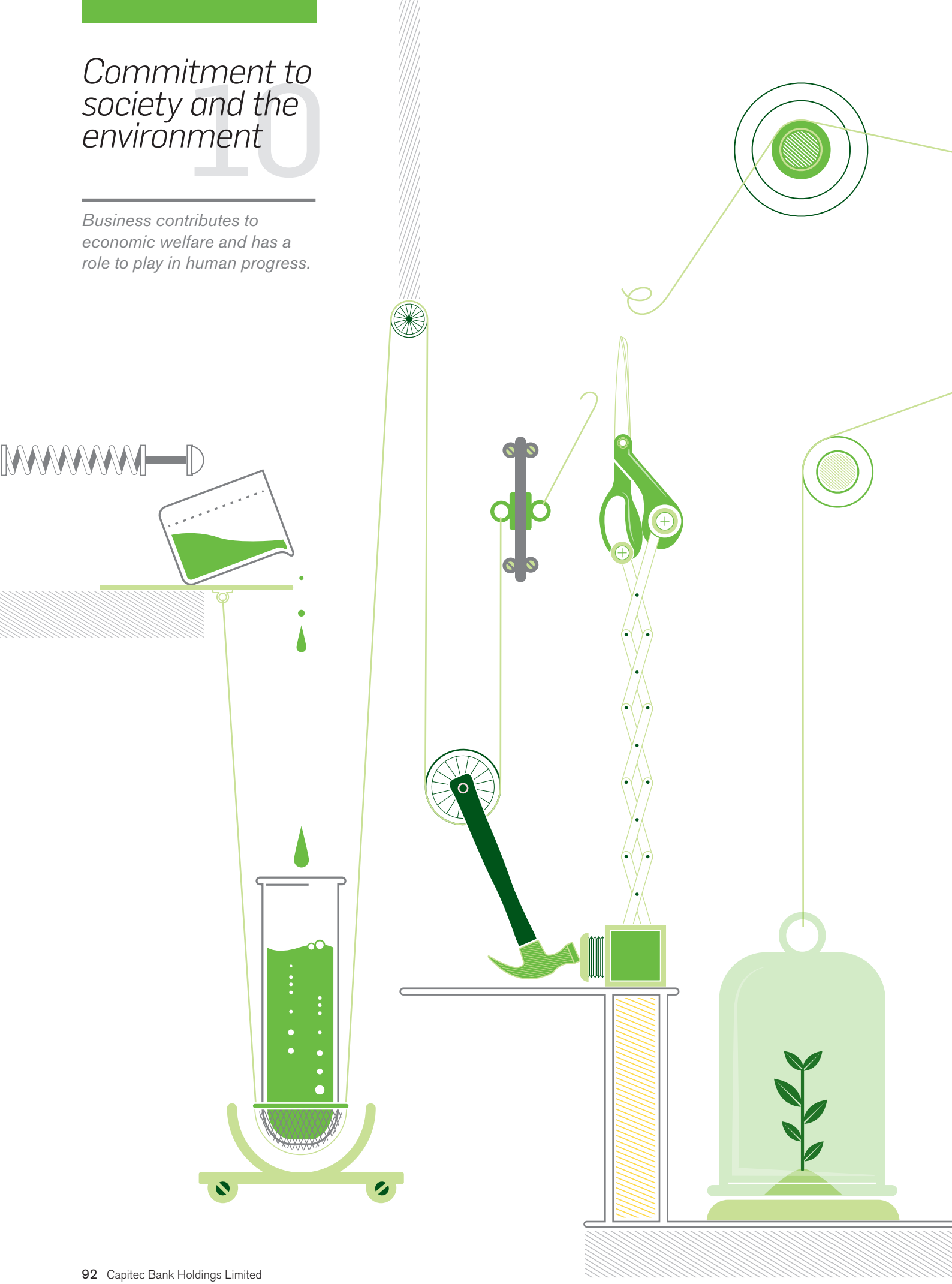
The risk management function is tasked to ensure that stress testing is embedded within operational processes so that it is intuitive, relevant and part of the mainstream business activities.

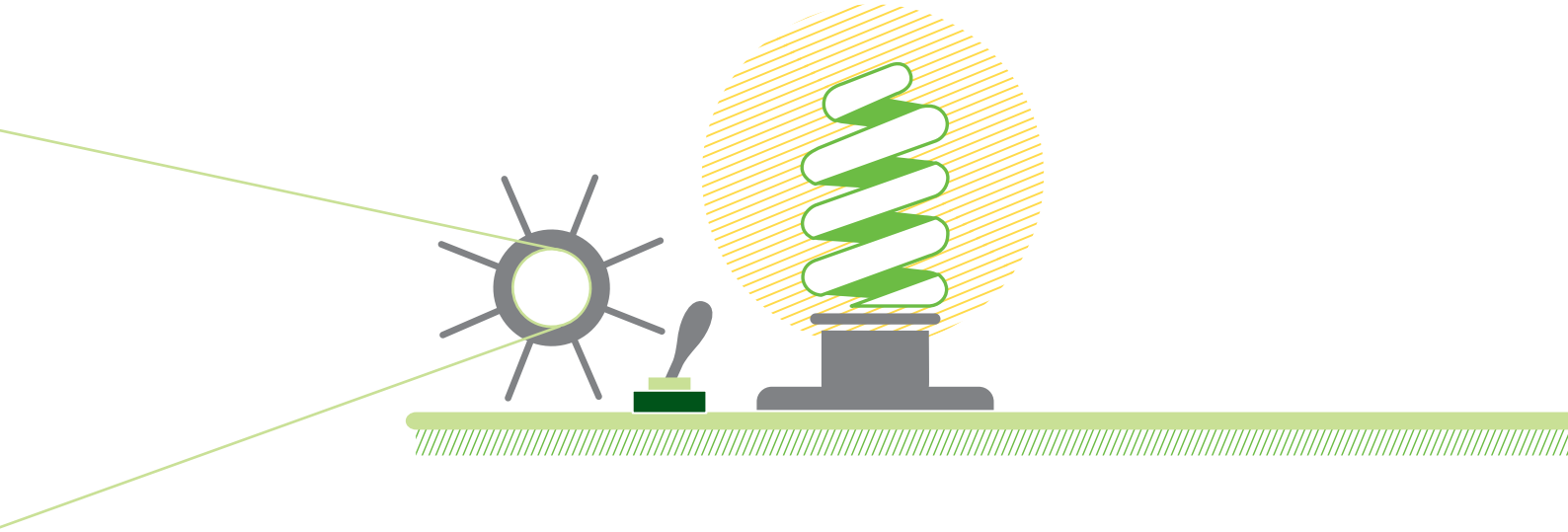


Commitment to society and the environment

10

Business contributes to economic welfare and has a role to play in human progress.





Communities

Capitec's founding vision was to provide essential banking services to all South Africans.

Banking has been made more accessible to communities, including those in rural areas, by opening branches where the majority of South Africans work, shop and live. Capitec Bank's low-cost, simplified product offers revolutionised banking for the benefit of consumers and created the opportunity for consumers to access affordable credit responsibly. In this way Capitec Bank has contributed to, and will continue to contribute to, the economic welfare and development of communities.

Employment

Capitec's growing branch network and support services continue to create employment opportunities for the communities in which it operates.

Since establishment, Capitec Bank has created 8 308 jobs (2012: 7 086) and, on average, 209 employees were appointed per month during the reporting period (2012: 221).

Capitec Bank's approach to talent acquisition and management, learning and development, employee relations and employment equity is detailed in chapter 4 of this report.

Corporate social investment

We believe that corporate social investment (CSI) programmes have an important role to play in South Africa where social needs are considerable.

Our CSI is closely aligned with our core business objectives. As a bank with aspirations of being the preferred retail bank we need a well-educated workforce that can deliver innovative banking solutions and a well-informed client base that is equipped to make sound financial decisions. For this reason we have developed programmes and formed partnerships with various organisations in the education field.

Our goal is to promote social development in South Africa through a financial life skills programme for consumers and to provide access for learners at underresourced schools to supplementary school programmes. We believe everyone needs the minimum numeric and language skills to make a meaningful contribution to the economy and to their immediate community.

Projects undertaken during the current reporting period include:

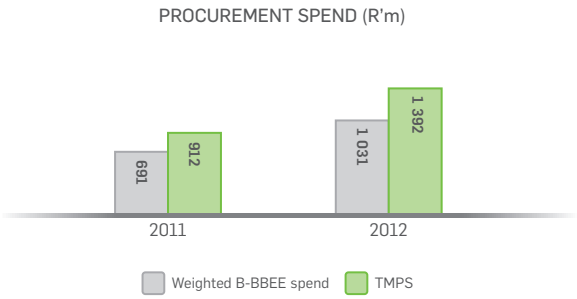
- Sponsorship of a panel discussion on the Impact of Collaborative Education as part of Education Week. Approximately 60 corporate and government representatives and education specialists participated.
- The bursary programme was launched with 182 recipients receiving Capitec Bank bursaries. The programme rewards talented but underresourced Grade 10 learners who study maths at school, by paying for their annual school fees.
- Participation in the Banking Association South Africa and South African Savings Institute's Teach Children to Save (TCTS) financial literacy and savings initiative.

- Sponsorship of IkamvaYouth, a volunteer-driven, youth-led NGO working with youth living in townships. The sponsorship entails funding, capacity-building within IkamvaYouth and scaling the programme to additional regions. All participants in IkamvaYouth are required to study Pure Maths and for the past three years 70% of participants have accessed tertiary education.
- Partnered with UCT's Graduate School of Business and other interested parties to create an executive management programme for school leaders (principals and their deputies, heads of department and senior teachers). The programme is pitched at postgraduate level and commenced in December 2012.
- The development of a framework for impact evaluation has commenced. It will be utilised to assess and maximise the benefit of our investments for communities.
- Support of the Go for Gold programme that identifies skills gaps in particular industries and seeks to fill them by targeting potential future employees while they are still at school. These learners receive supplementary tutoring and are introduced to the sector in which they will work in future.
- Generic financial skills training delivered at targeted worksites on our behalf by a Seta-accredited supplier.
- Sponsorship of the Centre for Public Service and Innovation awards in the Innovative Service Delivery Institutions category.
- Sponsorship of the annual UCT Maths competition for the next three years.
- Donations to community organisations that actively contribute to the care and safe refuge of children who have been abused, neglected, abandoned and orphaned, the support of women who have been victims of abuse and organisations caring for the disabled.

Suppliers

Capitec Bank subscribes to the Codes of Good Practice issued under the Broad-based Black Economic Empowerment Act, No 53 of 2003. It is a level 6 contributor and received a B-BBEE preferential procurement recognition of 60%. The certificate for the period 27 August 2012 to 27 August 2013 is available at www.capitecbank.co.za.

B-BBEE procurement to total measured procurement spend (TMPS) is 74% compared to 76% for the previous reporting period.



The environment

The global focus on climate change and the effect it has on the environment have resulted in corporations globally evaluating the impact of their operations and activities on the environment.

The primary focus relates to reducing the emission of greenhouse gases (GHG) to an acceptable level. South Africa is committed to lower overall national GHG emissions and local corporates have a responsibility to contribute by reducing their carbon footprints.

Due to the nature of its products and services, Capitec Bank is considered to be a low contributor to GHG emissions with an associated limited impact on the environment. Notwithstanding this fact we realise that as a responsible corporate citizen we should conduct our business in a manner that has a minimal impact on the environment. There is commitment to this goal at all levels in the organisation.

During the 2013 reporting period, Capitec Bank placed increased emphasis on environmental matters. This is evidenced through the development of an environmental and carbon footprint accounting policy and the reporting of our carbon footprint for the first time in this report.

Capitec Bank's largest contribution to GHG emissions is the use of electricity. We are thus continuously researching and implementing methods to lower our consumption of this resource. We are, however, limited in our actions as we do not own the properties from which we operate and need to consider the cost effectiveness of any strategies implemented. The following was, however, achieved during the year:

- Continued deployment of virtualisation technology in the enterprise server environment creating savings in cooling requirements
- Utilisation of 'hot aisle containment technology' in the computer centre
- Electronic equipment disposed of and recycled by an accredited third party
- Replaced 9 147 light tubes in 117 branches resulting in an estimated 533 530 kWh annual saving

Carbon footprint

Methodology

- The GHG Protocol – Corporate Accounting and Reporting Standard (revised edition)
- Emission conversion factors as published by the DEFRA (UK Department for Environment, Food and Rural Affairs)
- Operational control approach
- The 2012 financial year was selected as base year as it was the most recent completed full reporting period

Assumptions

- The calculation is limited to Capitec Bank. All other group entities are considered immaterial
- Employee commute is excluded due to lack of data
- Estimated electricity usage based on calculated averages was used for the baseline footprint. Consumption for 2013 was based on accurate records.

Carbon footprint for the 2012 base year and 2013 reporting year

GHG Protocol Scope		2013	2012 baseline
Scope 1: Direct emissions from		**144.10**	**145.61**
Fuel used in directly controlled or owned equipment	CO_2e tonnes	**3.64**	1.37
Fuel used in directly owned or controlled vehicles	CO_2e tonnes	**88.31**	81.74
Air-conditioning and refrigeration gas refills	CO_2e tonnes	**52.15**	62.50
Scope 2: Indirect emissions from purchased electricity	CO_2e tonnes	**19 322.49**	22 971.00
Purchased electricity – Eskom	CO_2e tonnes	**19 322.49**	22 971.00
Total scope 1 & 2	CO_2e tonnes	**19 466.59**	**23 116.61**
Scope 3: Indirect emissions from:	CO_2e tonnes	**5 507.18**	**5 077.46**
Business travel – Rental vehicles	CO_2e tonnes	**106.19**	45.50
Business travel – Commercial Airlines	CO_2e tonnes	**1 271.99**	962.43
Business travel – Employee owned vehicles	CO_2e tonnes	**2 248.89**	2 020.24
Product distribution – Cash in transit	CO_2e tonnes	**1 271.64**	1 646.91
Paper usage	CO_2e tonnes	**608.47**	402.38
Total scope 1, 2 & 3		**24 973.84**	**28 194.07**

Intensity footprint

		2013		2012 baseline	
GHG Protocol Scope		**Per full-time employee**	**Per m² floorspace**	**Per full-time employee**	**Per m² floorspace**
Scope 1 emissions	CO_2e tonnes	**0.02**	**0.00**	0.02	0.00
Scope 2 emissions	CO_2e tonnes	**2.71**	**0.12**	3.19	0.15
Total	**CO_2e tonnes**	**2.73**	**0.12**	**3.21**	**0.15**

The carbon footprint is not subject to independent assurance.

Overall there was a reduction of 11.5% on scope 1, 2 and 3 emissions for the reporting period. The primary contributor to the reduction was the more efficient use of electricity and various electricity saving initiatives described above.

Since 2010 Capitec Bank's employees have been encouraged to be environmentally aware through the monthly publication *Ecobuzz* that provides information and tips on various environmental issues.

Planned actions

- Continuation of light tube replacement with more efficient tubes throughout the branch network
- Increasing the focus on environmental management by defining a formal emission reduction target

Annual financial statements

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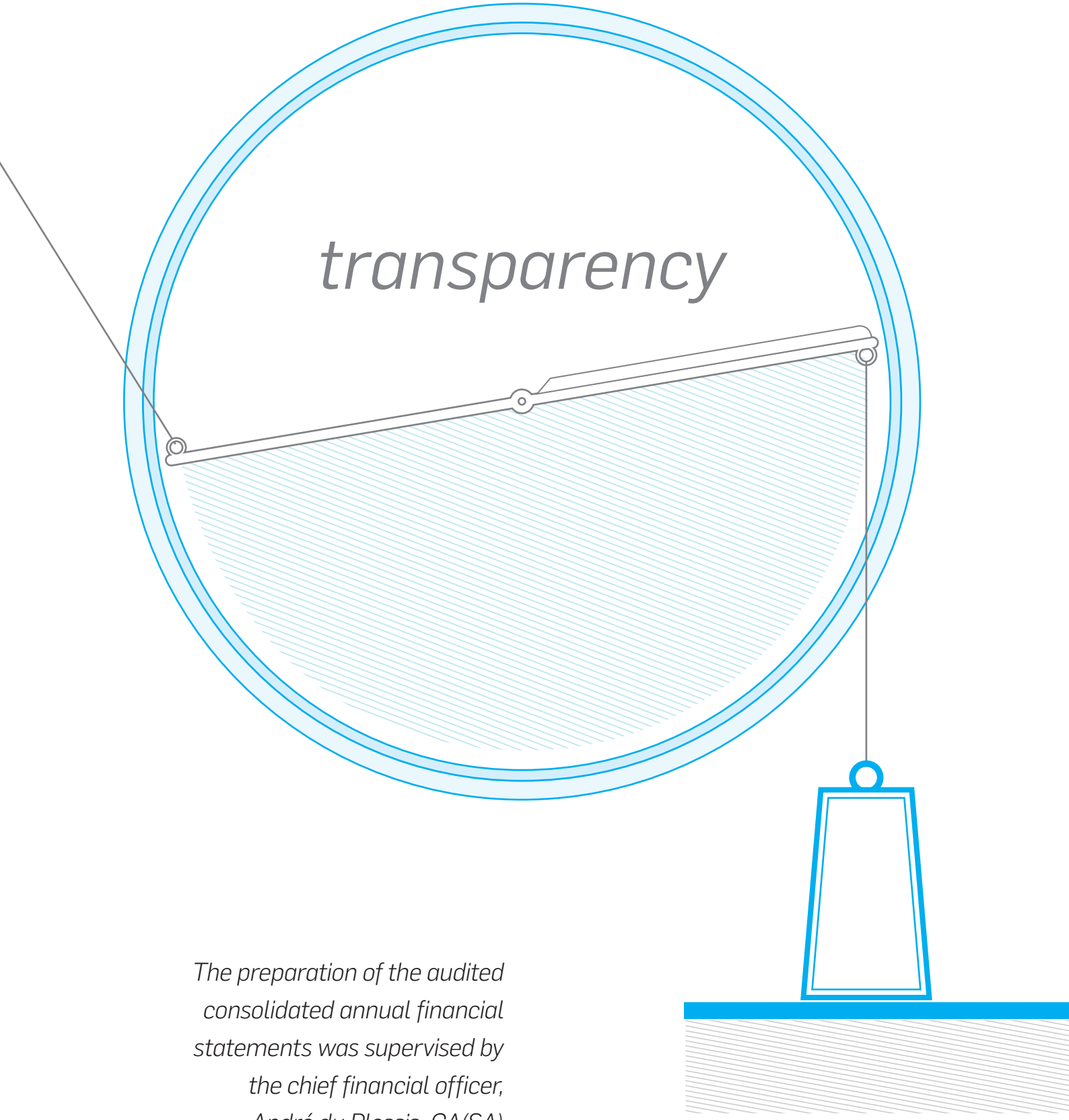


The preparation of the audited consolidated annual financial statements was supervised by the chief financial officer, André du Plessis, CA(SA)

Statement of responsibility by the board of directors

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

The directors are responsible for the preparation, integrity and fair presentation of the consolidated and separate annual financial statements of Capitec Bank Holdings Limited. The annual financial statements, comprising the balance sheet at 28 February 2013, and the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act of South Africa, and include amounts based on judgements and estimates made by management.

The directors consider that the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates have been used in the preparation of the annual financial statements and that all statements of IFRS that are considered applicable have been applied. The directors are satisfied that the information contained in the annual 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 directors' report and the other information included in the annual report and are responsible for both its accuracy and consistency with the annual financial statements.

The directors' responsibility includes maintaining adequate accounting records. The accounting records should disclose, with reasonable accuracy, the financial position of the companies to enable the directors to ensure that the financial statements comply with relevant legislation.

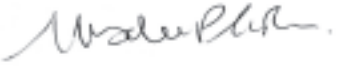
Capitec Bank Holdings Limited operated in a well-established control environment, which is documented and regularly reviewed. The control environment incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that the risks facing the business are controlled.

The annual financial statements were prepared on a going concern basis. Based on their assessment the directors have no reason to believe that the group or any company in the group will not continue as a going concern in the foreseeable future. The viability of the group is supported by the annual financial statements.

The group adhered to the Code of Corporate Practices and Conduct.

The group's external auditors, PricewaterhouseCoopers Incorporated, audited the financial statements and their report is presented on page 104.

The annual financial statements set out on pages 100 to 165 were approved by the board of directors and signed on its behalf on 26 March 2013 by:



Michiel le Roux
Chairman

Riaan Stassen
Chief executive officer

Certificate by the company secretary

I hereby confirm, in my capacity as company secretary of Capitec Bank Holdings Limited ('the company'), that for the year ended 28 February 2013, the company has filed all required returns and notices in terms of the Companies Act, 2008 and that all such returns and notices are to the best of my knowledge and belief true, correct and up to date.

Christian van Schalkwyk
Stellenbosch
26 March 2013

Audit committee report

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

The Capitec Bank Holdings group audit committee ('the committee') is an independent statutory committee appointed by the board of directors in terms of section 64 of the Banks Act (Act 94 of 1990) and the Companies Act (Act 71 of 2008) ('the Act').

The committee comprises three independent non-executive directors. The committee met three times during the year with 100% attendance by members at the meetings.

The committee's responsibilities include statutory duties in terms of the Act, as well as responsibilities assigned to it by the group's board of directors. The committee's terms of reference are determined by a board-approved charter and are detailed in the corporate governance review. The committee conducted its affairs in compliance with, and discharged its responsibilities in terms of, its charter for the year ended 28 February 2013.

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

- Satisfied itself that the external auditor is independent of the company, as set out in section 94(8) of the Act.
- Ensured that the appointment of the auditor complied with the Act, and any other legislation relating to the appointment of auditors.
- In consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted fees for the 2013 financial year.
- Approved the terms of the master agreement for the provision of non-audit services by the external auditor, and approved the nature and extent of non-audit services that the external auditor may provide.
- Nominated for election at the annual general meeting, PricewaterhouseCoopers Inc. as the external audit firm and Mr DG Malan as the designated auditor responsible for performing the functions of the audit.
- Satisfied itself, based on the information and explanations supplied by management and obtained through discussions with the independent external auditor and internal auditors, that the system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements
- Reviewed the accounting policies and the group financial statements for the year ended 28 February 2013 and, based on the information provided to the committee, considers that the group complies, in all material respects, with the requirements of the Act, the JSE Listings Requirements, the King III Code and IFRS.
- Undertaken the prescribed functions (in terms of section 94(7) of the Act) on behalf of the subsidiary companies of the group.

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

- Considered the sustainability information as disclosed in the integrated report, which is the result of a combined assurance model, and satisfied itself that the information is reliable and consistent with the financial results. The committee, at its meeting held on 25 March 2013, recommended the integrated report for approval by the board of directors.
- Ensured that the company's internal audit function is independent and had the necessary resources and authority to enable it to discharge its duties. The committee recommended the internal audit charter for approval by the board and approved the annual audit plan.
- The committee met with the external auditors and with the head of the internal audit function without management being present.
- The committee satisfied itself that the group financial director has appropriate expertise and experience as required by the JSE Listings Requirement 3.84(h).

Pieter van der Merwe
Chairman
26 March 2013

Directors' report

Year ended 28 February 2013

The directors present their annual report to shareholders for the year ended 28 February 2013.

Nature of the business

Capitec Bank Holdings Limited ('Capitec' or 'the company') was incorporated in South Africa on 23 November 1999 and registered as a bank controlling company, as envisaged by the Banks Act 1990, on 29 June 2001. Capitec was listed in the Banks sector of the JSE Limited on 18 February 2002.

The company holds 100% of its principal subsidiary, Capitec Bank Limited ('Capitec Bank'). Capitec Bank is a leading South African retail bank which focuses on essential banking services and provides innovative savings, transacting and unsecured lending products to individuals.

Review of operations

The operating results and the state of affairs of the company and the group are fully disclosed in the annual financial statements and commentary is provided in the Chief financial officer's report, which is included in the integrated report.

Share capital

A total of 15 159 519 ordinary shares were issued during the year ended 28 February 2013 bringing the number of shares in issue to 114 441 719. Included in the shares issued are 14 050 848 related to a successful rights offer that was finalised in November 2012. Renounceable rights were offered to shareholders at a subscription price of R160.00 per rights offer share, in the ratio of 7 rights offer shares for every 50 Capitec shares held.

The remainder of the shares were issued pursuant to the settlement of share options in terms of the share incentive scheme, which is detailed in the notes to the annual financial statements.

No shares were repurchased during the year and no preference shares were issued.

Dividends to shareholders

The company declared the following dividends for the year under review and the previous year:

	2013	2012
Ordinary dividend (cents per share)		
Interim	**169**	125
Final	**405**	300
Preference dividend (cents per share)		
Interim	**373.16**	340.27
Final	**463.49**	336.58

The final ordinary dividend for 2013 was approved by the directors on 25 March 2013. In terms of the requirements of IFRS, no accrual was made for this dividend.

Subsidiaries and associates

Information relating to the company's financial interest in its subsidiaries and associates is presented in the notes to the annual financial statements.

Capitec disposed a 47% holding in Key Distributors (Pty) Limited ('Key') on 31 January 2013 at net asset value and subsequently held 28% of Key. As of the effective date of the transaction, Key is disclosed and accounted for as an associate in the group annual financial statements in terms of IFRS.

Directors and company secretary

Information relating to the directors and company secretary are included in section 9 of the integrated report.

The board of directors changed as follows during the year ended 28 February 2013:

- Mr JD McKenzie was appointed to the board of Capitec on 1 March 2012.
- Mr MJ Jooste resigned from the board of Capitec on 2 August 2012.
- Mr G Pretorius was appointed to the board of Capitec on 19 November 2012.
- Prof MC Mehl passed away on 30 January 2013. Prof Mehl was a respected businessman and academic and had been on the board of Capitec since 2001. He made a meaningful contribution as a director and will be dearly missed.

The directors' interest in share capital and contracts, and directors' remuneration are disclosed in the notes to the annual financial statements.

Material events after balance sheet date

The directors are not aware of any event which is material to the financial position of the company or the group that has occurred between the balance sheet date and the date of approval of the financial statements.

Independent auditor's report

To the shareholders of Capitec Bank Holdings Limited

We have audited the consolidated and separate financial statements of Capitec Bank Holdings Limited set out on pages 105 to 165, which comprise the balance sheets as at 28 February 2013, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Capitec Bank Holdings Limited as at 28 February 2013, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 28 February 2013, we have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc.
Director: DG Malan
Registered Auditor
Cape Town
26 March 2013

Balance sheets

As at 28 February 2013

R'000	Notes	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
Assets					
Cash, cash equivalents and money market funds	5	**7 143 092**	4 551 203	**7**	18
Investments designated at fair value	6	**2 022 906**	1 198 833	**–**	–
Loans and advances to clients	7	**27 934 854**	16 863 028	**2 267**	–
Inventory	8	**–**	42 079	**–**	–
Other receivables	9	**140 818**	57 745	**10 242**	9 657
Current income tax assets		**–**	62 331	**–**	–
Interest in subsidiaries	10	**–**	–	**5 609 133**	3 203 661
Interest in associates	10	**167**	–	**–**	–
Property and equipment	11	**697 512**	543 121	**–**	–
Intangible assets	12	**136 380**	69 262	**–**	–
Deferred income tax assets	13	**270 995**	234 242	**–**	–
Total assets		**38 346 724**	23 621 844	**5 621 649**	3 213 336
Liabilities					
Loans and deposits at amortised cost	14	**29 000 191**	17 692 062	**–**	–
Other liabilities	15	**759 083**	718 549	**11 295**	10 303
Current income tax liabilities		**46 007**	885	**–**	–
Provisions	16	**28 449**	24 998	**–**	–
Total liabilities		**29 833 730**	18 436 494	**11 295**	10 303
Equity					
Capital and reserves					
Ordinary share capital and premium	17	**5 330 710**	2 926 435	**5 330 710**	2 926 435
Cash flow hedge reserve	18	**(15 925)**	(1 920)	**–**	–
Retained earnings		**2 939 240**	2 001 866	**20 675**	17 629
Share capital and reserves attributable to ordinary shareholders		**8 254 025**	4 926 381	**5 351 385**	2 944 064
Non-redeemable, non-cumulative, non-participating preference share capital and premium	17	**258 969**	258 969	**258 969**	258 969
Total equity		**8 512 994**	5 185 350	**5 610 354**	3 203 033
Total equity and liabilities		**38 346 724**	23 621 844	**5 621 649**	3 213 336

Income statements

Year ended 28 February 2013

R'000	Notes	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
Interest income	19	**7 084 752**	4 346 902	**–**	–
Interest expense	19	**(1 662 513)**	(1 022 374)	**–**	–
Net interest income		**5 422 239**	3 324 528	**–**	–
Loan fee income		**1 496 009**	1 657 018	**–**	–
Loan fee expense		**(343 209)**	(186 360)	**–**	–
Transaction fee income		**2 100 594**	1 360 308	**–**	–
Transaction fee expense		**(751 768)**	(524 202)	**–**	–
Net fee income		**2 501 626**	2 306 764	**–**	–
Dividend income	20	**9**	1 532	**488 243**	337 358
Net impairment charge on loans and advances to clients	21	**(2 658 923)**	(1 604 190)	**–**	–
Net movement in financial instruments held at fair value through profit or loss	22	**(298)**	12 070	**–**	–
Other income		**204**	679	**4 051**	932
Sales		**248 358**	217 145	**–**	–
Cost of sales		**(219 480)**	(191 996)	**–**	–
Non-banking income		**28 878**	25 149	**–**	–
Income from operations		**5 293 735**	4 066 532	**492 294**	338 290
Banking operating expenses		**(2 994 008)**	(2 486 318)	**(730)**	(932)
Non-banking operating expenses		**(22 451)**	(22 342)	**–**	–
Operating profit before tax	23	**2 277 276**	1 557 872	**491 564**	337 358
Share of profit of associates	10	**167**	–	**–**	–
Income tax expense	24	**(672 862)**	(463 532)	**(275)**	–
Profit for the year		**1 604 581**	1 094 340	**491 289**	337 358
Earnings per share (cents)					
Basic	25	**1 519**	1 122		
Diluted	25	**1 498**	1 096		

Statements of comprehensive income

Year ended 28 February 2013

R'000	Notes	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
Profit for the year		**1 604 581**	1 094 340	**491 289**	337 358
Cash flow hedge recognised during the year	18	**(33 430)**	(4 916)	**–**	–
Cash flow hedge reclassified to profit and loss for the year	18	**14 080**	7 067	**–**	–
Cash flow hedge before tax		**(19 350)**	2 151	**–**	–
Income tax relating to cash flow hedge	18	**5 345**	(602)	**–**	–
Other comprehensive income that will be reclassified to profit or loss for the year net of tax	18	**(14 005)**	1 549	**–**	–
Total comprehensive income for the year		**1 590 576**	1 095 889	**491 289**	337 358

Statements of changes in equity

Year ended 28 February 2013

GROUP (R'000)	Notes	Ordinary share capital and premium	Preference share capital and premium	Cash flow hedge reserve	Retained earnings	Total
Balance at 28 February 2011		1 918 677	258 969	(3 469)	1 276 336	3 450 513
Total comprehensive income for the year		–	–	1 549	1 094 340	1 095 889
Ordinary dividend		–	–	–	(317 939)	(317 939)
Preference dividend		–	–	–	(19 419)	(19 419)
Employee share option scheme: Value of employee services		–	–	–	11 778	11 778
Shares issued and acquired for employee share options at cost	34	220 505	–	–	(221 207)	(702)
Proceeds on settlement of employee share options	34	–	–	–	35 091	35 091
Tax effect on share options		–	–	–	142 886	142 886
Shares issued		798 932	–	–	–	798 932
Share issue expenses		(11 679)	–	–	–	(11 679)
Balance at 29 February 2012		2 926 435	258 969	(1 920)	2 001 866	5 185 350
Total comprehensive income for the year		**–**	**–**	**(14 005)**	**1 604 581**	**1 590 576**
Ordinary dividend		**–**	**–**	**–**	**(467 460)**	**(467 460)**
Preference dividend		**–**	**–**	**–**	**(20 783)**	**(20 783)**
Employee share option scheme: Value of employee services		**–**	**–**	**–**	**9 037**	**9 037**
Shares issued and acquired for employee share options at cost	34	**244 422**	**–**	**–**	**(244 422)**	**–**
Proceeds on settlement of employee share options	34	**–**	**–**	**–**	**37 850**	**37 850**
Tax effect on share options		**–**	**–**	**–**	**18 571**	**18 571**
Shares issued		**2 247 493**	**–**	**–**	**–**	**2 247 493**
Share issue expenses		**(87 640)**	**–**	**–**	**–**	**(87 640)**
Balance at 28 February 2013		**5 330 710**	**258 969**	**(15 925)**	**2 939 240**	**8 512 994**
Notes		17	17	18		

Statements of changes in equity (continued)

Year ended 28 February 2013

COMPANY (R'000)	Ordinary share capital and premium	Preference share capital and premium	Retained earnings	Total
Balance at 28 February 2011	1 918 677	258 969	17 629	2 195 275
Total comprehensive income for the year	–	–	337 358	337 358
Ordinary dividend	–	–	(317 939)	(317 939)
Preference dividend	–	–	(19 419)	(19 419)
Shares issued	1 019 437	–	–	1 019 437
Share issue expenses	(11 679)	–	–	(11 679)
Balance at 29 February 2012	2 926 435	258 969	17 629	3 203 033
Total comprehensive income for the year	**–**	**–**	**491 289**	**491 289**
Ordinary dividend	**–**	**–**	**(467 460)**	**(467 460)**
Preference dividend	**–**	**–**	**(20 783)**	**(20 783)**
Shares issued	**2 491 915**	**–**	**–**	**2 491 915**
Share issue expenses	**(87 640)**	**–**	**–**	**(87 640)**
Balance at 28 February 2013	**5 330 710**	**258 969**	**20 675**	**5 610 354**
Notes	17	17		

Statements of cash flows

Year ended 28 February 2013

R'000	Notes	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
Cash flow from operating activities					
Cash flow from operations	31	**2 752 408**	2 406 380	**488 717**	337 038
Income taxes paid	32	**(578 246)**	(603 066)	**(275)**	–
		2 174 162	1 803 314	**488 442**	337 038
Cash flow from investing activities					
Purchase of property and equipment	11	**(354 706)**	(315 366)	**–**	–
Proceeds from disposal of property and equipment		**4 565**	1 236	**–**	–
Purchase of intangible assets	12	**(118 207)**	(65 873)	**–**	–
Investment in subsidiaries/associates		**–**	–	**(2 405 472)**	(1 007 221)
Acquisition of investments at fair value through profit or loss and money market unit trusts		**(2 726 262)**	(1 542 428)	**–**	–
Disposal of investments at fair value through profit or loss and money market unit trusts		**1 199 399**	1 344 330	**–**	–
		(1 995 211)	(578 101)	**(2 405 472)**	(1 007 221)
Cash flow from financing activities					
Dividends paid	33	**(487 257)**	(337 570)	**(487 257)**	(337 570)
Ordinary shares issued	17	**2 404 275**	1 007 758	**2 404 276**	1 007 758
Realised loss on settlement of employee share options less participants' contributions	34	**(206 572)**	(186 116)	**–**	–
		1 710 446	484 072	**1 917 019**	670 188
Net increase in cash and cash equivalents		**1 889 397**	1 709 285	**(11)**	5
Cash and cash equivalents at the beginning of the year		**4 551 203**	2 841 918	**18**	13
Cash and cash equivalents at the end of the year	5	**6 440 600**	4 551 203	**7**	18

Notes to the annual financial statements

Year ended 28 February 2013

1. General information

1.1 Nature of business

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

1.2 Review of operations

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

The group's earnings attributable to shareholders amounted to R1 604.6 million (2012: R1 094.3 million).

1.3 Directors and secretary

Information relating to the directors and secretary of the company is in section 8 of the integrated report.

1.4 Group details

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

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

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Accounting policies have been consistently applied through subsidiaries in the group.

Basis of preparation

The group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments held at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

2.1 Basis of consolidation

The consolidated financial statements include those of the company, all its subsidiaries and associates, the share incentive trust and the employee empowerment trust.

Subsidiaries are all entities (including special-purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when

assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on the acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

Investments in subsidiaries are accounted for at cost less allowance for impairment. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

When the group ceases to have control of a subsidiary any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purpose of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

The group determines at each reporting date whether there is objective evidence that the investment in the associate is impaired. If this is the case, the difference between the recoverable amount of the associate and its carrying value is recognised in the income statement.

Profits and losses resulting from transactions between the group and its associates are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates.

Transactions and non-controlling interests

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

2.2 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash, balances with central banks, treasury bills and other eligible bills, amounts due from banks and short-term government securities. Cash and cash equivalents are stated at cost which approximates fair value due to the short-term nature of these instruments.

2.3 Financial instruments

The group recognises financial assets on the balance sheet once it becomes a party to the contractual terms of the particular financial instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

Management determines the categorisation of its financial instruments at initial recognition.

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

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

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

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

Gains and losses on financial assets at fair value through profit or loss are measured as the difference between the fair values and the carrying amounts adjusted for dividend income (2.16.4), and are included in the income statement.

(b) Loans and advances

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

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

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

Financial assets, other than those held at fair value through profit or loss, are initially recognised at fair value plus transaction costs.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Loans and advances are carried at amortised cost using the effective interest rate method. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Refer note 2.3.4 with reference to hedging instruments.

The fair values of quoted financial assets in active markets are based on current bid prices.

2.3.2 The group categorises its financial liabilities in the following categories:

The group recognises a financial liability once it becomes a party to the contractual terms of the financial instrument. Financial liabilities, other than those held at fair value through profit or loss, are recognised initially at fair value, generally being their issue proceeds net of transaction costs incurred.

A financial liability, or part of a financial liability, is derecognised once the obligation specified in the contract relating to the financial liability is discharged, cancelled or has expired.

(a) *Deposits held at amortised cost*

Deposits held at amortised cost are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest method. Any differences (other than transaction charges) between net proceeds and the redemption value are recognised in the income statement over the period of the borrowing using the effective yield method.

(b) *Other financial liabilities*

Included within this class of financial liabilities are trade and other payables, provisions and group loans payable that will be settled in cash and cash equivalents. Trade and other payables and group loans payable are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest rate method. Refer note 2.12 for the accounting policy applied in measuring provisions.

2.3.3 Offsetting financial instruments

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

2.3.4 Derivative financial instruments and hedging activities

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

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

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

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

The group designates certain derivatives as:

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

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

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

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

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

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in notes 41 and 42. Movements on the hedging reserve in shareholders' equity are shown in note 17.

2.3.5 Financial guarantee contracts

A financial guarantee contract is a contract that requires the group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee liabilities are initially recognised at fair value and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

2.3.6 Resale agreements

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

2.4 Impairment of advances

The estimation of allowances for impairments is inherently uncertain and depends on many factors, including general economic conditions, structural changes within industries, changes in individual customer circumstances and other external factors such as legal requirements, regulatory specifications and governmental policy changes.

Loans and advances are stated at amortised cost net of identified impairments and incurred but unidentified impairments.

Loans and advances are considered impaired if, and only if, there is objective evidence of impairment as a result of events that occurred after initial asset recognition (known as loss events) and these loss events have an adverse impact on the assets' estimated future cash flows that can be measured reliably.

Objective evidence that loans and advances may be impaired includes the following observable data:

(a) A breach of contract, such as a default or delinquency in interest or principal payments. In this regard instalments past due date are considered in breach of contract.

(b) Historical loss experience of groups of financial assets with similar repayment terms.

(c) Data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

In determining whether a loss event has occurred, loans and advances are subjected to regular evaluations of the overall client risk profile and payments record.

The historical loss experience is adjusted on the basis of observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

On a collective basis, the group assesses whether objective evidence of impairment exists for groups of financial assets with similar repayment terms. If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the assets' carrying amounts and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the respective financial assets' original effective interest rates (the recoverable amount).

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

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

2.4.1 Identified impairment

Loans and advances within the group comprise a large number of small homogenous assets. Statistical techniques are used to calculate impairment allowances collectively, based on historical default and recovery rates. These statistical analyses use as primary inputs the extent to which accounts in the portfolio are in arrears and historical loss experience on the eventual losses encountered from similar delinquent portfolios.

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

Models contain both judgemental and non-judgemental inputs. The extent of judgement utilised in models

developed for new loan products is greater than that for older products given the limited historical experience available for the new products.

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

- Loans and advances are monitored on a product basis, with each month's advances being treated as a discrete portfolio, on which an analysis of the run-off of recoveries, in period buckets and stratified between default statistics, is performed in order to develop a historical base for statistics on probability of default (PD).
- These derived statistics, based on actual experience, are used in plotting default values on a model curve that reflects the risk profile of the portfolio.
- Clients in arrears by more than 90 days are handed over for collection and written off. Recoveries from short-term loans are regarded as negligible as collateral is not required for the granting of advances in the current product range. The estimated recoveries on longer-term loans discounted at the contractual rates are recognised in gross loans and advances.
- Upon write-off the accrual of interest income on the original term of the advance is discontinued.

2.4.2 Incurred but unidentified impairment

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

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

Loans and advances impaired on this basis are reflected as loans not past due.

2.4.3 Loan write-offs

Clients (and the related impairment allowance accounts) are normally written off in full when they are in arrears for more than 90 days.

2.5 Inventory

Inventory is stated at the lower of the cost or net realisable value. Cost is determined using the first-in first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses. Inventory is carried net of rebates. All inventories comprise finished goods.

2.6 Interest-free loans granted

Interest-free group loans with no fixed maturities are viewed as part of the company's investment in subsidiaries and are carried at cost net of impairment.

2.7 Current tax

Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which profits arise. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

For periods prior to 1 April 2012, secondary tax on companies (STC) was calculated in terms of the applicable tax law and disclosed as part of the tax expense on the income statement.

From 1 April 2012, South African resident companies are no longer subject to STC, which was replaced by a withholding tax on the declaration of dividends or deemed dividends (as defined under tax law). The withholding tax is not a tax on companies.

2.8 Deferred tax

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax laws and rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2.9 Property and equipment

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

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

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

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

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

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

2.10 Intangible assets

2.10.1 Goodwill

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

2.10.2 Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software is carried at cost less accumulated amortisation and impairment losses.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products

controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Amortisation on computer software is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Banking application software 6 years
- Server software 3 – 5 years
- Desktop application software 2 – 4 years

The assets' useful lives are annually reviewed and adjusted where appropriate.

2.11 Impairment of non-financial assets

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

2.12 Provisions

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

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

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

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

2.13 Share capital

2.13.1 Categories of share capital

Authorised share capital consists of

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

2.13.2 Share issue costs

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

2.13.3 Dividends declared

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

2.13.4 Treasury shares

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

2.13.5 Unissued shares

At the annual general meeting an amount of 5% (2012: 5%) of the issued ordinary share capital at the time of the meeting and all unissued non-redeemable, non-cumulative, non-participating preference shares were placed under the control of the directors until the next annual general meeting.

2.14 Employee benefits

2.14.1 Pension obligations

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

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

2.14.2 Share-based compensation

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

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

2.14.3 Performance incentive scheme

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

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

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

2.15 Foreign currency translation

2.15.1 Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in South African rands ('rand'), which is the group and company's functional and presentation currency. The financial statements of all the subsidiaries are also presented in rand, which is their functional and presentation currency.

2.15.2 Transactions and balances

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

2.16 Revenue recognition

2.16.1 Interest income and expense

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

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

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

2.16.2 Fee income

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

2.16.3 Non-banking sales

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

2.16.4 Dividend income

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

2.17 Segment reporting

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

2.18 Leases

2.18.1 Where a group company is the lessee

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

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

2.18.2 Where a group company is the lessor

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

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

- Amendments to IAS 12 – Deferred tax: recovery of underlying assets (effective 1 March 2012)
- Amendment to IFRS 7 Financial Instruments Disclosures – Transfer of financial assets (effective 1 March 2012)
- Amendments to IAS 1 – Presentation of items of other comprehensive income (early adopted 1 March 2012)

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

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 March 2013 or later periods but which the group has not early adopted, as follows:

- Amendments to IFRS 7 Disclosures – Offsetting financial assets and financial liabilities (effective 1 March 2013)
- IFRS 9 Financial instruments (effective 1 March 2015)
- IFRS 10 Consolidated financial statements (effective 1 March 2013)
- IFRS 11 Joint arrangements (effective 1 March 2013)
- IFRS 12 Disclosure of interests in other entities (effective 1 March 2013)
- IFRS 13 Fair value measurement (effective 1 March 2013)
- Amendments to IAS 19 Employee benefits (effective 1 March 2013)
- Revised IAS 27 Separate financial statements (effective 1 March 2013)
- Revised IAS 28 Investments in Associates and joint ventures (effective 1 March 2013)
- Amendment to IAS 32 – Offsetting financial assets and financial liabilities (effective 1 March 2014)
- Improvements to IFRSs 2011 (effective 1 March 2013)
- IFRIC 20 Stripping costs in the production phase of a surface mine (effective 1 March 2013)

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

3. Critical accounting estimates and judgements in applying accounting policies

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

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

Impairment losses on loans and advances

The group reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Refer note 2.4 for the accounting policy regarding the impairment of advances.

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

Expected default rates (R'000)	2013	2012
Expected default rates increase by 5%	**37 213**	23 966
Expected default rates decrease by 5%	**(37 259)**	(23 934)

Property and equipment

Property and equipment are depreciated over their useful lives, taking into account their residual values at the end of their useful lives. The residual values and useful lives are based on industry knowledge and past experience with similar assets. Refer note 2.9 for the accounting policy regarding property and equipment.

4. Segment analysis

Retail banking comprises the group's only operating segment as at 28 February 2013. An interest of 47% in the subsidiary conducting wholesale distribution activities was disposed on 31 January 2013, and the remaining 28% interest is accounted for as an associate in the consolidated group annual financial statements.

Retail banking services offered include savings, deposits, debit cards and consumer loans to individuals. Refer note 28.2 for the geographical distribution of branches. Wholesale distribution consisted of the wholesale distribution of fast-moving consumer goods.

There are no clients that account for more than 10% of revenue and transactions between segments are on normal commercial terms and conditions.

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

R'000	Banking	Wholesale distribution	Adjustment for intra-segment items	Total
2013				
Segment revenue[1]	**10 681 750**	**248 358**	**(182)**	**10 929 926**
Segment earnings after tax	**1 601 253**	**3 328**	**–**	**1 604 581**
The following items are included in ariving at segment earnings after tax:				
Interest income	**7 084 923**	**11**	**(182)**	**7 084 752**
Interest expense	**(1 661 743)**	**(952)**	**182**	**(1 662 513)**
Net fee income	**2 501 626**	**–**	**–**	**2 501 626**
Net impairment charge on loans and advances to clients	**(2 658 445)**	**(478)**	**–**	**(2 658 923)**
Depreciation	**(195 634)**	**(474)**	**–**	**(196 108)**
Amortisation	**(51 070)**	**–**	**–**	**(51 070)**
Other operating expenses	**(2 747 304)**	**(21 977)**	**–**	**(2 769 281)**
2012				
Segment revenue[1]	7 367 351	217 145	(912)	7 583 584
Segment earnings after tax	1 092 630	1 710	–	1 094 340
The following items are included in ariving at segment earnings after tax:				
Interest income	4 347 814	–	(912)	4 346 902
Interest expense	(1 022 329)	(957)	912	(1 022 374)
Net fee income	2 306 764	–	–	2 306 764
Net impairment charge on loans and advances to clients	(1 604 052)	(138)	–	(1 604 190)
Depreciation	(145 141)	(457)		(145 598)
Amortisation	(27 920)	–		(27 920)
Other operating expenses	(2 313 257)	(21 885)		(2 335 142)

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

5. Cash, cash equivalents and money market funds

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
Cash on hand[1]	**1 383 300**	906 473	**–**	–
Bank balances	**3 203 017**	2 700 281	**7**	18
Resale agreements with banks[2]	**–**	558 317	**–**	–
Treasury bills[3]	**299 751**	–	**–**	–
Money market instruments	**–**	909	**–**	–
Central bank balances				
Debentures[4]	**900 246**	–	**–**	–
Mandatory reserve deposits with central bank[5]	**654 286**	385 223	**–**	–
Cash and cash equivalents	**6 440 600**	4 551 203	**7**	18
Money market unit trusts[6]	**702 492**	–	**–**	–
	7 143 092	4 551 203	**7**	18
Maximum exposure to credit risk	**7 143 092**	4 551 203	**7**	18
Current	**7 143 092**	4 551 203	**7**	18

(1) *Cash on hand is non-interest bearing.*
(2) *The difference between the purchase and resale price of resale agreements with banks is treated as interest. Resale agreements relate to treasury bills issued by the South African National Treasury.*
(3) *Treasury bills are short-term fixed interest securities issued by the South African National Treasury.*
(4) *Debentures are short-term fixed interest securities issued by the South African Reserve Bank (SARB).*
(5) *Mandatory reserve deposits with the SARB must be maintained at the average required by the SARB over a 30-day period and are non-interest bearing. These deposits may be used to manage significant intra- and inter-day cash outflows but are not taken into consideration by the group for cash planning purposes.*
(6) *Money market unit trusts are liquid floating assets and are taken into consideration for cash planning purposes.*

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012

6. Investments designated at fair value

Unlisted equity investments at fair value				
Balance at the beginning of the year	–	16 335	–	–
Disposals	–	(28 961)	–	–
Exchange rate risk	–	3 682	–	–
Other market risk	–	8 944	–	–
Balance at the end of the year	–	–	–	–
Interest-bearing debt instruments[1]				
Balance at the beginning of the year	**1 198 833**	972 329	–	–
Additions	**2 023 770**	1 542 428	–	–
Disposals	**(1 199 399)**	(1 315 369)	–	–
Fair value adjustment – interest rate risk[2]	**(298)**	(555)	–	–
Balance at the end of the year[3]	**2 022 906**	1 198 833	–	–
Total investments at fair value	**2 022 906**	1 198 833	–	–
Maximum exposure to credit risk[4]	**2 022 906**	1 198 833	–	–
Current	**2 022 906**	1 198 833	–	–

[1] *Interest-bearing instruments comprise unlisted instruments with a maturity greater than three months from date of acquisition. This figure comprises government instruments (2012: government instruments).*

[2] *The methods and assumptions applied to calculate the fair value changes due to interest rate risk are set out in note 28.3.*

[3] *The liquid asset requirement of R1 310.5 million (2012: R770.7 million) is included in this balance and is held for regulatory purposes. It consists of national treasury bills and SARB debentures. Half of this amount is not available for use as working capital or for settlement purposes.*

[4] *Exposure to credit risk arises from the interest-bearing debt instruments only. Fair value adjustments are not attributable to changes in credit risk during the year, and cumulatively. This group of financial assets and their performance is managed and evaluated on a fair value basis in accordance with a documented risk management strategy. Information about this group is provided internally on that basis to the management committee and board of directors.*

7. Loans and advances to clients

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
Maturity analysis				
Demand to one month	**1 173 564**	1 105 723	**–**	–
One to three months	**1 229 571**	1 184 056	**76**	–
Three months to one year	**5 252 043**	4 464 590	**198**	–
More than one year	**23 461 124**	12 145 976	**1 993**	–
Total	**31 116 302**	18 900 345	**2 267**	–
Deferred loan fee income	**(458 634)**	(492 071)	**–**	–
Gross loans and advances	**30 657 668**	18 408 274	**2 267**	–
Allowance for impaired loans and advances	**(2 722 814)**	(1 545 246)	**–**	–
Net loans and advances to clients[1][2][3]	**27 934 854**	16 863 028	**2 267**	–
Analysis of net loans and advances by status				
Gross	**28 880 634**	17 476 532	**2 267**	–
Impairment	**(1 859 324)**	(1 015 181)	**–**	–
Not past due[4]	**27 021 310**	16 461 351	**2 267**	–
Gross	**1 777 034**	931 742	**–**	–
Impairment	**(863 490)**	(530 065)	**–**	–
Past due[5]	**913 544**	401 677	**–**	–
	27 934 854	16 863 028	**2 267**	–
Credit quality of performing loans and advances[6]				
Low risk	**6 879 936**	7 678 686		
Medium risk	**18 815 248**	9 592 859		
High risk	**3 185 450**	204 987		
Performing loans	**28 880 634**	17 476 532		
Ageing of impaired advances				
< 60 days	**1 568 709**	828 008		
60 – 90 days	**208 325**	103 734		
	1 777 034	931 742		

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012

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

Movement on allowance for impaired advances				
Unidentified losses	**1 015 181**	512 082	**–**	–
Identified losses	**530 065**	332 644	**–**	–
Opening balance	**1 545 246**	844 726	**–**	–
Unidentified losses	**844 143**	503 099	**–**	–
Identified losses	**333 425**	197 421	**–**	–
Movement	**1 177 568**	700 520	**–**	–
Unidentified losses	**1 859 324**	1 015 181	**–**	–
Identified losses	**863 490**	530 065	**–**	–
Closing balance	**2 722 814**	1 545 246	**–**	–

Exposure to credit risk				
Loans and advances to clients	**31 116 302**	18 900 345	**2 267**	–
Conditionally revocable retail loan commitments[7]	**725 010**	603 816	**–**	–
Maximum exposure to credit risk	**31 841 312**	19 504 161	**2 267**	–

[1] *Loans and advances comprise unsecured loans to individuals except for amounts detailed in (3) below.*

[2] *Accrued interest receivable of R145.8 million is included in loans and advances (2012: R101.4 million).*

[3] *An investment of R23.8 million in cumulative preference shares bearing interest at 80% of the prime interest rate was included in the loans and advances in 2012.*

[4] *Loans and advances not past due on which an impairment allowance has been raised are treated as fully performing loans and advances.*

[5] *Past due loans and advances are in arrears from one day to three months and not handed over. All past due loans and advances are impaired.*

[6] *The lower-risk clients qualify for longer-term, lower-rate loan combinations, while the higher-risk clients are limited to shorter-term, higher interest rate products. The interest rate on a loan can be decreased by selecting a term shorter than the term for which the client qualifies.*

[7] *Conditionally revocable retail loan commitments totalling R725.0 million (2012: R603.8 million) are not included in the maturity analysis. The commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of one month or less. The group's contractual commitment is revocable should a client not meet their contractual obligations or where the group has determined that the client's credit risk profile has changed. A total of 17.8% (2012: 18.3%) of these commitments is expected to be drawn down within one month. As these are one-month loans, repayment of any future draw downs must also occur within the month.*

[8] *Loans and advances with outstanding balances of R1 343 million (2012: R421 million) that would have reflected as past due are included in loans and advances not past due, due to renegotiated payment terms. Impairment provisions on these loans amount to 10%, while other loans and advances not past due are provided at 2%.*

8. Inventory

Finished goods	**–**	42 079	**–**	–
	–	42 079	**–**	–
Current	**–**	42 079	**–**	–

No obsolete inventory expense is included in cost of sales for 2012 or 2013.

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012

9. Other receivables

Rental deposits	2 483	2 356	–	–
Accrued income	68 757	28 270	10 104	9 657
Derivatives (note 42)	3 394	263	–	–
Prepayments	56 057	26 856	139	–
Other	10 127	–	–	–
	140 818	57 745	10 242	9 657
Current	138 721	55 589	10 242	9 657
Non-current	2 097	2 156	–	–

10. Interest in subsidiaries and associates

Interest in subsidiaries				
Investment in unlisted subsidiaries at cost[1]	–	–	5 607 559	3 187 311
Loans to subsidiaries[2]	–	–	1 574	16 350
	–	–	5 609 133	3 203 661

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

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
Interest in associates[3]				
Opening balance	–	–	–	–
Interest acquired	–	–	–	–
Share of profit	167	–	–	–
Closing balance	167	–	–	–

The aggregated assets and liabilities of the associate as at 28 February 2013 are as follows:

Assets	42 480	–
Liabilities	34 694	–

The associate's revenue for February 2013 was as follows:

Revenue	22 864	–

[1] *All holdings are in the ordinary and preference share capital of the subsidiary.*

[2] *Loans to subsidiaries are interest-free and have no fixed repayment terms. Loans are managed as part of the investment in subsidiaries. Loans to associates are capped at R8.25 million.*

[3] *Interest in associates consists of a 28% holding in Key Distributors (Pty) Limited, a wholesale distribution company incorporated in South Africa.*

11. Property and equipment

GROUP (R'000)	Land and buildings[1]	Computer Equipment	Office equipment and vehicles	Total
2013				
Opening net book value	32 836	256 820	253 465	543 121
Additions	–	176 059	178 525	354 584
Disposals	(1 490)	(776)	(1 941)	(4 207)
Other	–	(162)	284	122
Depreciation charge	(52)	(109 418)	(86 638)	(196 108)
Net book value at the end of the year	31 294	322 523	343 695	697 512
Cost	31 294	622 074	721 272	1 374 640
Accumulated depreciation	–	(299 551)	(377 577)	(677 128)
Net book value at the end of the year	31 294	322 523	343 695	697 512
Non-current	31 294	322 523	343 695	697 512
2012				
Cost	33 139	332 568	416 505	782 212
Accumulated depreciation	(293)	(175 484)	(231 250)	(407 027)
Opening net book value	32 846	157 084	185 255	375 185
Additions	45	180 285	135 036	315 366
Disposals	–	(1 300)	(532)	(1 832)
Depreciation charge	(55)	(79 249)	(66 294)	(145 598)
Net book value at the end of the year	32 836	256 820	253 465	543 121
Cost	33 184	473 594	547 905	1 054 683
Accumulated depreciation	(348)	(216 774)	(294 440)	(511 562)
Net book value at the end of the year	32 836	256 820	253 465	543 121
Non-current	32 836	256 820	253 465	543 121

[1] *Land and buildings with a book value of R1.5 million were encumbered in 2012 and disposed in 2013.*

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012

12. Intangible assets

Computer software[1]				
Cost	148 574	98 294	–	–
Accumulated amortisation	(79 312)	(63 937)	–	–
Opening net book value	69 262	34 357	–	–
Additions	118 200	65 873	–	–
Scrappings	(19)	(3 048)	–	–
Other	7	–		
Amortisation charge	(51 070)	(27 920)	–	–
Net book value at the end of the year	136 380	69 262	–	–
Cost	265 142	148 574	–	–
Accumulated amortisation	(128 762)	(79 312)	–	–
Net book value at the end of the year	136 380	69 262	–	–
Non-current	136 380	69 262	–	–

[1] *Computer software is primarily comprised of the banking application system.*

13. Deferred income tax assets[1]

R'000	Provisions and accruals	Cash flow hedge	Capital allowances	Pre-payments	Total
2013					
Balance at the beginning of the year	261 640	747	(21 787)	(6 358)	234 242
Income statement charge	80 907	–	(12 609)	(2 481)	65 817
Credited directly to equity	(34 409)	–	–	–	(34 409)
Credited to equity through other comprehensive income	–	5 345	–	–	5 345
Balance at the end of the year	308 138	6 092	(34 396)	(8 839)	270 995
2012					
Balance at the beginning of the year	70 366	1 349	(15 929)	(6 883)	48 903
Income statement charge	191 274	–	(5 858)	525	185 941
Credited to equity through other comprehensive income	–	(602)	–	–	(602)
Balance at the end of the year	261 640	747	(21 787)	(6 358)	234 242

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
Current	197 497	135 854	–	–
Non-current	73 498	98 388	–	–

[1] *Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2012: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised.*

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012

14. Loans and deposits at amortised cost

By maturity				
Within one month	**11 053 402**	6 911 390	–	–
One to three months	**939 119**	932 963	–	–
Three months to one year	**4 166 668**	3 932 021	–	–
More than one year	**12 841 002**	5 915 688	–	–
Loans and deposits at amortised cost[1]	**29 000 191**	17 692 062	–	–
By nature				
Retail savings	**10 335 171**	6 348 206	–	–
Retail fixed deposits	**6 843 560**	4 014 621	–	–
Wholesale[1]	**1 691 812**	1 297 275	–	–
Subordinated debt – unlisted bonds	**1 006 127**	499 254	–	–
Subordinated debt – listed bonds	**1 925 745**	591 533	–	–
Listed senior bonds[2]	**4 222 222**	2 775 944	–	–
Other unlisted negotiable instruments	**2 832 811**	1 998 468	–	–
Reserve Bank settlement balance	**142 743**	166 761	–	–
	29 000 191	17 692 062	–	–
Amounts payable on maturity of the funding[3]	**33 944 592**	20 547 386	–	–

Subordinated debt analysis

Description	Nominal amount	Term	Rate
Subordinated debt – unlisted bonds – floating rate			
• First seven years	R250 million	12 year	3-month JIBAR plus 6.75%
• Last five years if not called by the bank			3-month JIBAR plus 8.00%
Subordinated debt – unlisted bonds – floating rate	R200 million	12 year	
• First seven years			3-month JIBAR plus 5.75%
• Last five years if not called by the bank			3-month JIBAR plus 7.00%
Subordinated debt – unlisted bonds – floating rate	R44 million	7 year	3-month JIBAR plus 4.50%
Subordinated debt – unlisted bonds – floating rate	R500 million	7 year	3-month JIBAR plus 4.75%
Subordinated debt – listed bonds – fixed rate	R250 million	7 year	R204 government bond plus 3.91%
Subordinated debt – listed bonds – floating rate	R150 million	7 year	3-month JIBAR plus 4.50%
Subordinated debt – listed bonds – fixed rate	R175 million	7 year	R204 government bond plus 4.16%
Subordinated debt – listed bonds – floating rate	R400 million	7 year	3-month JIBAR plus 4.49%
Subordinated debt – listed bonds – fixed rate	R350 million	7 year	R204 government bond plus 4.60%
Subordinated debt – listed bonds – floating rate	R572 million	7 year	3-month JIBAR plus 4.49%

[1] *Wholesale deposits for 2012 included a mortgage bond of R0.4 million secured as stated in note 11. All other deposits are unsecured.*

[2] *Listed senior bonds consist of Domestic Medium Term Notes. Domestic Medium Term Notes (nominal value R2 140 million) issued at variable rates are hedged through interest rate swap agreements as set out in notes 18 and 42.*

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

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
15. Other liabilities				
Trade payables	**215 826**	222 663	**36**	30
Dividends payable	**11 259**	10 273	**11 259**	10 273
Accruals	**317 933**	264 930	**–**	–
Share appreciation rights (note 39)	**188 428**	217 362	**–**	–
Derivatives (notes 41 and 42)	**25 637**	3 321	**–**	–
	759 083	718 549	**11 295**	10 303
Current	**527 296**	493 739	**11 295**	10 303
Non-current	**231 787**	224 810	**–**	–
16. Provisions				
Performance incentive scheme[1]				
Balance at the beginning of the year	**24 998**	14 403	**–**	–
Addition	**18 596**	19 705	**–**	–
Used during the year	**(15 145)**	(9 110)	**–**	–
Balance at the end of the year	**28 449**	24 998	**–**	–
Non-current	**28 449**	24 998	**–**	–

[1] *Senior management qualify for a cash-settled performance bonus scheme. The scheme rewards managers based on the growth in headline earnings per share and, in order to foster a long-term approach by management, the bonus is paid out over a three-year period. The bonuses to be paid in the 2015, 2016 and 2017 financial years are included in provisions. The bonus to be paid in the 2014 financial year is included in accruals.*

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012

17. Share capital and premium

Authorised				
Ordinary shares				
500 000 000 shares of R0.01 each	**5 000**	5 000	**5 000**	5 000
Non-redeemable, non-cumulative, non-participating preference shares				
100 000 000 shares of R0.01 each	**1 000**	1 000	**1 000**	1 000
Compulsorily convertible or written off non-redeemable, non-cumulative, non-participating preference shares				
100 000 000 shares of R0.01 each	**1 000**	–	**1 000**	–
	7 000	6 000	**7 000**	6 000
Issued[1]				
114 441 719 (2012: 99 282 200) shares of R0.01 each at par	**1 144**	993	**1 144**	993
Share premium	**5 329 566**	2 925 442	**5 329 566**	2 925 442
Ordinary share capital and premium	**5 330 710**	2 926 435	**5 330 710**	2 926 435
2 869 014(2012: 2 869 014) shares of R0.01 each at par	**29**	29	**29**	29
Share premium	**258 940**	258 940	**258 940**	258 940
Non-redeemable, non-cumulative, non-participating preference share capital and premium[2]	**258 969**	258 969	**258 969**	258 969
Total issued share capital and premium[3][4]	**5 589 679**	3 185 404	**5 589 679**	3 185 404

[1] *All issued ordinary and preference shares are fully paid up. No ordinary or preference shares were cancelled in the current or prior year.*

[2] *The preference shares carry a coupon rate of 83.33% of the prime overdraft rate on a face value of R100 per share.*

[3] *Refer note 34 for detail regarding the issue of shares to settle share options. During the year a loss of R206.6 million (R185.8 million after tax) (2012: R186.1 million, R43.2 million after tax) was realised on settlement of share options as reflected in the statement of changes in equity.*

[4] *Nil (2012: Nil) of the unissued ordinary shares and 100% of the non-redeemable, non-cumulative, non-participating preference shares that were placed under the control of the directors until the next annual general meeting remained at year-end.*

[5] *4 014 (2012: Nil) treasury shares with a value of R0.1 million (2012: Nil) were held by the group at year-end.*

18. Cash flow hedge reserve

Cash flow hedge loss[1]				
Balance at the beginning of the year	**(1 920)**	(3 469)	**–**	–
Amount recognised in comprehensive income during the year	**(33 430)**	(4 916)	**–**	–
Amount reclassified from comprehensive income to profit and loss for the year	**14 080**	7 067	**–**	–
	(21 270)	(1 318)	**–**	–
Deferred tax recognised in comprehensive income during the year	**5 345**	(602)	**–**	–
Balance at the end of the year	**(15 925)**	(1 920)	**–**	–

[1] *The hedging reserve is released to the income statement on realisation of the interest expense. Refer note 42 for additional disclosure.*

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012

19. Net interest income

Loans and advances to clients	**6 830 585**	4 188 980		
Non-bank money market placements	**26**	17	**–**	–
Money market funds	**130 023**	62 894	**–**	–
Treasury bills	**6 821**	10 485	**–**	–
Bank balances	**2 690**	761	**–**	–
Resale agreements with banks	**4 614**	30 705	**–**	–
Debentures	**36 993**	3 989		
Interest-bearing instruments	**73 000**	49 071	**–**	–
Interest income[1]	**7 084 752**	4 346 902	**–**	–
			–	–
Retail savings	**(365 037)**	(243 532)		
Retail fixed deposits	**(377 513)**	(222 946)		
Wholesale	**(143 747)**	(125 292)	**–**	–
Subordinated debt	**(204 280)**	(71 629)	**–**	–
Domestic Medium Term Note	**(367 995)**	(271 103)	**–**	–
Negotiable deposits	**(190 584)**	(87 855)		
Forward foreign exchange contracts	**(189)**	(17)	**–**	–
Other	**(13 168)**	–		
Interest expense	**(1 662 513)**	(1 022 374)	**–**	–
Net interest income	**5 422 239**	3 324 528	**–**	–

[1] *Included in interest income is R72.8 million (2012: R35.3 million) with respect to interest income accrued on impaired financial assets.*

20. Dividend income

Ordinary dividends	**–**	–	**467 460**	317 939
Preference dividends	**–**	–	**20 783**	19 419
Subsidiaries	**–**	–	**488 243**	337 358
Investments at fair value through profit or loss	**9**	1 532	**–**	–
Dividend income	**9**	1 532	**488 243**	337 358

21. Net impairment charge on loans and advances to clients

Bad debts	**1 754 530**	1 079 237	**–**	–
Movement in impairment allowance	**1 177 568**	700 520	**–**	–
Bad debts recovered	**(273 175)**	(175 567)	**–**	–
Net impairment charge	**2 658 923**	1 604 190	**–**	–

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012

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

Change in fair value due to risk factors[1]	(298)	12 070	–	–

[1] *The changes in fair value for 2013 relate to interest rate risk (2012: interest rate, exchange rate and other market risk).*

23. Operating profit before tax

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

(Profit)/Loss on disposal of equipment	(358)	596	–	–
Loss on scrapping of intangibles	19	3 048	–	–
Depreciation on fixed assets	196 108	145 598	–	–
Amortisation of computer software	51 070	27 920	–	–
Loss/(Gain) on disposal of investment in subsidiary	58	–	(3 321)	–
Foreign exchange gains[1]	–	(3)	–	–
Operating lease rentals				
Land and buildings	204 271	163 588	–	–
Office equipment	3 415	3 160	–	–
	207 686	166 748	–	–
Income from subletting	(2 872)	(2 529)	–	–
Auditors' remuneration				
Audit fees – current year	3 245	2 681	2	–
Audit fees – prior year underprovision	–	166	–	–
Other services	2 636	228	2 185	85
Less: Other services accounted for in equity	(2 100)	–	(2 100)	(85)
	3 781	3 075	87	–
Employee costs (including directors' remuneration)[2]				
Salaries and wages	1 360 965	1 129 445	–	–
Equity-settled share-based payment	9 037	11 778	–	–
Cash-settled share appreciation rights	93 066	123 613	–	–
Social security cost	31 794	24 522	–	–
Training cost[3]	44 376	40 488	–	–
Training refund	(3 183)	(5 287)	–	–
	1 536 055	1 324 559	–	–

[1] *Excludes change in fair value of financial assets through profit or loss as per note 6.*
[2] *Refer note 30 for details of directors' remuneration.*
[3] *Excludes internal training department infrastructure and employee cost.*

24. Income tax expense

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
Normal company tax	**709 773**	615 889	**275**	–
Secondary tax on companies	**28 906**	33 584	**–**	–
Current tax	**738 679**	649 473	**275**	–
Deferred tax	**(65 817)**	(185 941)	**–**	–
Income tax expense	**672 862**	463 532	**275**	–
Effective tax rate	**30**	30	**–**	–

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	**2 277 276**	1 557 872	**491 564**	337 358
Tax calculated at a tax rate of 28%	**637 637**	436 204	**137 638**	94 460
Secondary tax on companies	**28 906**	33 584	**–**	–
Adjustments for prior periods	**(143)**	(8)	**–**	–
Income not subject to tax	**(42)**	(5 854)	**(137 363)**	(94 460)
Expenses not deductible for tax purposes	**7 690**	128	**–**	–
Allowances not in income statement	**(657)**	–	**–**	–
Withholding tax	**1**	8	**–**	–
Movement in unutilised tax losses	**(530)**	(530)	**–**	–
Income tax expense	**672 862**	463 532	**275**	–
Estimated tax losses at year-end available for utilisation against future taxable income	**11 401**	12 814	**–**	212
Less: Applied in raising a deferred tax asset	**–**	–	**–**	–
Net calculated tax losses carried forward[1]	**11 401**	12 814	**–**	212
Tax relief calculated at current tax rates	**3 192**	4 928	**–**	59

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

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012

25. Earnings per share

Net profit after tax			1 604 581	1 094 340
Preference dividend			(20 783)	(19 419)
Net profit after tax attributable to ordinary shareholders			1 583 798	1 074 921
Weighted average number of ordinary shares in issue (thousands)			104 238	95 790
Adjustment for:				
Exercise of share options			1 465	2 271
Weighted average number of ordinary shares for diluted earnings per share (thousands)			105 703	98 061
Basic earnings per share (cents)[1]			1 519	1 122
Diluted earnings per share (cents)[2]			1 498	1 096

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

[2] *To calculate diluted earnings per share, the net profit after tax attributable to ordinary equity is divided by the weighted average number of ordinary shares in issue adjusted to assume conversion of all potentially dilutive ordinary shares. Potentially dilutive shares consist of share options. The number of shares that could have been acquired at fair value (the average annual share price of the company's shares) is determined based on the monetary value of the subscription rights attached to outstanding options. The result is compared to the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the weighted average number of shares as an issue of ordinary shares for no consideration. No adjustment is made to earnings.*

26. Headline earnings per share attributable to ordinary shareholders

R'000	GROUP 2013	GROUP 2012
Net profit attributable to ordinary shareholders	1 583 798	1 074 921
Non-headline items		
Loss/(Profit) on disposal of property and equipment	(358)	596
Income tax charge – property and equipment	100	(192)
Loss on scrapping of intangible assets	19	3 048
Income tax charge – intangible assets	(5)	(853)
Loss on sale of subsidiary	58	–
Income tax charge – sale of subsidiary	(16)	–
Headline earnings	1 583 596	1 077 520
Basic headline earnings per share (cents)	1 519	1 125
Diluted headline earnings per share (cents)	1 498	1 099

27. Dividends

The company declared the following dividends for the current and previous financial years:

	DPS	R'000	Declared	LDT	Date paid
2013					
Ordinary dividend					
Interim	**169.00**	**169 614**	**25 Sep 2012**	**12 Oct 2012**	**22 Oct 2012**
Final[1]	**405.00**	**463 489**	**25 Mar 2013**	**12 Apr 2013**	**22 Apr 2013**
Preference dividend					
Interim	**373.16**	**10 706**	**31 Aug 2012**	**14 Sep 2012**	**25 Sep 2012**
Final	**351.24**	**10 077**	**28 Feb 2013**	**14 Mar 2013**	**25 Mar 2013**
2012					
Ordinary dividend					
Interim	125.0	124 103	27 Sep 2011	25 Nov 2011	5 Dec 2011
Final	300.0	297 847	1 Mar 2012	15 Mar 2012	26 Mar 2012
Preference dividend					
Interim	340.27	9 763	31 Aug 2011	16 Sep 2011	26 Sep 2011
Final	336.58	9 657	29 Feb 2012	15 Mar 2012	26 Mar 2012

[1] *The directors declared a final dividend of 405 cents per share (2012: 300 cents per share) in respect of 2013 on 25 March 2013 amounting to a dividend of R463.5 million (2012: R297.8 million). These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 28 February 2014, which is in line with recommended accounting practice.*

28. Financial risk management

The board of directors is responsible for risk management and views it as an integral part of providing a responsible return on shareholders' equity.

To assist the board, the group is managed through a system of internal controls functioning throughout the entities. Risk awareness pervades every aspect of the business and is the responsibility of each employee of the group. The board established a risk and capital management committee (RCMC), comprising two independent non-executive directors, two non-executive directors and one executive director, operates in compliance with a formal charter. The committee assists the board in reviewing the processes followed to identify risk and in assessing the potential impact of identified risks in the group environment.

Specific risks are dealt with in a structured manner by the following subcommittees comprising executives and senior management:

- Credit committee – credit and counterparty risk
- Assets and liability committee (ALCO) – interest rate, market, liquidity, counterparty, currency and capital adequacy risk
- Operational risk committee – legal, compliance, technology, operational and reputation risk

The RCMC ensures that risk assessment is an ongoing process and that a formal risk assessment is undertaken at least quarterly. The group operates in a structured manner with defined processes and procedures enabling risk assessment within a controlled environment. Accordingly, an assessment of key risks is performed and weightings are assigned based on impact and probability. Existing controls are assessed and, if necessary, adjusted. Thereafter reports are generated at regular intervals to enable monitoring of risk levels.

The financial instruments carried on the balance sheet are set out in note 28.9.

28.1 Credit risk

Retail

The group grants personal unsecured loans. Exposure to counterparty concentration credit risk is low due to the nature and distribution of the loan book. Exposure to systemic credit risk is regarded as being higher than normal banking activities due to the demographic credit characteristics of the client base. Measures taken by the group to limit credit risk to acceptable levels include, inter alia, the application of standard credit acceptance procedures to assess potential clients, daily monitoring of collectible balances at both branch and head office level and monitoring by the credit and risk committees. No security is obtained for loans and advances, and accordingly the entire balance as per the balance sheet is exposed to credit risk. The credit quality of loans and advances is disclosed in note 7.

The maximum capital advanced in terms of any one personal loan is R230 000 (2012: R150 000). At balance sheet date the number of outstanding loans was 1 153 420 (2012: 1 375 508).

Wholesale

The group only invests centrally managed cash surpluses in cash and liquid assets with the SARB, South African registered banking entities and money market funds of high credit standing. Potential exposure to counterparty concentration credit risk exists principally in cash and cash equivalents and interest-bearing instruments (notes 5 and 6). Exposure to counterparty credit risk is controlled using ALCO-approved limits which are monitored and enforced by the credit committee. This ensures that the financial assets that the group may place with any one counterparty are limited, by reference to the long-term and short-term credit ratings assigned for that counterparty by Fitch.

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

R'000	Notes	AAA–A	BBB	Below BBB	Not rated	Total carrying amount
2013						
Cash on hand	5	–	1 383 300	–	–	1 383 300
Bank balances[1]	5	2 509 013	694 007	–	(3)	3 203 017
Resale agreements with banks	5	–	–	–	–	–
Money market funds[2]	5	–	–	–	702 492	702 492
Treasury bills (< 3 months)[1]	5	–	299 751	–	–	299 751
Central bank balances[1]	5	–	1 554 532	–	–	1 554 532
Treasury bills (> 3 months)[1]	6	–	2 022 906	–	–	2 022 906
		2 509 013	5 954 496	–	702 489	9 165 998
2012						
Cash on hand	5	906 473	–	–	–	906 473
Bank balances[1]	5	1 639 902	1 060 374	–	5	2 700 281
Resale agreements with banks	5	–	558 317	–	–	558 317
Money market funds[2]	5	–	–	–	909	909
Treasury bills (< 3 months)	5	–	–	–	–	–
Central bank balances	5	385 223	–	–	–	385 223
Treasury bills (> 3 months)	6	1 198 833	–	–	–	1 198 833
		4 130 431	1 618 691	–	914	5 750 036

[1] *The bank balances were with nine institutions (2012: 18), with the maximum exposure to one institution being R3 267 million (2012: R1 514 million).*

[2] *Money market funds consist of money market unit trust investments. The placements were with five institutions (2012: two).*

28.2 Geographical concentration of operations

All the group's operating activities are situated within the Republic of South Africa.

Capitec Bank branches are distributed across South Africa and at year-end the breakdown by province was as follows:

	2013	2012
Eastern Cape	**69**	61
Free State	**33**	31
Gauteng	**155**	140
KwaZulu-Natal	**85**	79
Limpopo	**47**	40
Mpumalanga	**46**	41
North West	**32**	27
Northern Cape	**20**	18
Western Cape	**73**	70
	560	507

28.3 Interest rate risk

The current group interest profile is uncomplicated and is monitored by ALCO. Management aims to match the fixed or floating rate nature of funding with the fixed rate elements of the loan book and fixed and floating rate elements of surplus cash positions.

The group operates within the ambit of the National Credit Act when considering interest rates on short-term personal loans, and retail advances are only offered at fixed interest rates. The maturity breakdown of the advances book is set out in note 7 and note 28.6.

Fair value interest rate risk

Financial assets and liabilities are mainly accounted for on an amortised cost basis and therefore the income statement is not significantly impacted by fair value interest rate risk.

Cash flow interest rate risk

The return on surplus cash balances placed in call money market accounts varies with changes in interbank interest rates as does the interest payable on floating rate bond liabilities and some retail deposits, resulting in cash flow interest rate risk.

The group has discretion over the rates offered on its demand savings deposits. Floating rate bond and wholesale deposit liabilities may be hedged using interest rate swaps that match positions and mitigate the negative impact that changing market interest rates can have on the value of the business and annual earnings. Interest rate swaps have the economic effect of converting floating rate debt to fixed rate debt, thereby reducing fluctuations in future cash flow commitments. Under the terms of the interest rate swaps, the group agrees with other banking entities to exchange the difference between fixed contractual rates and floating rate interest amounts calculated by reference to the agreed notional amounts on a quarterly basis.

The ALCO meets monthly and considers the results of management's analysis of the impact of interest rates on the group which includes, inter alia, the results of various models and the impact of interest rate strategy on the gross margin.

28.3 Interest rate risk (continued)

The sensitivity analysis below is a run-off analysis and reflects the impact of a 200 basis point increase or decrease in interest rates:

- Immediately following the reporting date
- Based on floating rate assets and liabilities held at amortised cost (cash and cash equivalents, negotiable instruments, floating bond liabilities)
- Assets and liabilities accounted for at fair value through profit and loss
- On balance sheet at the reporting date
- The movement in rates was applied as a parallel shift in the applicable yield curves

The continuity of items for the purpose of this analysis is the contractual maturity dates.

	Impact on income statement				Impact on equity			
	2013		2012		2013		2012	
200 basis points R'000	**Pre-tax**	**Post-tax**	**Pre-tax**	**Post-tax**	**Pre-tax**	**Post-tax**	**Pre-tax**	**Post-tax**
Increase	**(234 467)**	**(168 816)**	(111 592)	(80 346)	**(83 756)**	**(61 755)**	(82 223)	(60 133)
Decrease	**234 467**	**168 816**	111 592	80 346	**83 756**	**61 755**	82 223	60 133

28.4 Currency risk

The exposure to foreign currency purchase risk relating to the importation of capital equipment, technology and technology support services needed for the core banking activities is managed through the purchase of forward foreign exchange contracts. Wholesale loans and deposits for 2013 (refer note 14) include a foreign denominated loan. The currency exposure is mitigated by a hedging instrument (refer note 42).

28.5 Other market risk

There is no exposure to other pricing risk.

28.6 Liquidity risk

The group manages liquidity cautiously and operates an uncomplicated maturity profile which is monitored by ALCO. The matching of the term of funding to the term of the loan book reduces the liquidity risk of the group.

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

- Asset and liability cash flows are presented on an undiscounted basis with an adjustment to reflect the total discounted result.
- The cash flows of floating rate financial instruments are calculated using published forward market rates at balance sheet date.
- The cash flows of the derivative financial instruments are included on a gross basis.
- Contractual cash flows with respect to items which have not yet been recorded on the balance sheet (off-balance sheet items), are excluded. Refer note 35.
- Conditionally revocable retail loan commitments totalling R725.0 million (2012: R603.8 million) are not included in the liquidity analysis. The commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of one month or less. The group's contractual commitment is revocable should a client not meet his/her contractual obligations or where the group has determined that the client's credit risk profile has changed. A total of 17.8% (2012: 18.3%) of these commitments is expected to be drawn down within one month. As these are one-month loans, repayment of any future draw downs must also occur within the month.
- Adjustments to loans and advances to clients relate to initiation fee income.
- Non-cash liabilities, representing leave pay and the straight-lining of operating leases, are disclosed as adjustments to trade and other payables.

28.6 Liquidity risk *(continued)*

Maturities of financial assets and financial liabilities (discounted cash flows) R'000	Notes	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment[4]	Total
2013							
Undiscounted assets							
Cash and cash equivalents – sovereigns	5	1 854 283	–	–	–	–	1 854 283
Cash and cash equivalents – banks	5	4 588 013	–	–	–	–	4 588 013
Money markets unit trusts	5	702 492	–	–	–	–	702 492
Investments at fair value through profit or loss – sovereigns	6	270 900	211 260	1 584 400	–	–	2 066 560
Loans and advances to clients – retail personal	7	2 003 556	2 688 862	11 103 896	37 720 055	(458 634)	53 057 735
Loans and advances to clients – retail other	7	1 027	–	–	–	–	1 027
Loans and advances to clients – corporate other	7	19 509	–	–	–	–	19 509
Other receivables	9	79 218	(375)	(1 429)	7 347	–	84 761
Current income tax assets		–	–	–	–	–	–
Undiscounted assets		9 518 998	2 899 747	12 686 867	37 727 402	(458 634)	62 374 380
Adjustments for undiscounted assets		(852 915)	(1 461 231)	(5 892 875)	(14 258 931)	–	(22 465 952)
Discounted assets							
Loan impairment provision	7	(189 472)	(89 537)	(352 590)	(2 091 215)	–	(2 722 814)
Total discounted assets		8 476 611	1 348 979	6 441 402	21 377 256	(458 634)	37 185 614
Undiscounted liabilities							
Loans and deposits at amortised cost	14	11 062 854	1 078 056	4 927 845	16 875 837	–	33 944 592
Trade and other payables	15	302 633	193 101	31 562	132 927	98 860	759 083
Current income tax liabilities		–	–	46 007	–	–	46 007
Provisions	16	–	–	–	28 449	–	28 449
Undiscounted liabilities		11 365 487	1 271 157	5 005 414	17 037 213	98 860	34 778 131
Adjustments for undiscounted liabilities to depositors		(9 452)	(138 937)	(761 177)	(4 034 835)	–	(4 944 401)
Total discounted liabilities		11 356 035	1 132 220	4 244 237	13 002 378	98 860	29 833 730
Net liquidity excess/(shortfall)		(2 879 424)	216 759	2 197 165	8 374 878	(557 494)	7 351 884
Cumulative liquidity (shortfall)/excess		(2 879 424)	(2 662 665)	(465 500)	7 909 378	7 351 884	7 351 884

28.6 Liquidity risk *(continued)*

Maturities of financial assets and financial liabilities (discounted cash flows) R'000	Notes	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment[4]	Total
2012							
Undiscounted assets							
Cash and cash equivalents – sovereigns	5	385 223	–	–	–	–	385 223
Cash and cash equivalents – banks	5	4 152 999	15 274	–	–	–	4 168 273
Money markets unit trusts	5	909	–	–	–	–	909
Investments at fair value through profit or loss – sovereigns	6	48 290	75 000	1 127 060	–	–	1 250 350
Loans and advances to clients – retail personal	7	1 504 581	2 052 357	7 650 217	17 724 937	(492 071)	28 440 021
Loans and advances to clients – retail other	7	802	–	–	–	–	802
Loans and advances to clients – corporate other	7	14 438	–	–	23 781	–	38 219
Other receivables	9	28 733	–	–	2 156	–	30 889
Current income tax assets		–	–	62 331	–	–	62 331
Undiscounted assets		6 135 975	2 142 631	8 839 608	17 750 874	(492 071)	34 377 017
Adjustments for undiscounted assets		(417 208)	(869 345)	(3 236 192)	(5 602 742)	–	(10 125 487)
Discounted assets							
Loan impairment provision	7	(130 479)	(237 420)	(493 418)	(683 929)	–	(1 545 246)
Total discounted assets		5 588 288	1 035 866	5 109 998	11 464 203	(492 071)	22 706 284
Undiscounted liabilities							
Loans and deposits at amortised cost	14	6 916 087	1 015 697	4 350 825	8 264 777	–	20 547 386
Trade and other payables	15	277 809	116 671	99 259	145 849	78 997	718 585
Current income tax liabilities		–	885	–	–	–	885
Provisions	16	–	–	–	24 998	–	24 998
Undiscounted liabilities		7 193 896	1 133 253	4 450 084	8 435 624	78 997	21 291 854
Adjustments for undiscounted liabilities to depositors		(4 697)	(82 745)	(418 893)	(2 349 025)	–	(2 855 360)
Total discounted liabilities		7 189 199	1 050 508	4 031 191	6 086 599	78 997	18 436 494
Net liquidity (shortfall)/excess[2]		(1 600 911)	(14 642)	1 078 807	5 377 604	(571 068)	4 269 790
Cumulative liquidity (shortfall)/excess		(1 600 911)	(1 615 553)	(536 746)	4 840 858	4 269 790	4 269 790

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

(2) Much of the liquidity shortfall in the demand to three-month categories results from the investment of excess cash in treasury bills and SARB debentures with maturities in excess of three months. These instruments are highly liquid and can be converted into cash should the need arise.

(3) The definitions of sovereign, corporate and retail are aligned with the Banks Act Regulations.

(4) The adjustments relate to deferred initiation fees, leave pay provision, deferred income and straight-lining of lease accruals.

28.6 Liquidity risk *(continued)*

Analysis of financial assets and liabilities (discounted cash flows) with maturities of more than one year R'000	Note	More than one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years	More than ten years
2013								
Undiscounted assets								
Loans and advances to clients – retail personal	7	37 720 055	12 768 272	10 254 981	7 330 388	4 432 740	2 932 877	797
Other receivables	9	7 347	1 620	3 643	1 926	–	158	–
Undiscounted assets		37 727 402	12 769 892	10 258 624	7 332 314	4 432 740	2 933 035	797
Adjustments for undiscounted assets		(14 258 931)	(6 010 706)	(4 107 191)	(2 436 652)	(1 184 911)	(519 471)	–
Discounted assets								
Loan impairment provision	7	(2 091 215)	(694 161)	(551 073)	(398 008)	(258 847)	(189 126)	–
Total discounted assets		21 377 256	6 065 025	5 600 360	4 497 654	2 988 982	2 224 438	797
Undiscounted liabilities								
Loans and deposits at amortised cost	14	16 875 837	3 009 637	4 224 363	3 604 250	2 371 649	3 601 330	64 608
Trade and other payables	15	132 927	85 558	15 383	1 024	745	30 217	–
Provisions	16	28 449	19 151	9 298	–	–	–	–
Undiscounted liabilities		17 037 213	3 114 346	4 249 044	3 605 274	2 372 394	3 631 547	64 608
Adjustments for undiscounted liabilities to depositors		(4 034 835)	(941 861)	(866 683)	(875 716)	(647 507)	(693 102)	(9 966)
Total discounted liabilities		13 002 378	2 172 485	3 382 361	2 729 558	1 724 887	2 938 445	54 642
Net liquidity excess/(shortfall)		8 374 878	3 892 540	2 217 999	1 768 096	1 264 095	(714 007)	(53 845)
Cumulative liquidity excess/(shortfall)		7 909 378	11 801 918	14 019 917	15 788 013	17 052 108	16 338 101	16 284 256

28.7 Capital management

The group's principal objectives when managing capital are to:

- address the expectations of its shareholders, and optimise business activities to ensure return on capital targets are achieved through efficient capital management;
- ensure that the group and bank hold sufficient risk capital. Risk capital caters for unexpected losses that may arise, protects shareholders and depositors and thereby assures the sustainability of the bank through the business cycle; and
- comply with the capital supervisory requirements of the South African Reserve Bank (SARB) as codified in the Banks Act 1990 (as amended) and related regulations.

The group conducts a Capitec internal capital adequacy assessment process (CICAAP) on an ongoing basis, which drives the group's position on capital management matters. The CICAAP reviews the historic, current and future capital positioning of the group, both from an internal and regulatory capital perspective.

The table below summarises the composition of regulatory capital for the group and the bank:

	GROUP		BANK	
R'000	**2013**	**2012**	**2013**	**2012**
Common Equity Tier 1 (CET1)				
Ordinary share capital	**5 330 710**	2 926 435	**5 801 143**	3 380 895
Accumulated profit	**2 939 240**	2 001 866	**2 243 936**	1 210 468
	8 269 950	4 928 301	**8 045 079**	4 591 363
Regulatory adjustments				
Intangible assets in terms of IFRS	**(136 380)**	(69 258)	**(136 380)**	(69 258)
Specified advances	**(137)**	(28 063)	**(137)**	(28 063)
Unappropriated profit	**(128 561)**	(275 094)	**(128 561)**	(275 094)
Total CET1	**8 004 872**	4 555 886	**7 780 001**	4 218 748
Additional Tier 1 capital (AT1)				
Issued preference share capital	**258 969**	258 969	**258 969**	258 969
Phase out – non-loss absorbent[1]	**(25 897)**	–	**(25 897)**	–
Total AT1	**233 072**	258 969	**233 072**	258 969
Total Tier 1 capital (T1)	**8 237 944**	4 814 855	**8 013 073**	4 477 917
Tier 2 capital (T2)				
Issued subordinated debt	**2 891 000**	1 069 000	**2 891 000**	1 069 000
Phase out – non-loss absorbent[1]	**(289 100)**	–	**(289 100)**	–
Third-party capital issued by bank subsidiary[2]	**(179 585)**	–	**–**	–
Total subordinated debt	**2 422 315**	1 069 000	**2 601 900**	1 069 000
Unidentified impairments	**295 582**	175 987	**295 582**	175 987
Total Tier 2 capital (T2)	**2 717 897**	1 244 987	**2 897 482**	1 244 987
Total qualifying regulatory capital	**10 955 841**	6 059 842	**10 910 555**	5 722 904

R'000	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012

28.7 Capital management *(continued)*

CET1%	**30.2**	29.3	**29.3**	27.2
AT1%	**0.9**	1.7	**0.9**	1.7
T1%	**31.1**	31.0	**30.2**	28.9
T2%	**10.2**	8.0	**10.9**	8.0
Total capital adequacy %[3]	**41.3**	39.0	**41.1**	36.9
Composition of required regulatory capital				
On balance sheet	**2 243 438**	1 334 286	**2 246 243**	1 337 388
Off balance sheet	**177**	–	**177**	112
Credit risk	**2 243 615**	1 334 286	**2 246 420**	1 337 500
Operational risk	**131 194**	80 615	**131 342**	80 779
Equity risk in the banking book	**–**	–	**–**	–
Other assets	**142 365**	61 906	**139 662**	55 357
Total regulatory capital requirement[4]	**2 517 174**	1 476 807	**2 517 424**	1 473 636
Composition of risk-weighted assets[5]				
On balance sheet	**23 615 138**	14 045 118	**23 644 663**	14 077 773
Off balance sheet	**1 858**	–	**1 858**	1 182
Credit risk	**23 616 996**	14 045 118	**23 646 521**	14 078 955
Operational risk	**1 380 989**	848 574	**1 382 544**	850 303
Equity risk in the banking book	**–**	–	**–**	–
Other assets	**1 498 575**	651 640	**1 470 126**	582 700
Total risk-weighted assets	**26 496 560**	15 545 332	**26 499 191**	15 511 958
Total assets based on IFRS	**38 346 724**	23 621 844	**38 338 211**	23 583 053
Total risk-weighted assets – adjustments[6]	**(11 850 164)**	(8 076 512)	**(11 839 020)**	(8 071 095)
Total risk-weighted assets – regulatory	**26 496 560**	15 545 332	**26 499 191**	15 511 958

Disclosure for 2013 is based on Basel III requirements which became effective on 1 January 2013. The disclosure for 2012 was in compliance with Basel II requirements.

(1) *For 2013, the non-loss absorbent AT1 and T2 capital is subject to a 10% phase-out in terms of Basel III.*
(2) *For 2013, 20% of the deemed surplus T2 capital of subsidiaries issued to outside third parties, is excluded from group qualifying capital in terms of the accelerated adoption of Basel III rules.*
(3) *The total capital adequacy ratio percentage is determined by dividing the total qualifying regulatory capital by total risk-weighted assets.*
(4) *This value is 9.5% of risk-weighted assets, being the Basel global minimum requirement of 8% and a South African country-specific buffer of 1.5%.*
(5) *Risk-weighted assets are calculated by using regulatory percentages applied to the balance sheet, in order to establish the base for calculating the required regulatory capital.*
(6) *The adjustments reflect mainly the impact of the regulatory percentages and the addition of a risk-weighted equivalent for operational risk.*

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

R'000	Notes	Held for trading	Designated at fair value	Loans and receivables	Financial liabilities at amortised cost	Total
2013						
Interest income	19	–	73 000	7 011 752	–	7 084 752
Interest expense	19	(189)	–	–	(1 662 324)	(1 662 513)
Loan fee income		–	–	1 496 009	–	1 496 009
Loan fee expense		–	12 716	(355 925)	–	(343 209)
Transaction fee income		–	–	–	2 100 594	2 100 594
Transaction fee expense		–	–	–	(751 768)	(751 768)
Dividend income	20	–	9	–	–	9
Net impairment on loans and advances to clients	21	–	–	(2 658 923)	–	(2 658 923)
Net movement in financial instruments held at fair value through profit or loss	22	–	(298)	–	–	(298)
2012						
Interest income	19	–	49 071	4 297 831	–	4 346 902
Interest expense	19	(17)	–	–	(1 022 357)	(1 022 374)
Loan fee income		–	–	1 657 018	–	1 657 018
Loan fee expense		–	33 820	(220 180)	–	(186 360)
Transaction fee income		–	–	–	1 360 308	1 360 308
Transaction fee expense		–	–	–	(524 202)	(524 202)
Dividend income	20	–	1 532	–	–	1 532
Net impairment on loans and advances to clients	21	–	–	(1 604 190)	–	(1 604 190)
Net movement in financial instruments held at fair value through profit or loss	22	–	12 070	–	–	12 070

28.9 Classification of financial assets and financial liabilities

R'000	Notes	Held for trading	Held at fair value	Loans and receiv-ables	Available for sale	Financial liabilities at amortised cost	Total	Fair value
2013								
Financial assets								
Cash and cash equivalents	5	–	–	7 143 092	–	–	7 143 092	7 143 092
Investments at fair value through profit or loss[1]	6	–	2 022 906	–	–	–	2 022 906	2 022 906
Loans and advances to clients	7	–	–	27 934 854	–	–	27 934 854	28 486 249
Other receivables	9	–	3 394	81 367	–	–	84 761	84 347
Financial liabilities								
Loans and deposits at amortised cost	14	–	–	–	–	29 000 191	29 000 191	29 244 981
Trade and other payables[2]	15	–	25 637	–	–	733 446	759 083	758 556
Provisions	16	–	–	–	–	28 449	28 449	28 449
2012								
Financial assets								
Cash and cash equivalents	5	–	–	4 551 203	–	–	4 551 203	4 551 203
Investments at fair value through profit or loss[1]	6	–	1 198 833	–	–	–	1 198 833	1 198 833
Loans and advances to clients	7	–	–	16 863 028	–	–	16 863 028	17 016 644
Other receivables	9	263	–	30 626	–	–	30 889	30 418
Financial liabilities								
Loans and deposits at amortised cost	14	–	–	–	–	17 692 062	17 692 062	17 818 558
Trade and other payables[2]	15	–	3 321	–	–	715 228	718 549	718 107
Provisions	16	–	–	–	–	24 998	24 998	24 998

[1] *Designated at fair value through profit or loss*
[2] *Cash flow hedge*

28.10 Fair value hierarchy

Valuation of financial liabilities

The fair value of financial liabilities is calculated by discounting the contractual cash flows based on an appropriate market-related rate. The market-related rate is determined with reference to the movement in the risk-free rate for the remaining duration of the liabilities and adjusted for any movement in the risk premium as determined through the judgement of management taking into account their knowledge of the market including recent transactions and developments.

The difference in the present value for assets and liabilities, based on the risk premium determined at the later of the start of the financial year or the inception of the instrument compared to the risk premium at the earlier of year-end or derecognition of the financial liability is determined to be the change in fair value attributable to credit risk for the current year.

Valuation of financial assets

Financial assets are valued based on the nature of the item. Unlisted debt instruments are valued by discounting expected cash flows based on an appropriate market-related rate. The discount rate is determined as for financial liabilities, but the cash flows are adjusted for expected future service costs. Treasury bills and debentures are valued based on information supplied by the SARB at reporting date.

Valuation techniques for derivatives are set out in accounting policy note 2.3.4.

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

These two types of inputs have created the following fair value hierarchy:
Level 1 – Quoted prices in active markets for identical assets and liabilities
Level 2 – Inputs other than prices or indirectly by derivation from prices
Level 3 – Inputs for the asset or liability that are not based on observable market data

The group considers relevant and observable market prices where possible.

Assets and liabilities measured at fair value

R'000	Level 1	Level 2	Level 3	Total
2013				
Investments at fair value through profit or loss	–	2 022 906	–	2 022 906
Derivatives	–	3 394	–	3 394
Total assets	–	2 026 300	–	2 026 300
Derivatives	–	25 637	–	25 637
Total liabilities	–	25 637	–	25 637
2012				
Investments at fair value through profit or loss	–	1 198 833	–	1 198 833
Total assets	–	1 198 833	–	1 198 833
Derivatives	–	3 321	–	3 321
Total liabilities	–	3 321	–	3 321

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012

29. Retirement benefits

The group contributed on behalf of all employees who elected to be members of the provident fund. The provident fund, a defined-contribution fund, is administered independently of the group and is subject to the Pension Funds Act, 1956 (Act 24 of 1956). The amount contributed is included in salaries and wages as per note 23.

	74 786	57 272	–	–

Since 1 July 2001 it is compulsory for all new appointments to be members of the provident fund. The group will continue to contribute to the fund on behalf of all members. The group has no exposure in respect of any post-retirement benefits payable.

30. Related-party transactions

Subsidiaries				
Dividends				
Ordinary dividend received	–	–	467 460	317 939
Preference dividend received	–	–	20 783	19 419
Capitec Bank Limited	–	–	488 243	337 358
Management fees received – Capitec Bank Limited	–	–	730	932
Investments in subsidiaries are disclosed in note 10.				
Loans due (to)/from:				
Capitec Bank Limited	–	–	1 572	16 351
Keymatrix (Pty) Limited	–	–	(1)	(1)
Guarantees[1]				
Key Distributors (Pty) Limited received a guarantee from fellow subsidiary, Capitec Bank Limited.				
Amount of creditors guarantees	1 000	4 400		
Guaranteed creditors balances outstanding[1]	1 000	2 363		
Guarantee fee (market-related)	81	71		
Suretyships				
Suretyship in favour of a financial institution in respect of operating facilities of Capitec Bank Limited with a maximum exposure of			8 403	5 614
Suretyship in favour of a financial institution with which Key Distributors (Pty) Limited has a mortgage bond			–	600
Parties with significant influence				
Brokers' fees	45	46	–	–
Sponsor fees	71	72	71	72
Commitment fees	27 418	–	27 418	–
PSG Group and subsidiaries[2]	27 534	118	27 489	72

30. Related-party transactions *(continued)*

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
Key management employee's remuneration				
Salaries and other short-term benefits	**22 986**	22 439	**–**	–
Post-employment benefits	**1 690**	1 568	**–**	–
Share-based payments	**36 711**	47 420	**–**	–
Key management compensation paid by subsidiaries[3]	**61 387**	71 427	**–**	–
Loans and advances to directors and other key management employees advanced by subsidiaries and included in loans and advances to clients in respect of the share option scheme				
Loans outstanding at the beginning of the year	**4 144**	5 714	**–**	–
Loans advanced during the year	**1 264**	3 431	**–**	–
Interest charged on loans during the year	**225**	514	**–**	–
Loan repayments during the year	**(3 383)**	(5 515)	**–**	–
Loans outstanding at the end of the year	**2 250**	4 144	**–**	–
Retail deposits from directors and other key management employees[4]				
Deposits at the beginning of the year	**4 960**	3 174	**–**	–
Interest earned during the year	**334**	231	**–**	–
Deposits made during the year	**6 282**	1 555	**–**	–
Deposits at the end of the year	**11 576**	4 960	**–**	–

Directors' interest in contracts

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.

(1) *Key Distributors' creditors were included in the group balance sheet on consolidation in 2012.*
(2) *PSG Capital is the corporate advisor and sponsor of the group. Transactions requiring the purchase of financial instruments on the open market are conducted through a number of intermediaries.*
(3) *Key management are considered to be the members of the executive management committee, excluding development members. Key management compensation excludes directors' remuneration.*
(4) *Savings and deposits are unsecured, carry variable interest rates and are repayable on demand.*

30. Related-party transactions *(continued)*

Directors' interest in share capital

At year-end, the directors held, in aggregate, directly or indirectly, beneficially or non-beneficially, interests in 19 015 681 (2012: 18 499 242) Capitec Bank Holdings Limited shares, equivalent to 16.60% (2012: 18.63%) of the issued share capital. The individual interests of the directors were as follows:

	Number of shares held					
	Beneficial		Non-beneficial			
Ordinary shares	**Direct**	**Indirect****	**Direct**	**Indirect****	**Total shares**	**%**
2013						
AP du Plessis*	**30 608**	**1 259 392**	**–**	**–**	**1 290 000**	**1.13**
MS du P le Roux (Chairman)	**–**	**–**	**–**	**14 836 699**	**14 836 699**	**12.96**
RJ Huntley	**–**	**–**	**–**	**28 292**	**28 292**	**0.02**
MJ Jooste[2]	**–**	**–**	**–**	**–**	**–**	**0.00**
JD McKenzie[3]	**–**	**–**	**–**	**–**	**–**	**0.00**
MC Mehl[5]	**28 284**	**–**	**–**	**–**	**28 284**	**0.02**
NS Mjoli-Mncube	**125 400**	**–**	**–**	**–**	**125 400**	**0.11**
PJ Mouton	**–**	**12 540**	**–**	**–**	**12 540**	**0.01**
CA Otto	**1 064**	**–**	**–**	**594 400**	**595 464**	**0.52**
G Pretorius[4]	**–**	**48 482**	**–**	**–**	**48 482**	**0.04**
R Stassen*	**2 539**	**–**	**–**	**2 025 181**	**2 027 720**	**1.77**
JP van der Merwe	**22 800**	**–**	**–**	**–**	**22 800**	**0.02**
	210 695	**1 320 414**	**–**	**17 484 572**	**19 015 681**	**16.60**
2012						
AP du Plessis*	55 202	1 173 151	–	–	1 228 353	1.24
MS du P le Roux (Chairman)	–	–	–	14 367 841	14 367 841	14.47
RJ Huntley[1]	–	–	–	28 200	28 200	0.03
MJ Jooste[2]	–	–	–	–	–	0.00
MC Mehl	40 784	–	–	–	40 784	0.04
NS Mjoli-Mncube	110 000	–	–	–	110 000	0.11
PJ Mouton	–	11 000	–	–	11 000	0.01
CA Otto	1 064	–	–	506 500	507 564	0.51
R Stassen*	137 819	–	–	2 047 681	2 185 500	2.20
JP van der Merwe	20 000	–	–	–	20 000	0.02
	364 869	1 184 151	–	16 950 222	18 499 242	18.63

* *Executive*

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

(1) *Appointed on 14 April 2011.*

(2) *Appointed on 28 January 2011. Resigned 2 August 2012.*

(3) *Appointed on 1 March 2012.*

(4) *Appointed on 19 November 2012.*

(5) *Deceased 30 January 2013.*

	2013		2012	
Preference shares	**Number of shares**	**%**	**Number of shares**	**%**
R Stassen (non-beneficial)	**21 000**	**0.73**	21 000	0.73
	21 000	**0.73**	21 000	0.73

There has been no change in directors' shareholding until the date of approval of the annual financial statements.

30. Related-party transactions *(continued)*

Directors' interest in share incentive scheme – options

2013

Directors	Maturity date	Issue date	Strike price R	Opening balance Number of share options	(Options exercised)/ Options granted Number of share options	Market price R	Exercise date	Closing balance Number of share options
AP du Plessis	12 Apr 12	12 Apr 06	30.73	13 125	(13 125)	216.21	26 Apr 12	–
(direct beneficial)	15 Apr 12	15 Apr 09	31.23	18 750	(18 750)	216.21	26 Apr 12	–
	21 Apr 12	21 Apr 08	35.54	31 250	(31 250)	220.00	22 May 12	–
	26 Apr 12	26 Apr 07	35.82	19 000	(19 000)	216.21	26 Apr 12	–
	14 Apr 13	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 13	15 Apr 09	31.23	18 750	–	–		18 750
	21 Apr 13	21 Apr 08	35.54	31 250	–	–		31 250
	26 Apr 13	26 Apr 07	35.82	19 000	–	–		19 000
	12 Apr 14	12 Apr 11	160.09	3 750	–	–		3 750
	14 Apr 14	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 14	15 Apr 09	31.23	18 750	–	–		18 750
	21 Apr 14	21 Apr 08	35.54	31 250	–	–		31 250
	12 Apr 15	12 Apr 11	160.09	3 750	–	–		3 750
	14 Apr 15	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 15	15 Apr 09	31.23	18 750	–	–		18 750
	12 Apr 16	12 Apr 11	160.09	3 750	–	–		3 750
	14 Apr 16	14 Apr 10	97.30	3 125	–	–		3 125
	12 Apr 17	12 Apr 11	160.09	3 750	–	–		3 750
	11 Apr 15	11 Apr 12	198.52	–	5 000	–		5 000
	11 Apr 16	11 Apr 12	198.52	–	5 000	–		5 000
	11 Apr 17	11 Apr 12	198.52	–	5 000	–		5 000
	11 Apr 18	11 Apr 12	198.52	–	5 000	–		5 000
				247 375	**(62 125)**			**185 250**
R Stassen	12 Apr 12	12 Apr 06	30.73	50 000	(50 000)	216.21	26 Apr 12	–
(direct beneficial)	15 Apr 12	15 Apr 09	31.23	62 500	(62 500)	216.21	26 Apr 12	–
	21 Apr 12	21 Apr 08	35.54	125 000	(125 000)	218.55	24 Apr 12	–
	14 Apr 13	14 Apr 10	97.30	6 250	–	–		6 250
	15 Apr 13	15 Apr 09	31.23	62 500	–	–		62 500
	21 Apr 13	21 Apr 08	35.54	125 000	–	–		125 000
	12 Apr 14	12 Apr 11	160.09	7 500	–	–		7 500
	14 Apr 14	14 Apr 10	97.30	6 250	–	–		6 250
	15 Apr 14	15 Apr 09	31.23	62 500	–	–		62 500
	21 Apr 14	21 Apr 08	35.54	125 000	–	–		125 000
	12 Apr 15	12 Apr 11	160.09	7 500	–	–		7 500
	14 Apr 15	14 Apr 10	97.30	6 250	–	–		6 250
	15 Apr 15	15 Apr 09	31.23	62 500	–	–		62 500
	12 Apr 16	12 Apr 11	160.09	7 500	–	–		7 500
	14 Apr 16	14 Apr 10	97.30	6 250	–	–		6 250
	12 Apr 17	12 Apr 11	160.09	7 500	–	–		7 500
	11 Apr 15	11 Apr 12	198.52	–	12 500	–		12 500
	11 Apr 16	11 Apr 12	198.52	–	12 500	–		12 500
	11 Apr 17	11 Apr 12	198.52	–	12 500	–		12 500
	11 Apr 18	11 Apr 12	198.52	–	12 500	–		12 500
				730 000	**(187 500)**			**542 500**
Total				**977 375**	**(249 625)**			**727 750**

30. Related-party transactions *(continued)*

Directors' interest in share incentive scheme – share appreciation rights (SARs)

2013

Directors	Maturity date	Issue date	SARs exercise price R	Opening balance Number of SARs	(SARs exercised)/SARs granted Number of SARs	Market price R	Exercise date	Closing balance Number of SARs
AP du Plessis	15 Apr 12	15 Apr 09	31.23	18 750	(18 750)	232.00	23 Apr 12	–
(direct beneficial)	21 Apr 12	21 Apr 08	35.54	31 250	(31 250)	232.00	23 Apr 12	–
	14 Apr 13	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 13	15 Apr 09	31.23	18 750	–	–		18 750
	21 Apr 13	21 Apr 08	35.54	31 250	–	–		31 250
	12 Apr 14	12 Apr 11	160.09	3 750	–	–		3 750
	14 Apr 14	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 14	15 Apr 09	31.23	18 750	–	–		18 750
	21 Apr 14	21 Apr 08	35.54	31 250	–	–		31 250
	12 Apr 15	12 Apr 11	160.09	3 750	–	–		3 750
	14 Apr 15	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 15	15 Apr 09	31.23	18 750	–	–		18 750
	12 Apr 16	12 Apr 11	160.09	3 750	–	–		3 750
	14 Apr 16	14 Apr 10	97.30	3 125	–	–		3 125
	12 Apr 17	12 Apr 11	160.09	3 750	–	–		3 750
	11 Apr 15	11 Apr 12	198.52	–	5 000	–		5 000
	11 Apr 16	11 Apr 12	198.52	–	5 000	–		5 000
	11 Apr 17	11 Apr 12	198.52	–	5 000	–		5 000
	11 Apr 18	11 Apr 12	198.52	–	5 000	–		5 000
				196 250	**(30 000)**			**166 250**
R Stassen	15 Apr 12	15 Apr 09	31.23	62 500	(62 500)	218.85	19 Apr 12	–
(direct beneficial)	21 Apr 12	21 Apr 08	35.54	125 000	(125 000)	232.00	23 Apr 12	–
	14 Apr 13	14 Apr 10	97.30	6 250	–	–		6 250
	15 Apr 13	15 Apr 09	31.23	62 500	–	–		62 500
	21 Apr 13	21 Apr 08	35.54	125 000	–	–		125 000
	12 Apr 14	12 Apr 11	160.09	7 500	–	–		7 500
	14 Apr 14	14 Apr 10	97.30	6 250	–	–		6 250
	15 Apr 14	15 Apr 09	31.23	62 500	–	–		62 500
	21 Apr 14	21 Apr 08	35.54	125 000	–	–		125 000
	12 Apr 15	12 Apr 11	160.09	7 500	–	–		7 500
	14 Apr 15	14 Apr 10	97.30	6 250	–	–		6 250
	15 Apr 15	15 Apr 09	31.23	62 500	–	–		62 500
	12 Apr 16	12 Apr 11	160.09	7 500	–	–		7 500
	14 Apr 16	14 Apr 10	97.30	6 250	–	–		6 250
	12 Apr 17	12 Apr 11	160.09	7 500	–	–		7 500
	11 Apr 15	11 Apr 12	198.52	–	12 500	–		12 500
	11 Apr 16	11 Apr 12	198.52	–	12 500	–		12 500
	11 Apr 17	11 Apr 12	198.52	–	12 500	–		12 500
	11 Apr 18	11 Apr 12	198.52	–	12 500	–		12 500
				680 000	**(137 500)**			**542 500**
Total				**876 250**	**(167 500)**			**708 750**

30. Related-party transactions *(continued)*

Directors' remuneration

The total share option expense relating to directors amounted to R3 606 924 (2012: R4 482 281) and share appreciation rights expense amounted to R35 092 255 (2012: R46 288 285). This expense includes the movement on all tranches.

R'000	Salaries	Fringe benefits	Bonuses	Fees	Total	Fair value of options and rights granted during the year on reporting date
2013						
Executive[1]						
AP du Plessis	4 542	54	383	–	4 979	250
R Stassen	9 605	338	856	–	10 799	624
Non-executive						
MS du P le Roux (Chairman)	–	–	–	1 040	1 040	–
RJ Huntley	–	–	–	241	241	–
MJ Jooste[2]	–	–	–	102	102	–
JD McKenzie	–	–	–	281	281	–
MC Mehl[3]	–	–	–	341	341	–
NS Mjoli-Mncube	–	–	–	281	281	–
PJ Mouton	–	–	–	446	446	–
CA Otto	–	–	–	428	428	–
G Pretorius[4]	–	–	–	60	60	–
JP van der Merwe	–	–	–	428	428	–
	14 147	392	1 239	3 648	19 426	874
2012						
Executive[1]						
AP du Plessis	4 172	151	593	–	4 916	269
R Stassen	8 872	324	1 323	–	10 519	538
Non-executive						
MS du P le Roux (Chairman)	–	–	–	1 040	1 040	
RJ Huntley	–	–	–	116	116	
MJ Jooste[2]	–	–	–	150	150	
MC Mehl	–	–	–	348	348	
NS Mjoli-Mncube	–	–	–	202	202	
PJ Mouton	–	–	–	238	238	
JG Solms	–	–	–	63	63	
CA Otto	–	–	–	348	348	
JP van der Merwe	–	–	–	348	348	
	13 044	475	1 916	2 853	18 288	807

[1] *The executive directors are the prescribed officers of the company.*
[2] *Director's fees paid to Steinhoff International Holdings Limited. Resigned 2 August 2012.*
[3] *Deceased 30 January 2013.*
[4] *Appointed 19 November 2012.*

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
31. Cash flow from operations				
Net profit before tax	**2 277 276**	1 557 872	**491 564**	337 358
Adjusted for non-cash items:				
Fair value adjustments on financial assets	**298**	(12 070)	**–**	–
Loan impairment charge	**1 177 568**	700 520	**–**	–
Depreciation	**196 108**	145 598	**–**	–
Amortisation	**51 070**	27 920	**–**	–
Movements in provisions	**3 451**	10 595	**–**	–
Share-based employee costs – options	**9 037**	11 778	**–**	–
Share-based employee costs – share appreciation rights	**(28 934)**	62 627	**–**	–
(Profit)/loss on disposal of assets	**(339)**	3 644	**–**	–
Receivables at fair value through profit or loss	**–**	4 662	**–**	–
Movements in current assets and liabilities:				
Loans and advances to clients	**(12 249 394)**	(7 492 082)	**(2 267)**	–
Inventory[1]	**12 049**	(11 232)	**–**	–
Other receivables	**(83 073)**	(14 230)	**(586)**	(302)
Deposits	**11 308 129**	7 242 179	**–**	–
Trade and other payables[2]	**79 162**	168 599	**6**	(18)
Cash flow from operations	**2 752 408**	2 406 380	**488 717**	337 038

[1] *Net of R30.0 million on disposal of subsidiary.*
[2] *Net of R25.0 million on disposal of subsidiary.*

32. Income taxes paid				
Balance at the beginning of the year	**(61 446)**	35 033	**–**	–
Income statement charge	**672 862**	463 532	**275**	–
Movement in deferred tax	**31 408**	185 941	**–**	–
Tax effect on settlement of share options taken to equity	**(18 571)**	(142 886)	**–**	–
Balance at the end of the year	**(46 007)**	61 446	**–**	–
Income tax paid	**578 246**	603 066	**275**	–

33. Dividends paid				
Balance at the beginning of the year	**10 273**	10 485	**10 273**	10 485
Dividend declared during the year:				
Ordinary dividend	**467 460**	317 939	**467 460**	317 939
Preference dividend	**20 783**	19 419	**20 783**	19 419
Balance at the end of the year	**(11 259)**	(10 273)	**(11 259)**	(10 273)
Dividends paid	**487 257**	337 570	**487 257**	337 570

34. Realised loss on settlement of employee share options less participants' contributions				
1 112 685 (2012: 1 249 576) ordinary shares issued	**(244 422)**	(220 505)	**–**	–
Shares acquired	**–**	(702)	**–**	–
Fair value of shares utilised to settle share options	**(244 422)**	(221 207)	**–**	–
Proceeds on settlement of options	**37 850**	35 091	**–**	–
	(206 572)	(186 116)	**–**	–

R'000	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012

35. Commitments and contingent liabilities

Property operating lease commitments				
The future aggregate minimum lease payments under non-cancellable leases are as follows:				
Within one year	**206 681**	167 995	**–**	–
From one to five years	**591 547**	470 288	**–**	–
After five years	**170 639**	99 694	**–**	–
Total future cash flows	**968 867**	737 977	**–**	–
Straight-lining accrued	**(46 432)**	(35 749)	**–**	–
Future expenses	**922 435**	702 228	**–**	–
Other operating lease commitments				
Within one year	**2 207**	2 253	**–**	–
From one to five years	**3 490**	5 083	**–**	–
	5 697	7 336	**–**	–
Capital commitments – approved by the board				
Contracted for				
Property and equipment	**42 645**	85 195	**–**	–
Intangible assets	**13 119**	6 744	**–**	–
Not contracted for				
Property and equipment	**524 971**	458 247	**–**	–
Intangible assets	**169 438**	122 329	**–**	–
	750 173	672 515	**–**	–

Refer note 30 for details of guarantees and suretyships.

On 22 February 2013, a notice was received from the National Credit Regulator, alleging contraventions of the National Credit Act 34 of 2005, including in relation to initiation fees charged on one product. It is not practicable to estimate its financial effect or the amount of any possible outflow. The bank has investigated the allegations and has taken legal advice, and believes the matter will be satisfactorily resolved through due process.

36. Borrowing powers

In terms of the articles of association of Capitec Bank Holdings Limited, the directors may at their discretion raise or borrow money for the purpose of the business of the company without limitation. These borrowing powers are subject to the limitations of the Banks Act, 1990 (Act 94 of 1990) and section 45(3)(a)(ii) of the Companies Act, 2008. A special resolution was passed at the annual general meeting on 1 June 2012 authorising the board to approve that the company provides any financial assistance that it deems fit to any related or interrelated company, on the terms and conditions and for the amount that the board may determine.

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

37. Share incentive scheme

The share incentive scheme is authorised and adopted by the shareholders of Capitec Bank Holdings Limited (CBHL). The trustees act in terms of the powers bestowed on them by the trust deed and receive instructions from time to time from the boards of CBHL and the bank. The bank provides the finance required from time to time by the trustees to perform their duties. Service costs of options issued to employees of subsidiaries of CBHL are financed by the relevant subsidiary.

37. Share incentive scheme *(continued)*

The bank allows its employees to purchase shares in Capitec Bank Holdings Limited up to a value not exceeding 20% (2012: 20%) of their monthly salary.

The purchase price includes a subsidy of 20% (2012: 20%) and the transaction costs are borne by the company.

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

The bank offers share options in Capitec Bank Holdings Limited to members of management who are able to make significant contributions to the achievement of the bank's objectives. Options are conditional on the employee completing the vesting period applicable to each group of options issued to that employee.

The share incentive scheme prescribes that European type options, with durations ranging from three to six years, should be allocated at the market value, determined as the weighted average price per share over a period of 30 trading days on the JSE Limited prior to the date of allocation.

Number	2013	2012
Options issued to employees of Capitec Bank Limited		
Balance at the beginning of the year	3 086 893	4 221 594
Options granted	204 853	138 000
Options cancelled and/or lapsed	(6 250)	(19 375)
Options exercised	(1 108 671)	(1 253 326)
Balance at the end of the year	2 176 825	3 086 893

	2013		2012	
Analysis of outstanding share options by year of maturity	**Weighted average strike price R**	**Number**	**Weighted average strike price R**	**Number**
Financial year				
2012/2013	–	–	34.14	1 088 671
2013/2014	38.11	860 290	44.93	869 352
2014/2015	44.71	696 146	69.35	708 020
2015/2016	77.23	353 612	98.14	306 151
2016/2017	153.91	130 153	130.59	80 193
2017/2018	182.81	85 408	160.09	34 506
2018/2019	197.98	51 216	–	–
	62.94	2 176 825	43.58	3 086 893

Number	2013	2012
Shares purchased/issued during the year	1 112 685	1 253 326
Shares utilised for settlement of options	(1 108 671)	(1 253 326)
Shares available for settlement of options	4 014	–
Settled in shares	(1 108 671)	(1 253 326)
Options exercised	(1 108 671)	(1 253 326)

38. Share option expense

Data utilised in the valuation of options granted

The table below provides detail regarding the data used in the valuation of the share options to which IFRS 2 has been applied. A Black-Scholes option pricing model was used to value the options.[1]

Year granted	Strike price R	Share price on issue date R	Volatility used in valuation %	Dividend yield %	Year maturing	Risk-free rate %	Number of options outstanding	Fair value on issue/re-pricing date ignoring vesting conditions R'000	Expected vesting proportion[1] %	Value taking into account expected vesting proportion R'000
2007/2008	36.07	36.00	34.2	1.7	2013/2014	7.9	7 500	110	99.4	109
	36.00	35.60	34.1	1.7	2013/2014	7.8	13 889	198	99.2	196
	35.82	38.30	34.0	2.2	2013/2014	7.7	155 500	2 373	98.9	2 346
	41.46	38.00	34.1	1.7	2013/2014	8.5	5 125	75	93.8	71
2008/2009	35.54	33.10	36.6	3.2	2013/2014	9.4	391 250	4 341	99.0	4 297
		33.10	36.6	3.2	2014/2015	9.3	387 500	4 610	92.0	4 244
	35.82	38.90	33.9	0.6	2013/2014	8.3	12 562	219	97.9	214
	28.96	29.05	37.1	3.0	2013/2014	8.0	6 250	63	94.0	59
		29.05	37.1	3.0	2014/2015	8.0	6 250	67	87.4	59
2009/2010	31.23	36.50	37.2	4.6	2013/2014	8.2	206 875	2 470	99.1	2 447
		36.50	37.2	4.6	2014/2015	8.4	206 875	2 601	92.2	2 397
		36.50	37.2	4.6	2015/2016	8.5	206 875	2 689	85.7	2 305
	45.49	61.50	36.8	3.5	2013/2014	8.5	12 500	312	95.5	298
		61.50	36.8	3.5	2014/2015	8.7	12 500	326	88.8	290
		61.50	36.8	3.5	2015/2016	8.8	12 500	337	82.6	278
	61.05	64.00	36.7	3.4	2013/2014	8.5	4 095	85	95.2	81
		64.00	36.7	3.4	2014/2015	8.7	4 095	93	88.6	82
		64.00	36.7	3.4	2015/2016	8.8	4 095	98	82.4	81
2010/2011	97.30	100.20	35.9	2.4	2013/2014	7.4	41 560	1 209	99.1	1 198
		100.20	35.9	2.4	2014/2015	7.7	41 560	1 388	92.2	1 280
		100.20	35.9	2.4	2015/2016	7.9	41 565	1 534	85.7	1 315
		100.20	35.9	2.4	2016/2017	8.2	41 565	1 665	79.7	1 327
	117.79	129.00	35.5	2.2	2013/2014	6.6	3 184	126	97.0	123
		129.00	35.5	2.2	2014/2015	6.9	3 184	143	90.2	129
		129.00	35.5	2.2	2015/2016	7.2	3 184	157	83.9	132
		129.00	35.5	2.2	2016/2017	7.5	3 184	169	78.0	132
2011/2012	160.09	168.00	34.4	1.9	2014/2015	7.5	34 182	1 726	92.2	1 592
		168.00	34.4	1.9	2015/2016	7.8	34 182	1 991	85.8	1 707
		168.00	34.4	1.9	2016/2017	8.0	34 193	2 212	79.7	1 764
		168.00	34.4	1.9	2017/2018	8.2	34 193	2 398	74.2	1 778
2012/2013	182.40	187.05	33.1	2.8	2015/2016	6.3	1 713	81	86.5	70
		187.05	33.1	2.8	2016/2017	6.7	1 713	93	80.4	75
		187.05	33.1	2.8	2017/2018	6.9	1 713	102	74.8	76
		187.05	33.1	2.8	2018/2019	7.1	1 714	110	69.6	77
	198.52	206.25	32.9	2.7	2015/2016	6.4	49 498	2 646	85.8	2 270
		206.25	32.9	2.7	2016/2017	6.8	49 498	3 028	79.8	2 415
		206.25	32.9	2.7	2017/2018	6.9	49 502	3 331	74.2	2 471
		206.25	32.9	2.7	2018/2019	7.2	49 502	3 595	69.0	2 480
Grand total							2 176 825	48 772	86.7	42 265

[1] *Executive staff turnover of 7% p.a. (2012: 8%) was used to estimate likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.*

39. Share appreciation rights

Data utilised in the valuation of share appreciation rights granted

The table below provides detail regarding the data used in the valuation of the share options to which IFRS 2 has been applied. Share appreciation rights are expected to vest and are re-estimated on an annual basis.[1]

Year granted	Strike price	Year maturing	Risk-free rate %	Number of options outstanding	Fair value R'000	Portion of term expired %	Expected vesting proportion[2] %	Liability at year-end R'000
2008/2009	28.96	2013/2014	5.0	6 250	966	83.0	94.0	753
		2014/2015	5.1	6 250	935	69.1	87.4	565
	35.54	2013/2014	5.1	391 250	59 373	97.2	99.0	57 089
		2014/2015	5.0	387 500	56 906	81.0	92.0	42 412
2009/2010	31.23	2013/2014	5.1	206 875	32 297	96.9	99.1	30 995
		2014/2015	5.0	206 875	31 240	77.5	92.2	22 310
		2015/2016	5.2	206 875	30 238	64.6	85.7	16 738
	45.49	2013/2014	5.0	12 500	1 746	84.1	95.5	1 401
		2014/2015	5.1	12 500	1 692	67.3	88.8	1 010
		2015/2016	5.3	12 500	1 642	56.0	82.6	760
	61.05	2013/2014	5.0	4 095	510	83.2	95.2	404
		2014/2015	5.1	4 095	495	66.5	88.6	292
		2015/2016	5.3	4 095	483	55.5	82.4	221
2010/2011	97.30	2013/2014	5.1	41 560	3 760	95.9	99.1	3 573
		2014/2015	5.0	41 560	3 695	71.9	92.2	2 450
		2015/2016	5.2	41 565	3 684	57.6	85.7	1 818
		2016/2017	5.5	41 565	3 697	47.9	79.7	1 413
	117.79	2013/2014	5.1	3 184	223	85.9	97.0	186
		2014/2015	5.1	3 184	227	64.5	90.2	132
		2015/2016	5.3	3 184	235	51.6	83.9	102
		2016/2017	5.5	3 184	242	43.0	78.0	81
2011/2012	160.09	2014/2015	5.0	34 182	1 363	62.8	92.2	789
		2015/2016	5.2	34 182	1 610	47.1	85.8	650
		2016/2017	5.5	34 193	1 798	37.7	79.7	540
		2017/2018	5.7	34 193	1 949	31.4	74.2	454
2012/2013	182.40	2015/2016	5.2	1 713	62	33.2	86.5	18
		2016/2017	5.5	1 713	73	24.9	80.4	15
		2017/2018	5.7	1 713	82	19.9	74.8	12
		2018/2019	6.0	1 714	90	16.6	69.6	10
	198.52	2015/2016	5.2	49 498	1 519	29.5	85.8	384
		2016/2017	5.5	49 498	1 862	22.1	79.8	328
		2017/2018	5.7	49 502	2 141	17.7	74.2	281
		2018/2019	6.0	49 502	2 375	14.7	69.0	242
Grand total				1 986 344	249 727	81.3	107.8	188 428

[1] *All rights were valued using the Black-Scholes model and the following variables:*

Dividend yield	*3.5%*
Volatility	*32.2%*
Ex dividend share price (cents)	*181.60*

[2] *Executive staff turnover of 7% p.a. (2012: 8%) was used to estimate likelihood of vesting conditions realising. A re-estimate in terms of IFRS 2 will be done on an annual basis.*

40. Share appreciation rights: BEE consortium

The Capitec Bank Group Employee Empowerment Trust is a 5% participant in the BEE consortium that purchased 10 million shares in the group in February 2007. Funding for the share purchase was mainly obtained from the Industrial Development Corporation.

During February 2008, a communication was sent out by Capitec Bank on behalf of the Trust to employees of the bank, informing them that each permanent employee, not participating in the share incentive scheme and employed at 29 February 2008, would benefit from cash disbursements, based on the cumulative increase in value of 200 Capitec Bank Holdings shares less funding costs, paid in increments of 25% over four years. The payments commenced in February 2010 and depended on continued employment by the group. The final payment to employees was made in February 2013.

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

41. Derivative financial instruments: economic hedges

R'000	Notional amount	Fair values Assets	Liabilities
2013			
Forward foreign exchange contracts			
Notional amounts in ZAR	–	–	–
Notional amounts in USD	–	–	–
2012			
Forward foreign exchange contracts			
Notional amounts in ZAR	4 101	263	–
Notional amounts in USD	579	–	–

Forward foreign exchange contracts represent commitments to purchase foreign currency, including undelivered spot transactions and were entered into to match corresponding expected future transactions to the amount of Nil (2012: R4.1 million).

42. Derivative financial instruments: cash flow hedges

R'000	Notional amount	Fair values Assets	Liabilities
2013			
Interest rate swaps	3 189 349	(208)	25 637
Cross currency interest rate swaps	396 900	(3 186)	–
Net	3 586 249	(3 394)	25 637
2012			
Interest rate swaps	1 150 000	–	3 321

R'000	Demand to one month	One to three months	Three months to one year	More than one year	Grand total
2013					
Discounted swap cash flows	–	5 309	17 454	2 666	25 429
Discounted cross currency interest rate swap cash flows	–	15	278	(3 479)	(3 186)
Net	–	5 324	17 732	(813)	22 243
2012					
Discounted swap cash flows	–	1 058	2 438	(175)	3 321
Net	–	1 058	2 438	(175)	3 321

Gains and losses recognised in comprehensive income (note 18) on rate swap contracts will be continuously released to the income statement in line with the interest expense and foreign currency movement on the underlying hedged items.

The forecast cash flows presented above show how the cash flow hedging reserve will be released to the income statement over time. The swaps have quarterly reset and settlement dates. The forecast cash flows were based on contracted interest and ruling exchange rates.

At 28 February 2013, the fixed interest rates were between 5.26% and 6.32% and the floating rates were based on forecast 3-month JIBAR and LIBOR rates at 28 February 2013.

The fair value adjustment removed from the cash flow hedging reserve and transferred to the income statement, amounting to a debit of R14.1 million (2012: R7.1 million), has been included in interest expense and other operating expenses in the income statement. No gains and losses on ineffective portions of such derivatives were recognised in the income statement in 2013 and 2012. There were no transactions for which cash flow hedge accounting had to be discontinued in 2013 and 2012 as a result of highly probable cash flow no longer being expected to occur.

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

Year ended 28 February 2013	Shares held Number	Shareholding %
Shareholder		
PSG Financial Services Limited	32 593 734	28.48
Limietberg Beleggings (Pty) Limited	9 000 000	7.86
Government Employee Pension Fund (excluding Isibaya Fund)	8 305 709	7.26

44. Black economic empowerment shareholding

Year ended 28 February 2013	Shares held Number	Shareholding %
Shareholder		
Isibaya Fund	5 284 735	4.62
Coral Lagoon Investments 194 (Pty) Limited	4 715 265	4.12
Thembeka Capital Limited	3 473 193	3.03
Nonhlanhla Mjoli-Mncube	125 400	0.11
	13 598 593	11.88

45. Shareholding by executive management [1]

Year ended 28 February 2013	Shares held Number	Shareholding %
Shareholder		
CG van Schalkwyk	862 530	0.75
CG Fischer	1 204 254	1.05
A Olivier	206 034	0.18
L Venter	403 339	0.35
C Oosthuizen	80 000	0.07
NST Motjuwadi	–	–
JE Carstens	23 958	0.02
GM Fourie	1 017 862	0.89
	3 797 977	3.31

[1] *Executive directors' shareholdings are presented in the related parties note.*

46. Material events after year-end

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

Analysis of shareholders holding ordinary shares

	Number of shareholders	% of total	Number of shares	% of interest
1 – 1 000	8 250	79.16	2 244 087	1.96
1 001 – 10 000	1 764	16.93	4 778 020	4.18
10 001 – 100 000	317	3.04	9 765 466	8.53
100 001 and over	91	0.87	97 654 146	85.33
	10 422	**100.00**	**114 441 719**	**100.00**
Shareholder spread				
Public shareholders	**10 399**	**99.78**	**62 832 304**	**54.90**
Holdings less than 5%	10 398	99.77	54 526 595	47.64
Holdings of 5% or more	1	0.01	8 305 709	7.26
Government Employee Pension Fund	1	0.01	8 305 709	7.26
Non-public shareholders excluding directors and their associates	**1**	**0.01**	**32 593 734**	**28.48**
There are no non-public shareholders (excluding directors and their associates) holding less than 5%	–	–	–	–
Holdings of 5% or more	1	0.01	32 593 734	28.48
PSG Financial Services Limited	1	0.01	32 593 734	28.48
Directors (refer page 153 for detail)	**22**	**0.21**	**19 015 681**	**16.62**
Directors of company or any subsidiaries	6	0.06	210 695	0.18
Associates of directors of the company or any of its subsidiaries	16	0.15	18 804 986	16.44
	10 422	**100.00**	**114 441 719**	**100.00**

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

	Number of shareholders	% of total	Number of shares	% of interest
1 – 1 000	491	49.35	249 138	8.68
1 001 – 10 000	456	45.83	1 462 531	50.98
10 001 – 100 000	47	4.72	1 037 038	36.15
100 001 and over	1	0.10	120 307	4.19
	995	**100.00**	**2 869 014**	**100.00**
Shareholder spread				
Public shareholders	**994**	**99.90**	**2 848 014**	**99.27**
Holdings less than 5%	994	99.90	2 848 014	99.27
There are no public shareholders holding more than 5%				
Non-public shareholders excluding directors and/or their associates	**–**	**–**	**–**	**–**
There are no non-public shareholders other than the associate of a director	–	–	–	–
Directors (refer page 153 for detail)	**1**	**0.10**	**21 000**	**0.73**
None of the directors hold preference shares				
Associate of a director of the company or any of its subsidiaries	1	0.10	21 000	0.73
	995	**100.00**	**2 869 014**	**100.00**

Special resolutions of a subsidiary

The following special resolutions were passed by Capitec Bank Limited ('Capitec Bank' or 'the bank') during the financial year under review:

1. **Special resolution number 1**
   "Resolved, in terms of section 66(9) of the Act, and in accordance with special resolution 3.1 included in the 2012 notice of the Capitec annual general meeting dealing with the directors' fees proposed to the shareholders of Capitec, that subject to approval by the shareholders of Capitec, Capitec Bank pays the stated directors' fees to the said boards of Capitec and Capitec Bank."

2. **Special resolution number 2**
   "Resolved that, in terms of section 36(2) of the Companies Act 2008 (Act 71 of 2008) and article 11.1.1 of the memorandum of incorporation of the bank, the authorised share capital of the bank be and is hereby increased from R51 000 000 (fifty one million Rand) to R52 000 000 (fifty two million rand) by the creation of 100 000 000 (one hundred million) compulsorily convertible or written off non-redeemable, non-cumulative, non-participating preference shares of R0.01 (one cent) each, the terms and conditions of which are set out in Addendum I to the memorandum of incorporation of the bank, to be adopted in terms of special resolution number 4 below."

3. **Special resolution number 3**
   "Resolved that, in terms of section 36(2) of the Companies Act 2008 (Act 71 of 2008), section 56(1)(a) of the Banks Act, 1990 (Act 94 of 1990) and subject to the passing of special resolution number 2, the memorandum of incorporation of the bank 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 bank is R52 000 000 (fifty two million rand) divided into:

   1. 5 000 000 000 (five thousand million) ordinary shares with a par value of R0.01 (one cent) each;
   2. 100 000 000 (one hundred million) non-redeemable, non-cumulative, non-participating preference shares of R0.01 (one cent) each; and
   3. 100 000 000 (one hundred million) compulsorily convertible or written off non-redeemable non-cumulative non-participating preference shares of R0.01 (one cent) each."

4. **Special resolution number 4**
   "Resolved that, subject to the passing and registration of special resolutions number 2 and 3 above, the bank's memorandum of incorporation be and is hereby amended by inserting the following new Addendum I as follows:

   Terms and conditions of the compulsorily convertible or written off non-redeemable non-cumulative non-participating preference shares the proceeds of which will rank as primary share capital under the Banks Act, 1990 and Additional Tier 1 Capital as contemplated in the Basel III Framework

   1. **General**
      The following terms shall attach to the 100 000 000 compulsorily convertible or written off non-redeemable non-cumulative non-participating preference shares of R0.01 each in the share capital of the bank:
      1.1 For purposes of this Addendum 1 –
      1.1.1 '**Additional Tier 1 Capital'** has the meaning given to such expression in the Basel III Framework;

      1.1.2 **'Banks Act'** means the Banks Act, 1990

      1.1.3 **'Basel III Framework'** means the document entitled "Basel Committee on Banking Supervision – Basel III: A global regulatory framework for more resilient banks and banking systems – December 2010 (rev June 2011)" published by the Bank for International Settlements;

      1.1.4 **'Business day'** means any day other than a Saturday, Sunday or statutory public holiday in the Republic of South Africa;

1.1.5 **'Capital Regulations'** means any legislation, regulations, requirements, guidelines and policies relating to capital adequacy in effect in South Africa in relation to banks registered under the Banks Act and licensed to conduct the business of a bank in South Africa (including, without limitation, any amendments made to the Banks Act pursuant to the Basel III Framework);

1.1.6 **'Conversion'** means the conversion of the preference shares into Ordinary Conversion Shares in accordance with clause 3;

1.1.7 **'Conversion Price'** means, in relation to each Ordinary Conversion Share, the volume weighted average price of one ordinary share of the bank for the 30 (thirty) Business Days ending on and including the Business Day preceding the Trigger Event Date, as published by the JSE.

1.1.8 **'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;

1.1.9 **'Holder'** means the holder of preference share/s as recorded in the bank's register of shareholders;

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

1.1.11 **'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;

1.1.12 **'JSE'** means the JSE Limited (registration number 2005/022939/06), licensed as an exchange in terms of the Securities Services Act, 2004;

1.1.13 **'Ordinary Conversion Shares'** means ordinary shares to be issued by the bank to a Holder pursuant to a Conversion and which ordinary shares will be fully paid up and will rank *pari passu* in all respects with the fully paid ordinary shares in issue on the Trigger Event Date;

1.1.14 **'Preference dividend'** means a non-cumulative, non-participating, preference cash dividend calculated in accordance with this Addendum 1;

1.1.15 **'Preference dividend calculation date'** means the last day of February and 31 August of each year;

1.1.16 **'Preference dividend payment date'** means a date at least 5 (five) business days prior to the date on which the bank 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;

1.1.17 **'Preference dividend rate'** means, subject to clause 1.2.7 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;

1.1.18 **'Preference shares'** means the compulsorily convertible or written off non-redeemable non-cumulative non-participating preference shares of R0.01 each in the share capital of the bank;

1.1.19 **'Preference Share Amount'** means, in relation to one preference share, the issue price of that preference share;

1.1.20 **'Primary Share Capital'** means "primary share capital" as defined in the Banks Act;

1.1.21 **'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;

1.1.22 **'Registrar of Banks'** means the Registrar of Banks contemplated in the Banks Act;

1.1.23 **'Relevant Authority'** means the Registrar of Banks or such other governmental authority in South Africa as has (or will have) the responsibility, for purposes of and/or as contemplated in the Basel III Framework, of making decisions relating to the declaration of a bank as being non-viable, with the effect of triggering loss absorption within the relevant capital instruments (including compulsorily convertible non-redeemable non-cumulative preference shares) issued by that bank;

1.1.24 **'Trigger Event'** means the earlier of:

1.1.24.1 a decision that a write-off of the preference shares, without which the bank would become non-viable, is necessary, as determined by the Relevant Authority; and

1.1.24.2 a decision to make a public sector injection of capital into the bank, or equivalent support, without which the bank would become non-viable, as determined by the Relevant Authority;

1.1.25 '**Trigger Event Date'** means the date on which the Relevant Authority notifies the bank (i) of the occurrence of a Trigger Event and (ii) that the preference shares must be converted into ordinary shares (as contemplated in clause 3) or that the preference shares must be written-off (as contemplated in clause 4), as the case may be;

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

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

1.2.2 Each preference share will rank as regards dividends and a repayment of capital on the winding-up of the bank prior to the ordinary shares, and any other class of shares in the capital of the bank 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 bank 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 bank not ranking prior to or *pari passu* with the preference shares.

1.2.3 Each preference share will confer upon the Holder thereof the right to receive out of the profits of the bank 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 bank not ranking prior to or *pari passu* with the preference shares, the preference dividend calculated in terms of clause 1.2.4 below.

1.2.4 The preference dividend shall be calculated:

1.2.4.1 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 clause 1.2.4.2 below; and

1.2.4.2 from the date following a preference dividend calculation date until and including the preference dividend calculation date immediately following as if the shares have been in issue from the date following the previous preference dividend calculation date, regardless of the date of issue.

1.2.5 The preference dividend shall, if declared:

1.2.5.1 accrue on the preference dividend calculation date, calculated in accordance with clause 1.2.4.2 above;

1.2.5.2 be payable on the preference dividend payment date; and

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

1.2.6 If a preference dividend is not declared by the bank 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 bank whether in preference to payments to any other class of shares in the bank or otherwise.

1.2.7 If, in terms of Part VIII of the Income Tax Act, or any amendment thereto, the dividends tax contemplated in that Part VIII is or become applicable to the preference dividends, resulting in the preference dividends becoming taxable in the hands of the Holder, the percentage of the prime rate referred to in clause 1.1.8 above will be increased by the bank. Such increase will be calculated to put that Holder, net after deduction of the dividends tax levied, at a deemed rate of 10%, in the position he/she would have been prior to the implementation of such dividends tax. The bank shall require its auditors to verify whether it is obliged to increase the percentage of the prime rate referred to in clause 1.1.8 above in accordance with this clause 1.2.7. The auditors in deciding whether such increase is required in terms of this clause 1.2.7 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 bank and all preference shareholders. The costs of such auditors shall be borne and paid by the bank. For the avoidance of doubt it is recorded that any increase in a tax rate previously imposed on preference dividends will not oblige the bank to take any action.

1.2.8 Save as set out in clauses 1.2.2, 1.2.3, 1.2.6 and 1.2.7 above, the preference shares shall not be entitled to any further participation in the profits or assets of the bank nor on a winding-up to any surplus assets of the bank.

1.2.9 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 bank, 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:

1.2.9.1 the preference dividend or any part thereof remains in arrear and unpaid as determined in accordance with clause 1.2.5.3 after 6 (six) months from the due date thereof; and

1.2.9.2 a resolution of the bank 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 bank or for the reduction of its capital, in which event the preference shareholders shall be entitled to vote only on such resolution.

1.2.10 At every general meeting of the bank, at which Holders of preference shares as well as other classes of shares are present and entitled to vote, a preference share Holder shall be entitled to that proportion of the total votes in the bank 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 bank.

1.2.11 Notwithstanding the provisions of clause 1.2.2, no shares in the capital of the bank 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:

1.2.11.1 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

1.2.11.2 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 clauses 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 clauses relating to adjourned general meetings shall apply, *mutatis mutandis*.

2. **Occurrence of the Trigger Event**
   The preference shares will, at the sole and absolute discretion of the Relevant Authority, either (i) be compulsorily converted into Ordinary Shares (on the basis set out in clause 3) or (ii) be automatically written off (on the basis set out in clause 4), as the case may be, upon the occurrence of the Trigger Event.

3. **Compulsory Conversion**
   3.1 If the Relevant Authority requires the preference shares to be converted into ordinary shares then, on and with effect from the Trigger Event Date:
   (a) the preference shares shall be compulsorily converted into (and shall be deemed to have been compulsorily converted into) Ordinary Conversion Shares;
   (b) the Ordinary Conversion Shares shall automatically be (and shall be deemed to have been) fully paid, without further action on the part of the bank or any Holder.

   3.2 The number of Ordinary Conversion Shares into which the Holders' preference share/s shall be compulsorily converted shall be determined by dividing the aggregate Preference Share Amount in respect of such preference share/s by the Conversion Price and then rounding the resultant figure upward or downward to the nearest whole number.

   3.3 The bank will at all times maintain all prior authorisations necessary to ensure the compulsory conversion of the preference shares into Ordinary Conversion Shares on and with effect from the Trigger Event Date.

4. **Mandatory write-off**
   If the Relevant Authority requires the preference shares to be written off then, on and with effect from the Trigger Event Date, all of the rights and all of the obligations (in each case, whether actual, contingent, accrued or otherwise) of the bank and the Holders under the preference shares shall automatically terminate, and the preference shares shall be (and shall be deemed to have been) automatically written off (for purposes of and/or as contemplated in the Basel III Framework and the Capital Regulations), without further action on the part of the bank or any holder.

5. **Notice and certificates**
   5.1 The bank will notify the Holders of the occurrence of a Trigger Event as soon as may be practicable after the Trigger Event Date.
   5.2 In the case of a Conversion, the bank will, if the Ordinary Conversion Shares are in certificated from, procure that the certificate/s evidencing the Ordinary Conversion Shares are delivered to the Holders."

5. **Special resolution number 5**
   "Resolved that the bank be authorised, for a period up to 15 months from the date of this resolution, as a general approval, to repurchase any of the ordinary shares issued by the bank upon such terms and conditions and in such amounts as the directors may from time to time decide, but subject to the provisions of sections 46 and 48 of the Act, the Banks Act, 1990 (Act 94 of 1990), as amended, the Listings Requirements of the JSE Limited ('JSE'), as applicable and the memorandum of incorporation of the bank."

6. **Special resolution number 6**
   "Resolved that the bank be authorised, for a period up to 15 months from the date of this resolution, as a general approval, to acquire shares issued by its holding company, upon such terms and conditions and in such amounts as the directors of the bank may from time to time decide, but subject to the provisions of sections 46 and 48 of the Act, the Banks Act, 1990 (Act 94 of 1990), as amended, the Listings Requirements of the JSE Limited and the memorandum of incorporation of the bank."

7. **Special resolution number 7**
   "Resolved in terms of section 45(3)(a)(ii) of the Act, as a general approval, that the board of the bank be authorised

to approve that the bank provides any direct or indirect financial assistance ('financial assistance' will herein have the meaning attributed to it in section 45(1) of the Act) that the board of the bank may deem fit to any company or corporation that is related or inter-related ('related' and 'inter-related' will herein have the meaning attributed to it in section 2 of the Act) to the bank, on the terms and conditions and for amounts that the board of the bank may determine."

8. Special resolution number 8

"Resolved that clause 83.2.4 of the terms and conditions attaching to the non-redeemable, non-cumulative, non-participating preference shares ('preference shares') be deleted in its entirety and replaced by the following new clause 83.2.4:

83.2.4 The preference dividend shall be calculated:

83.2.4.1 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 clause 83.2.4.2 below; and

83.2.4.2 from the date following a preference dividend calculation date until and including the preference dividend calculation date immediately following as if the shares have been in issue from the date following the previous preference dividend calculation date, regardless of the date of issue."

9. Special resolution number 9

"Resolved that clause 83.2.7 of the terms and conditions attaching to the non-redeemable, non-cumulative, non-participating preference shares ('preference shares') be deleted in its entirety and replaced by the following new clause 83.2.7:

83.2.7 If there is an amendment or amendments to the Income Tax Act which result in the preference dividends being taxable in the hands of the preference shareholders, provided such amendment is uniformly applicable to all shareholders concerned and not only because of the particular circumstances of the bank or any preference shareholder, the percentage of the prime rate referred to in clause 83.1.8 above will be increased by the bank. Such increase will be calculated to put the shareholder concerned, net after deduction of dividend tax levied at a deemed rate of 10%, in the position he/she would have been prior to implementation of such tax. The bank shall require its auditors to verify whether it is obliged to increase the percentage of the prime rate referred to in clause 83.1.8 above in accordance with this clause 83.2.7. The auditors, in deciding whether such increase is required in terms of this clause 83.2.7, 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 bank and all preference shareholders. The costs of such auditors shall be borne and paid by the bank. For the avoidance of doubt it is recorded that any increase in a tax rate previously imposed on preference dividends will not oblige the bank to take any action."

Regulation	Description	Capitec's compliance[1]
39(3)(o)	Risk arising from exposure to a related person.	Capitec has limited exposure to related party risk. All major shareholders are represented on the board. Refer note 30 of the annual financial statements ('AFS')
39(3)(p)	Risk arising from the outsourcing of material tasks or functions.	Capitec Bank retains control of all critical business processes and has an outsourcing policy
39(3)(t)	Risks related to securitisation or securitisation structures.	Transaction, securitisation and resecuritisation, country and valuation risk have no impact on Capitec
43(1)	Subject to the provisions of subregulation (3), a bank shall disclose in its annual financial statements and other disclosures to the public, reliable, relevant and timely qualitative and quantitative information that enables users of that information, among other things, to make an accurate assessment of the bank's financial condition, including its capital adequacy position, and financial performance, business activities, risk profile and risk management practices, provided that-	
43(1)(a)	the bank shall have in place a formal board approved policy relating to disclosure, which policy, as a minimum-	
43(1)(a)(i)	shall specify the approach that the bank adopted in order to determine the materiality, nature and extent of information that will be disclosed to the public;	Board approved disclosure policy that specifies how materiality is determined for the purposes of public disclosures Publically disclosed information is subject to a rigorous review process by management and board committees, including validation, and the board approval is documented Regulation 43 checklist to monitor whether the required disclosures are made Key Regulation 43 disclosure is subject to agreed upon procedures conducted by the external auditors The frequency of information disclosed is based on the needs of investors, Regulation 43 and JSE Listings Requirements
43(1)(a)(ii)	shall be sufficiently robust to ensure that the bank-	
43(1)(a)(ii)(A)	establishes and maintains appropriate internal control processes and procedures relating to the qualitative and quantitative information disclosed to the public;	
43(1)(a)(ii)(B)	assesses on a regular basis the appropriateness of information disclosed to the public;	
43(1)(a)(ii)(C)	establishes and maintains an appropriate process to validate the information disclosed to the public;	
43(1)(a)(ii)(D)	regularly assesses the frequency and materiality of information disclosed to the public;	
43(1)(a)(ii)(E)	is able to continuously determine the extent to which the required information may already be included in the bank's accounting disclosure requirements and to what extent the bank has to disclose information in addition to the bank's accounting disclosure requirements;	
43(1)(b)	when compliance with the minimum required information specified in subregulation (2) below is not sufficient to provide a true and fair presentation of the bank's financial condition, including its capital-adequacy position, and financial performance, business activities, risk profile and risk-management practices, the bank shall disclose relevant additional information;	Capitec strives to provide the market with all relevant information in a manner that is easily understandable
43(1)(c)	the bank's annual financial statements and other disclosures to the public shall present or disclose each material item separately. Information is material if its omission or misstatement could change or influence the judgement or decision of a user relying on that information to take, amongst other things, economic or investment decisions;	Public disclosure policy parameters and International Financial Accounting Standards ('IFRS') are applied, ensuring correct disclosure of all material items
43(1)(d)	the minimum required publicly disclosed information, amongst other things, shall be consistent with the manner in which the board of directors and the senior management of the bank assess and manage the bank's risk exposures;	Publically disclosed information is based on and reconcilable to management accounting information used by the board and senior management

Regulation	Description	Capitec's compliance[1]
43(1)(e)	the bank shall on a regular basis, but not less frequently than-	
43(1)(e)(i)	once a year disclose to the public qualitative information in respect of the bank's risk management objectives and policies, reporting system and general definitions;	Risk management and remuneration objectives and policies are disclosed in the Integrated risk management section of the integrated annual report ('IR') IFRS is the reporting framework used for the AFS
43(1)(e)(ii)	once a year disclose to the public the relevant required qualitative and quantitative information related to remuneration, specified in subregulation (2)(f) below;	
43(1)(e)(iii)	on a quarterly basis, disclose to the public quantitative information in respect of-	
43(1)(e)(iii)(A)	the bank's tier 1 capital, including the bank's tier 1 capital adequacy ratio;	The information is included in the AFS for the fourth quarter SENS releases are made for the May and November quarters For the second quarter (half-year) reporting, a separate summary booklet is produced which reflects certain notes produced in the AFS at year-end At year-end there was no countercyclical buffer requirement and all Capitec's exposures were within South Africa Management monitors the business and items that are key to understanding the risk profile and results of the business are dealt with in the commentary that accompanies the year-end and half-year SENS releases
43(1)(e)(iii)(B)	the bank's total capital, including the bank's total capital adequacy ratio;	
43(1)(e)(iii)(C)	the components of capital;	
43(1)(e)(iii)(D)	the total required amount of capital and reserve funds;	
43(1)(e)(iii)(E)	the bank's relevant countercyclical buffer requirement, which buffer requirement shall be based on the latest relevant jurisdictional countercyclical buffers available at the date that the bank calculates its minimum capital requirement, provided that the bank shall also disclose to the public the relevant geographic distribution of its private sector credit exposures used in the calculation of the said buffer requirement;	
43(1)(e)(iii)(F)	any risk exposure or other item that is subject to rapid or material change,	
43(1)(e)(iv)	on a semi-annual basis, disclose to the public the qualitative and quantitative information, other than the information referred to in subparagraphs (i) to (iii) above, envisaged in subregulation (2) below, provided that, in all cases, the bank shall publish material information that are subject to rapid or material change as soon as possible;	
43(1)(f)	at the discretion of the management of the bank, the bank shall determine appropriate additional mediums and locations to disclose the required information to the public;	The disclosure policy specifies the frequency and medium of disclosures All disclosures in the AFS and SENS announcements are available under the Investors relations section on the Capitec website
43(1)(g)	the bank's disclosure to the public in terms of the provisions of this regulation 43-	
43(1)(g)(i)	shall be consistent with the bank's audited financial statements;	Refer 43(1)(d)
43(1)(g)(ii)	shall be subject to appropriate internal control and verification;	All public information (with the exception of the monthly BA 900 information) is signed off by the audit committee and RCMC. An internal control structure is in place comprising sign-off by preparers and reviewers, use of analytical reviews and management authorisation meetings
43(1)(h)	when the information required to be disclosed in terms of the provisions of this regulation 43 differs from any prescribed listing requirements or disclosure requirements in terms of Financial Reporting Standards, the bank shall in an appropriate manner explain any material differences between the said disclosure requirements;	Reconciliations are provided where necessary
43(2)	Without derogating from the provisions of subregulation (1), in accordance with the provisions of the framework for the preparation and presentation of financial statements, read with the relevant requirements of Financial Reporting Standards that may be issued from time to time, a bank shall, as a minimum, disclose in its financial statements appropriate qualitative and quantitative information in respect of the broad categories of information specified below:	
43(2)(a)	Scope of application. A bank shall in respect of the required-	
43(2)(a)(i)	qualitative information, disclose to the public-	

Regulation	Description	Capitec's compliance[1]
43(2)(a)(i)(B)	any differences between the manner in which entities are consolidated for accounting and regulatory purposes, with a brief description of the entities within the group	The accounting and supervisory reporting consolidation bases are consistent
43(2)(a)(i)(B)(i)	that are fully consolidated;	Refer note 10 to the AFS
43(2)(a)(i)(C)	sufficiently detailed information in respect of any restrictions or other major impediments on the transfer of funds or qualifying capital within the banking group;	Addressed in the Capital management sub-section of the Integrated risk management section of the Integrated report (IR)
43(2)(a)(ii)	quantitative information, disclose to the public-	
43(2)(b)	Financial performance	Addressed in the IR
43(2)(c)	Financial position, including-	
43(2)(c)(i)	capital adequacy; A bank shall in respect of the required-	
43(2)(c)(i)(A)	qualitative information, disclose to the public sufficiently detailed information in respect of the bank's approach to assess the adequacy of the bank's capital in order to support the bank's current and future activities;	Addressed in the Integrated risk management section of the IR
43(2)(c)(i)(B)	quantitative information, disclose to the public-	
43(2)(c)(i)(B)(i)	the bank's capital requirement in respect of credit risk, including sufficiently detailed information in respect of-	
43(2)(c)(i)(B)(i)(aa)	portfolios subject to the standardised or simplified standardised approach, which disclosure shall be made in respect of each relevant credit portfolio;	Refer note 28.7 to the AFS. Capitec applies the standardised approach to calculations of risk weighted assets for credit and equity risks of all portfolios
43(2)(c)(i)(B)(iv)	the bank's capital requirement in respect of operational risk, with separate disclosure in respect of-	
43(2)(c)(i)(B)(iv)(bb)	the standardised approach;	Capitec uses the Alternative Standardised Method (ASA) and quantitative disclosure is included in the IR
43(2)(c)(i)(B)(v)	sufficiently detailed information in respect of the bank's total capital adequacy ratio and its common equity tier 1 and additional tier 1 capital adequacy ratios, including the component relating to innovative capital instruments that is subject to phase-out arrangements and a comprehensive explanation of how the respective aforesaid ratios were calculated, in respect of-	
43(2)(c)(i)(B)(v)(aa)	the controlling company;	Refer note 28.7 to the AFS
43(2)(c)(i)(B)(v)(bb)	significant bank subsidiaries, either based on a stand-alone basis or subconsolidated basis depending on the required manner of reporting in respect of the said subsidiaries.	
43(2)(c)(ii)	capital structure; A bank shall in respect of the required-	
43(2)(c)(ii)(A)	qualitative information, disclose to the public sufficiently detailed information relating to-	
43(2)(c)(ii)(A)(i)	the main features, terms and conditions of all relevant capital instruments issued by the bank, particularly in respect of innovative, complex or hybrid capital instruments;	Refer note 17 to the AFS regarding equity Refer note 14 to the AFS regarding subordinated debt instruments
43(2)(c)(ii)(A)(ii)	all limits and minima, identifying the positive and negative elements of capital to which such limits and minima apply;	Refer note 28.7 to the AFS and capital management section of the IR
43(2)(c)(ii)(B)	quantitative information, disclose to the public-	
43(2)(c)(ii)(B)(i)	the amount relating to common equity tier 1 capital and reserve funds, including information in respect of:	
43(2)(c)(ii)(B)(i)(aa)	paid-up share capital, including ordinary shares;	Refer notes 17 and 28.7 to the AFS
43(2)(c)(ii)(B)(i)(bb)	reserve funds;	Refer note 28.7 to the AFS
43(2)(c)(ii)(B)(ii)	the amount relating to additional tier 1 capital and reserve funds, including information in respect of:	
43(2)(c)(ii)(B)(ii)(aa)	paid-up capital;	Refer note 28.7 to the AFS

Regulation	Description	Capitec's compliance[1]
43(2)(c)(ii)(B)(ii)(ff)	amounts deducted from additional tier 1 capital;	Refer note 28.7 to the AFS
43(2)(c)(ii)(B)(iii)	the relevant amounts relating to tier 2 capital;	
43(2)(c)(ii)(B)(iv)	the relevant amounts relating to deductions from the bank's tier 2 capital and reserve funds;	
43(2)(c)(ii)(B)(v)	the relevant amount relating to total qualifying capital and reserve funds;	
43(2)(c)(ii)(B)(vi)	a full reconciliation between all instruments and reserves qualifying as capital and reserve funds in terms of the provisions of these Regulations and the balance sheet in the audited financial statements;	
43(2)(c)(ii)(B)(vii)	all adjustments to qualifying capital and reserve funds other than the relevant items or deductions specified above, including any relevant amount related to limited recognition as envisaged in regulation 38(5)(b);	
43(2)(c)(iii)	liquidity.	Refer note 28.6 to the AFS and the Integrated risk management section of the IR
43(2)(d)	Types of risk to which the bank is exposed In respect of each type of risk envisaged in regulation 39(3), that is, for example, credit risk, market risk, operational risk, interest-rate risk in the bank's banking book or currency risk, a bank shall disclose sufficiently detailed information in respect of the bank's risk-management objectives and policies, including information in respect of-	
43(2)(d)(i)	the bank's strategies and processes;	Refer to the integrated risk management section of the IR
43(2)(d)(ii)	the structure and organisation of the relevant risk management functions;	
43(2)(d)(iii)	the scope and nature of the bank's risk reporting and/or risk-measurement systems;	
43(2)(d)(iv)	the bank's policies relating to hedging and/or risk mitigation and the bank's strategies and processes in order to monitor the continued effectiveness of hedges or risk-mitigation instruments.	Capitec Bank does not operate a 'trading book'. Therefore hedging is a risk mitigation tool for the 'banking book'. Refer to the integrated risk management section of the IR and notes 41 and 42 to the AFS
43(2)(e)	Nature and extent of risk exposures, including-	
43(2)(e)(i)	credit risk; A bank shall in the case of-	
43(2)(e)(i)(A)	credit risk exposures, excluding credit risk arising from positions held in equity instruments, disclose to the public the qualitative and quantitative information specified below:	
43(2)(e)(i)(A)(i)	Qualitative information. A bank-	
43(2)(e)(i)(A)(i)(aa)	shall in addition to the information specified in paragraph (d) above, disclose to the public sufficiently detailed information in respect of-	
43(2)(e)(i)(A)(i)(aa)(i)	the bank's accounting definitions in respect of past due and impaired exposure;	Refer note 2.4 to the AFS
43(2)(e)(i)(A)(i)(aa)(ii)	the approaches adopted by the bank in respect of credit impairment, including specific and portfolio impairment, and general allowance, as well as relevant information in respect of the statistical methods applied by the bank;	
43(2)(e)(i)(A)(i)(aa)(iii)	the bank's credit risk management policy;	Refer to the Integrated risk management section of the IR
43(2)(e)(i)(A)(ii)	Quantitative information. A bank-	
43(2)(e)(i)(A)(ii)(aa)	shall in respect of its major types of credit exposure disclose to the public sufficiently detailed information relating to-	

Regulation	Description	Capitec's compliance[1]
43(2)(e)(i)(A)(ii)(aa)(i)	the aggregate amount of gross credit exposure after the effect of set-off in accordance with the requirements of Financial Reporting Standards have been taken into consideration but before the effects of credit risk mitigation techniques such as collateral or netting have been taken into account;	Refer to the integrated risk management section of the IR – Analysis of regulatory credit exposure
43(2)(e)(i)(A)(ii)(aa)(ii)	the bank's average amount of gross exposure during the reporting period, which average gross exposure amount shall be calculated on a daily average basis, unless the exposure at the end of a particular reporting period in all material respects represents the average credit exposure amount during the said reporting period in which case the bank need not disclose the said average exposure amount, provided that when the bank is unable to calculate an average exposure amount on a daily average basis the bank shall disclose to the public the basis on which it calculated such average exposure amounts;	
43(2)(e)(i)(A)(ii)(aa)(iii)	the geographical distribution of its credit exposures, which distribution shall be based on the relevant requirements specified in the form BA 210 and in regulation 24;	All credit exposures are in South Africa. Refer note 28.2 to the AFS for further analysis
43(2)(e)(i)(A)(ii)(aa)(iv)	the distribution of exposures based on industry or counterparty type;	Refer to the integrated risk management section of the IR – Analysis of regulatory credit exposure
43(2)(e)(i)(A)(ii)(aa)(v)	the maturity breakdown of the bank's credit portfolio, which maturity breakdown shall be based on the residual contractual maturity of the said exposures;	Refer notes 7 and 28.6 to the AFS
43(2)(e)(i)(A)(ii)(bb)	shall in respect of each major industry, counterparty type or geographical area disclose to the public sufficiently detailed information in respect of the aggregate amount relating to-	
43(2)(e)(i)(A)(ii)(bb)(i)	impaired loans and past due loans, including an analysis of the ageing of past-due loans;	Refer to the Integrated risk management section of the IR – Analysis of regulatory credit exposure and note 7 to the AFS
43(2)(e)(i)(A)(ii)(bb)(ii)	any credit impairment, including any specific or portfolio impairment;	Refer note 7 to the AFS
43(2)(e)(i)(A)(ii)(bb)(iii)	any specific or portfolio impairment raised and amounts written off during the current reporting period, provided that the bank shall separately disclose the unallocated portion of general allowances, that is, the portion of general allowances not allocated to a specific industry, counterparty or geographical area;	Refer notes 7 and 21 to the AFS
43(2)(e)(i)(A)(ii)(cc)	shall provide a reconciliation of changes in specific impairment or portfolio impairment, or general allowance, which reconciliations shall include-	
43(2)(e)(i)(A)(ii)(cc)(i)	a description of the type of impairment or allowance;	Refer notes 7 and 21 to the AFS
43(2)(e)(i)(A)(ii)(cc)(ii)	the relevant opening balance;	
43(2)(e)(i)(A)(ii)(cc)(iii)	amounts written off against the relevant specific impairment or portfolio impairment, or allowance, during the reporting period;	
43(2)(e)(i)(A)(ii)(cc)(iv)	amounts transferred to or reversed against the relevant specific impairment or portfolio impairment, or allowance, during the reporting period;	
43(2)(e)(i)(A)(ii)(cc)(v)	any other adjustments such as exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, including transfers between the relevant specific impairment or portfolio impairment, or allowances;	Exchange rates differences, business combinations, acquisitions and disposals of subsidiaries are not relevant Capitec does not transfer between general and portfolio impairment but determines each provision monthly and charges the requirement to the income statement
43(2)(e)(i)(A)(ii)(cc)(vi)	the relevant closing balance, provided that the bank shall separately disclose any amounts written off or recoveries that have been recorded directly in the income statement;	Refer note 7 and 21 to the AFS
43(2)(e)(i)(A)(ii)(dd)	shall in respect of each relevant credit portfolio disclose to the public the relevant amounts of exposure that are subject to-	
43(2)(e)(i)(A)(ii)(dd)(i)	the standardised approach;	Capitec uses the standardised approach and all portfolios are included

Regulation	Description	Capitec's compliance[1]
43(2)(e)(i)(B)	portfolios subject to the standardised approach or the standardised risk grades relating to specialised lending in terms of the IRB approach specified in regulation 23(11)(d)(iii), disclose to the public the qualitative and quantitative information specified below:	
43(2)(e)(i)(B)(i)	Qualitative information. A bank shall in the case of credit portfolios subject to the standardised approach or the standardised risk grades relating to specialised lending in terms of the IRB approach specified in regulation 23(11)(d)(iii) disclose to the public sufficiently detailed information in respect of-	
43(2)(e)(i)(B)(i)(aa)	the names of the external credit assessment institutions or export credit agency used by the bank, and in the case of any changes made by the bank in respect of external credit assessment institutions or export credit agencies, the reasons for such change;	Refer to the integrated risk management section of the IR – Analysis of regulatory credit exposure - footnotes. Capitec only uses Fitch ratings
43(2)(e)(i)(B)(i)(bb)	the types of exposure for which the bank uses a particular agency;	
43(2)(e)(i)(B)(i)(cc)	the process followed by the bank to assign publicly issued ratings to comparable assets in the bank's banking book;	
43(2)(e)(i)(B)(i)(dd)	any mapping of exposures, that is, the alignment between the alphanumerical rating scale of each relevant rating agency used by the bank and the bank's relevant risk categories, unless the bank conducts its mapping of credit exposures in accordance with the mapping procedures specified by the Registrar from time to time;	
43(2)(e)(i)(B)(i)(ee)	the risk weights associated with a particular rating grade or risk category	
43(2)(e)(i)(B)(ii)	Quantitative information	
43(2)(e)(i)(B)(ii)(aa)	exposure subject to the standardised approach, separately disclose to the public-	
43(2)(e)(i)(B)(ii)(aa)(i)	the outstanding amounts after risk mitigation in respect of rated and unrated exposures relating to each relevant risk category;	Refer to the integrated risk management section of the IR – Analysis of regulatory credit exposure
43(2)(e)(i)(B)(ii)(aa)(ii)	any exposure amount that is deducted from the bank's capital and reserve funds	Refer note 28.7 to the AFS Exposures relating to funds advanced to employees to take up options are deducted from equity
43(2)(e)(i)(D)	credit risk mitigation in terms of the standardised or IRB approach, excluding any risk mitigation that falls within the ambit of the exemption notice relating to securitisation schemes, disclose to the public sufficiently detailed information in respect of the qualitative and quantitative information specified below:	
43(2)(e)(i)(D)(i)	Qualitative information. A bank shall in addition to the information specified in paragraph (d) above, disclose to the public sufficiently detailed information in respect of-	
43(2)(e)(i)(D)(i)(aa)	the bank's policies and processes relating to on- and off-balance sheet netting, including the extent to which the bank makes use of on- and off-balance sheet netting when the bank determines its exposure to credit risk;	The bank does not employ on- and off-balance sheet netting
43(2)(e)(i)(D)(i)(cc)	the main types of guarantors or credit-derivative counterparties involved in the bank's risk mitigation activities, and the creditworthiness of the said parties;	The book is insured against certain credit events with a stable insurer in good credit standing
43(2)(e)(i)(D)(i)(dd)	any risk concentration incurred in respect of the bank's risk mitigation activities.	
43(2)(e)(i)(D)(ii)	Quantitative information. A bank shall in respect of each separately identified credit portfolio in terms of the standardised or foundation IRB approach disclose to the public the bank's total exposure after the effect of any on- or off- balance sheet netting has been taken into consideration, with an indication of exposures protected by way of-	
43(2)(e)(i)(D)(ii)(aa)	eligible financial collateral, after the effect of any haircuts has been taken into consideration;	Refer to the integrated risk management section of the IR – Analysis of regulatory credit exposure
43(2)(e)(i)(E)	exposure to counterparty credit risk, disclose to the public sufficiently detailed information in respect of the qualitative and quantitative information specified below:	
43(2)(e)(i)(E)(i)	Qualitative information. In respect of derivative instruments and exposures relating to counterparty credit risk, a bank shall in addition to the information specified in paragraphs (d) and (e)(i)(A) above, disclose to the public sufficiently detailed information relating to-	

Regulation	Description	Capitec's compliance[1]
43(2)(e)(i)(E)(i)(aa)	the methodology adopted by the bank in order to assign economic capital and credit limits in respect of the bank's exposure to counterparty risk;	Capitec does not run a "trading book" and derivatives are limited to use in risk mitigation. Therefore, counterparty credit risk is low. Capitec does not currently assign economic capital to counterparty credit risk due to the small exposure thereto Credit limits for derivative counterparties are the same as those for wholesale credit risk
43(2)(e)(i)(E)(ii)	Quantitative information. A bank-	
43(2)(e)(i)(E)(ii)(aa)	shall disclose to the public sufficiently detailed information relating to-	
43(2)(e)(i)(E)(ii)(aa)(i)	the gross positive fair value of all relevant contracts that expose the bank to counterparty credit risk;	Refer to the integrated risk management section of the IR – Analysis of regulatory credit exposure and note 42 to the AFS
43(2)(e)(i)(E)(ii)(aa)(iii)	the net amount of current credit exposure;	
43(2)(e)(i)(E)(ii)(aa)(vii)	the distribution of current credit exposure, which distribution shall be based on the relevant types of credit exposure, that is, for example, interest rate contracts, FX contracts, equity contracts, credit derivative instruments or commodity contracts.	
43(2)(e)(i)(E)(ii)(bb)	shall in respect of the current exposure method, standardised method or internal model method, as the case may be, disclose to the public sufficiently detailed information relating to the relevant exposure amount or EAD, that is, the estimated exposure at default;	
43(2)(e)(ii)(C)	shall in respect of equity positions held in the bank's banking book disclose to the public sufficiently detailed information in respect of the qualitative and quantitative information specified below:	
43(2)(e)(ii)(C)(i)	Qualitative information. A bank shall in addition to the qualitative information specified in paragraph (d) above, disclose to the public sufficiently detailed information in respect of the bank's accounting policies, including-	
43(2)(e)(ii)(C)(i)(aa)	the manner in which the bank values and accounts for equity positions held in the banking book, that is, the accounting technique and valuation methodology used by the bank;	Capitec has no equity investments other than investments in subsidiaries and associate companies The accounting policy for investments in subsidiaries and associates is included in the AFS
43(2)(e)(ii)(C)(ii)	Quantitative information. A bank-	
43(2)(e)(ii)(C)(ii)(aa)	shall disclose to the public-	
43(2)(e)(ii)(C)(ii)(aa)(ii)	the cumulative amount of gains/losses realised by the bank from the sale/liquidation of positions held in the bank's banking book during the current reporting period;	The profit/loss on sale of the subsidiary, Key Distributors, is in the AFS
43(2)(e)(iii)	liquidity risk;	Refer note 28.6 to the AFS
43(2)(e)(iv)	interest-rate risk; A bank shall in respect of positions held in the bank's banking book-	
43(2)(e)(iv)(A)	in addition to the qualitative information specified in paragraph (d) above, disclose to the public sufficiently detailed qualitative information relating to-	
43(2)(e)(iv)(A)(i)	the nature of the bank's exposure to interest-rate risk;	Refer note 28.6 to the AFS and the Integrated risk management section of the IR
43(2)(e)(iv)(A)(ii)	key assumptions made by the bank, including assumptions relating to loan prepayments and the behaviour of core deposits, that is, deposits that are not drawn in accordance with the contractual provisions of the deposits and which deposits are regarded as "permanent" funding;	'Core deposits' are currently calculated at +/- 90% stability
43(2)(e)(iv)(A)(iii)	the frequency with which the bank measures its exposure to interest-rate risk.	ALCO receives monthly reports
43(2)(e)(iv)(B)	disclose to the public, quantitative information in respect of the increase or decrease in earnings, economic value or the relevant measure used by the management of the bank, relating to a standardised upward and downward interest rate shock specified in the form BA 330 or in writing by the Registrar, provided that the bank shall break the required information down based on	A Net Present Value static calculation, based on contractual positions, EVE (Economic Value of Equity) is disclosed in the integrated risk management section of the IR
43(2)(e)(v)	operational risk; A bank-	

Regulation	Description	Capitec's compliance[1]
43(2)(e)(v)(A)	shall in addition to the qualitative information specified in paragraph (d) above, disclose to the public sufficiently detailed information relating to the approach(es) adopted by the bank for the measurement of the bank's exposure to operational risk,	The ASA approach is used and is disclosed in Integrated risk management section of the IR
43(2)(e)(vii)	other material risks to which the bank is exposed;	Capitec provides information to users on all material risks in the AFS and the IR
43(2)(f)	Remuneration. With regards to a bank's remuneration policies, processes and procedures, a bank shall disclose to the public sufficiently detailed qualitative and quantitative information-	
43(2)(f)(i)	in respect of-	
43(2)(f)(i)(A)	the bank's relevant governance and/or committee structures;	Refer to the integrated risk management section of the IR – Governance
43(2)(f)(i)(B)	the design and operation of the bank's remuneration structure, and the frequency of review;	Refer to the integrated risk management section of the IR – Remuneration
43(2)(f)(i)(C)	the independence of remuneration for risk and compliance staff;	
43(2)(f)(i)(D)	the relevant risk adjustment methodologies;	
43(2)(f)(i)(E)	the link between remuneration and performance;	
43(2)(f)(i)(F)	the relevant long-term performance measures, such as deferral, malus or clawback;	
43(2)(f)(i)(G)	the relevant types of remuneration, such as cash versus equity, and fixed versus variable;	
43(2)(f)(ii)	which qualitative information, as a minimum, shall include-	
43(2)(f)(ii)(A)	information relating to the relevant bodies that oversee the bank's remuneration, including-	
43(2)(f)(ii)(A)(i)	the relevant name, composition and mandate of the main body overseeing remuneration;	Refer to the integrated risk management section of the IR – Governance
43(2)(f)(ii)(A)(ii)	external consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process;	Refer to the integrated risk management section of the IR – Remuneration
43(2)(f)(ii)(A)(iii)	a description of the scope of the bank's remuneration policy, for example, by regions and business lines, including the extent to which it is applicable to foreign subsidiaries and branches;	
43(2)(f)(ii)(A)(iv)	a description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each relevant group;	
43(2)(f)(ii)(B)	information relating to the design and structure of the bank's remuneration processes, including	
43(2)(f)(ii)(B)(i)	an overview of the key features and objectives of the bank's remuneration policy;	Refer to the integrated risk management section of the IR – Remuneration
43(2)(f)(ii)(B)(ii)	whether the remuneration committee reviewed the bank's remuneration policy during the past year, and if so, an overview of any material changes that were made;	
43(2)(f)(ii)(B)(iii)	a discussion of how the bank ensures that risk and compliance employees are remunerated independently of the relevant businesses they oversee;	
43(2)(f)(ii)(C)	a description of the ways in which current and future risks are taken into account in the bank's remuneration processes, including-	
43(2)(f)(ii)(C)(i)	an overview of the key risks that the bank takes into account when implementing remuneration measures;	Refer to the integrated risk management section of the IR – Remuneration
43(2)(f)(ii)(C)(ii)	an overview of the nature and type of the key measures used to take account of the said risks, including risks difficult to measure;	
43(2)(f)(ii)(C)(iii)	a discussion of the ways in which the said measures affect remuneration;	
43(2)(f)(ii)(C)(iv)	a discussion of how the nature and type of the said measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration;	

Regulation	Description	Capitec's compliance[1]
43(2)(f)(ii)(D)	a description of the manner in which the bank seeks to link performance during a performance measurement period with levels of remuneration, including-	
43(2)(f)(ii)(D)(i)	an overview of main performance metrics for bank, top-level business lines and individuals;	Refer to the integrated risk management section of the IR – Remuneration
43(2)(f)(ii)(D)(ii)	a discussion of how amounts of individual remuneration are linked to bank-wide and individual performance;	
43(2)(f)(ii)(D)(iii)	a discussion of the measures the bank in general implement to adjust remuneration in the event that performance metrics are weak, including the bank's criteria for determining "weak" performance metrics;	
43(2)(f)(ii)(E)	a description of the manner in which the bank seeks to adjust remuneration to take account of longer-term performance, including-	
43(2)(f)(ii)(E)(i)	a discussion of the bank's policy on deferral and vesting of variable remuneration, and when the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance;	Refer to the integrated risk management section of the IR – Remuneration
43(2)(f)(ii)(E)(ii)	a discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and, when relevant, after vesting through, for example, clawback arrangements;	
43(2)(f)(ii)(F)	a description of the different forms of variable remuneration that the bank utilises, and the rationale for using such different forms of variable remuneration, including-	
43(2)(f)(ii)(F)(i)	an overview of the respective forms of variable remuneration offered, that is, for example, cash, shares and share-linked instruments, or other forms, with a sufficiently detailed description of the core elements of such other forms;	Refer to the integrated risk management section of the IR – Remuneration
43(2)(f)(ii)(F)(ii)	a discussion of the use of the different forms of variable remuneration and, when the mix of different forms of variable remuneration differs across employees or groups of employees, a description of the factors that determine the mix and their relative importance;	
43(2)(f)(iii)	which quantitative information shall relate to and separate between the bank's senior management and other employees whose actions may have a material impact on the bank's exposure to risk, and, as a minimum, shall include-	
43(2)(f)(iii)(A)	the relevant number of-	
43(2)(f)(iii)(A)(i)	meetings held by the main body overseeing remuneration during the financial year, and the remuneration paid to its members;	Refer to the integrated risk management section of the IR – Governance
43(2)(f)(iii)(A)(ii)	employees who received a variable remuneration award during the financial year;	Refer to the integrated risk management section of the IR – Remuneration
43(2)(f)(iii)(B)	the relevant number of and total amount related to-	Refer to the integrated risk management section of the IR – Remuneration
43(2)(f)(iii)(B)(i)	guaranteed bonuses awarded during the financial year;	
43(2)(f)(iii)(B)(ii)	sign-on awards made during the financial year;	
43(2)(f)(iii)(B)(iii)	severance payments made during the financial year;	
43(2)(f)(iii)(C)	the relevant total amount of-	Refer to the integrated risk management section of the IR – Remuneration
43(2)(f)(iii)(C)(i)	outstanding deferred remuneration, duly distinguishing between cash, shares and share-linked instruments, and other forms of deferred remuneration;	
43(2)(f)(iii)(C)(ii)	deferred remuneration paid out in the financial year;	
43(2)(f)(iii)(D)	a breakdown of the amount of remuneration awards for the financial year, clearly separating between-	
43(2)(f)(iii)(D)(i)	fixed and variable remuneration;	Refer to the integrated risk management section of the IR – Remuneration

Regulation	Description	Capitec's compliance[1]
43(2)(f)(iii)(D)(ii)	deferred and non-deferred remuneration; and	
43(2)(f)(iii)(D)(iii)	the different forms of remuneration used, that is, cash, shares and share-linked instruments, and other forms of remuneration, as indicated in table 1.	
43(2)(f)(iii)(E)	sufficiently detailed information related to employees' exposure to implicit adjustments, that is, for example, fluctuations in the value of shares or performance units, and explicit adjustments, that is, for example, malus, clawbacks or similar reversals or downward revaluations of awards, of deferred remuneration and retained remuneration, clearly indicating the	
43(2)(f)(iii)(E)(i)	outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments;	Refer to the integrated risk management section of the IR – Remuneration
43(2)(f)(iii)(E)(ii)	reductions during the financial year due to ex post explicit adjustments; and	
43(2)(f)(iii)(E)(iii)	reductions during the financial year due to ex post implicit adjustments, provided that in all relevant cases the bank shall also disclose to the public the relevant comparative quantitative information for the previous year.	
43(2)(g)	To the extent not already covered by the information required to be disclosed in terms of the provisions of paragraphs (a) to (f) above, an overview of the key aspects relating to-	
43(2)(g)(i)	the organisational structure relevant to risk management and control, including relevant risk-management strategies, policies and practices;	Refer integrated risk management section of the IR
43(2)(g)(ii)	the methods used to measure and manage risks;	
43(2)(g)(iii)	the principal accounting policies and procedures relevant to the interpretation of the bank's risk exposures; and	Refer note 2 to the AFS
43(2)(g)(iv)	basic business, management and corporate governance information;	Refer integrated risk management section of the IR
43(2)(g)(v)	the bank's compensation or remuneration policies, processes and procedures, including sufficiently detailed information related to-	
43(2)(g)(v)(A)	the decision-making process used to determine the bank's compensation policy;	Refer to the integrated risk management section of the IR – Remuneration
43(2)(g)(v)(B)	the most important design characteristics of the compensation system, including-	
43(2)(g)(v)(B)(i)	criteria used for performance measurement and risk adjustment;	Refer to the integrated risk management section of the IR – Remuneration
43(2)(g)(v)(B)(ii)	relevant matters related to the bank's deferral policy and vesting criteria;	
43(2)(g)(v)(B)(iii)	the parameters used for allocating cash versus other forms of compensation;	
43(3)	Subject to such conditions as may be specified in writing by the Registrar, when a bank is controlled by-	
43(3)(a)	a controlling company;	All Regulation 43 disclosures are provided at the holding company level
43(3)(b)	another bank; or	
43(3)(c)	an institution which has been approved by the Registrar and which conducts business similar to the business of a bank in a country other than the Republic, the requirements specified in sub-regulations (1) and (2) shall apply to such controlling company, bank or institution, as the case may be, instead of to such bank that is so controlled, provided that control for the purposes of this sub-regulation (3) means control as defined in section 42(2) of the Act.	

[1] All policies are logged and maintained by our policies and procedures department ('Polproc')
All subsections of regulation 43 that are not discussed above were not applicable to Capitec or Capitec Bank during the current and previous reporting periods.

Shareholders' calendar

Financial year-end
28 February 2013

Profit announcement
27 March 2013

Integrated annual report
May 2013

Annual general meeting
31 May 2013

Interim report
September 2013

Ordinary dividend

JSE code
CPI

ISIN
ZAE 000035861

Final dividend number 18 will be paid on 22 April 2013

Salient dates for the dividend payment were:

Last day to trade cum dividend
Friday, 12 April 2013

Record date
Friday, 19 April 2013

Administration and addresses

Capitec Bank Holdings Limited

Registration number
1999/025903/06

Auditors
PricewaterhouseCoopers Inc.

Directors
MS du Pré le Roux (Chairman)
R Stassen (Chief executive officer)
AP du Plessis (Chief financial officer)
RJ Huntley (Ms)
MJ Jooste (resigned 2 August 2012)
JD McKenzie (appointed 1 March 2012)
MC Mehl (passed away 30 January 2013)
NS Mjoli-Mncube (Ms)
PJ Mouton
CA Otto
G Pretorius (appointed 19 November 2012)
JP van der Merwe

Secretary
CG van Schalkwyk

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