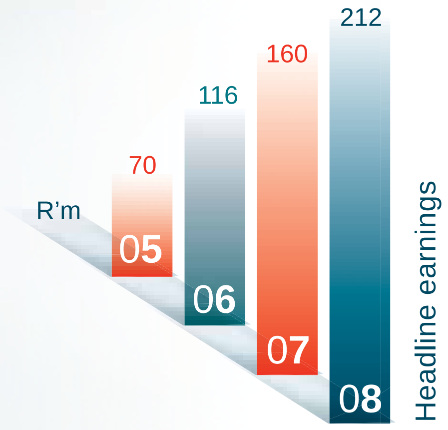
Annual Report 2008

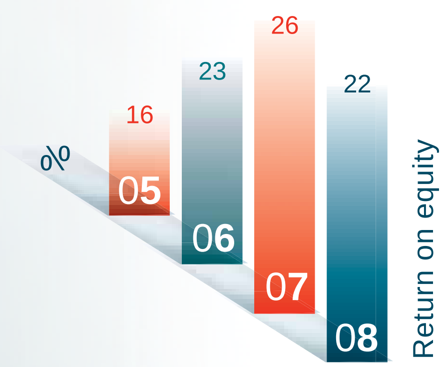
Capitec Bank Holdings Limited

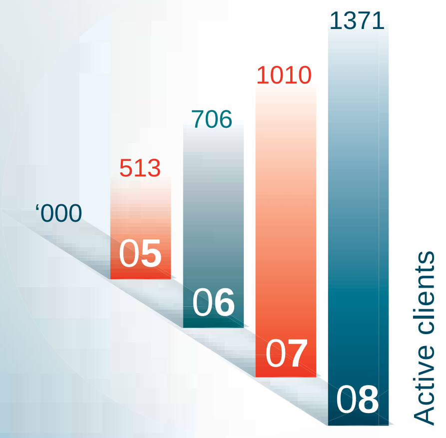
CAPITEC
Bank
The way to bank

Highlights

Headline earnings	↑32%
Final dividend per share	75 cents
Return on equity	22%
Clients	1.37 million
Shareholders' funds	R1.2 billion







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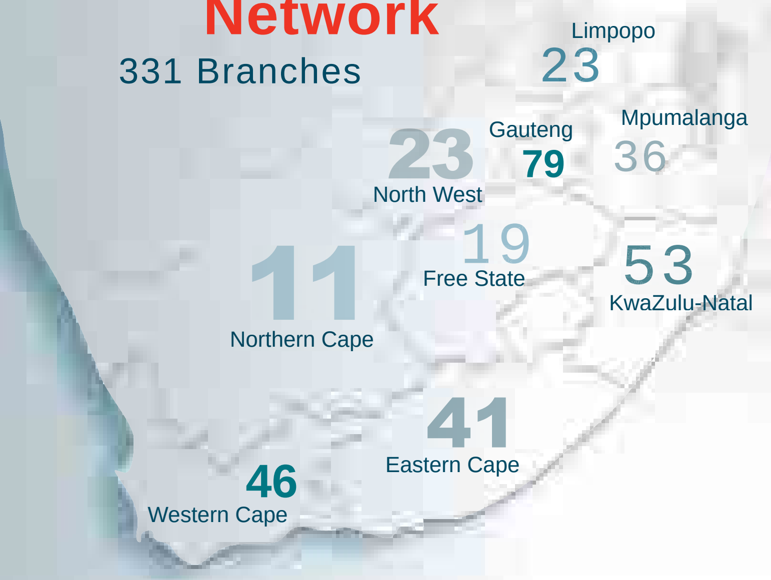
National Network

331 Branches



In six years Capitec Bank's low-cost banking model has attracted **1.4 million clients**, through **331 branches,** and created over **2 800 job opportunities**.

Company Structure

Shareholder	Holding
Board and senior management excluding black directors	23.31%
PSG Group	34.9%
BEE	15.99%
Various shareholders	25.8%

Capitec Bank Holdings Limited 1999/025903/06

(Listed and registered as a bank controlling company)

- 100% **Capitec Bank Limited** 1980/003695/06
- 75% **Key Distributors (Pty) Ltd** 2001/000964/07
- 100% **Other Subsidiaries** No activity
- **Capitec Bank Holdings Share Trust** IT 3044 /2000 Share Incentive Trust
- **Capitec Bank Group Employee Empowerment Trust** IT 4069 /2007

Key Performance Indicators

Operations		2008	2007	Change 08/07	2006	2005
Profitability						
Income from operations	Rm	**1 095**	857	28%	672	491
Operating expenses	Rm	**(771)**	(614)	26%	(506)	(392)
Tax	Rm	**(95)**	(76)	25%	(51)	(32)
Preference dividend	Rm	**(17)**	(8)	123%	-	-
Earnings attributable to ordinary shareholders						
• Basic	Rm	**212**	159	33%	115	67
• Headline	Rm	**212**	160	32%	116	70
Cost-to-income ratio – banking activities	%	**58**	60	(3%)	66	74
Return on ordinary shareholders' equity	%	**22**	26	(17%)	23	16
Earnings per share						
• Attributable	Cents	**258.8**	220.9	17%	163.4	97.9
• Headline	Cents	**259.0**	222.4	16%	165.0	100.9
• Diluted attributable	Cents	**250.3**	209.5	20%	154.7	91.7
• Diluted headline	Cents	**250.5**	210.9	19%	156.2	94.5
Dividends per share						
• Interim	Cents	**25.0**	20.0	25%	-	-
• Proposed final	Cents	**75.0**	60.0	25%	45.0	30.0
Dividend cover	x	**2.6**	2.8	(7%)	3.7	3.4
Assets						
Total assets	Rm	**2 936**	2 191	34%	1 251	805
Net loans and advances	Rm	**2 019**	803	151%	455	208
Cash and cash equivalents	Rm	**618**	1 044	(41%)	582	363
Investments	Rm	**14**	112	(87%)	7	17
Other	Rm	**285**	232	23%	207	217
Liabilities						
Total liabilities	Rm	**1 719**	1 074	60%	687	332
Deposits	Rm	**1 528**	897	71%	595	281
Other	Rm	**191**	177	7%	92	51
Equity						
Shareholders' funds	Rm	**1 217**	1 117	9%	564	473
Capital adequacy ratio	%	**36**	79	(54%)	56	84
Net asset value per ordinary share	Cents	**1 297**	1 175	10%	784	672
Share price	Cents	**3 900**	3 700	5%	3 105	1 490
Market capitalisation	Rm	**3 195**	3 031	5%	2 233	1 072
Share options						
• Number outstanding	'000	**5 159**	6 191	(17%)	5 841	6 753
• Average strike price	Cents	**1 815**	1 151	58%	648	271
• Average time to maturity	Months	**24**	24	–	28	25
• Charge on settlement	Rm	**48**	22	118%	31	16
Operations						
Branches		**331**	280	18%	253	251
Employees		**2 800**	2 129	32%	1 901	1 708
Active clients	'000	**1 371**	1 010	36%	706	513
Own ATMs		**328**	264	24%	210	180
Partnership ATMs		**437**	143	206%	-	-
Mobile banking units		**86**	53	62%	-	-
Capital expenditure	Rm	**117**	86	36%	72	84
Sales						
Loans						
• Value of loans advanced	Rm	**5 162**	3 449	50%	2 863	2 259
• Number of loans advanced	'000	**3 155**	2 924	8%	2 650	2 486
• Average loan amount	R	**1 636**	1 180	39%	1 080	909
• Loan revenue	Rm	**1 284**	1 001	28%	768	534
• Net loan impairment expense	Rm	**231**	161	43%	96	39
• Net impairment to repayments	%	**5.10**	4.12	24%	2.85	1.45
Deposits						
• Value of savings deposits	Rm	**842**	554	52%	314	74
• Number of savings clients	'000	**783**	583	34%	375	143
• Net transaction fee Income	Rm	**79**	35	128%	15	4

An **Innovative Alternative** to **Traditional Banking**

"Since Capitec's arrival on the banking scene there has been a shift in the mind set of conservative banks as they have woken up to the potential in the emerging segment."

Richard Stovin-Bradford
Sunday Times
7 November 2007

The Market

The need for **simplified, accessible** and **low-cost banking** is evident across all income sectors in the market. The **level of personal saving** in the market is alarmingly low, but understandable, as **returns on everyday savings are poor**. The average client incurs fees and costs that **exceed the savings returns** in an account on an annual basis. Transaction costs are high, finance is generally inaccessible and processes are cumbersome, with long delays before a response or approval is given. Capitec Bank has **tailormade** its **Global One Banking Facility** to address all these shortcomings.

The way to bank

Capitec Bank has redefined the way retail banking is accessed in South Africa and has challenged the conventional way of delivering value to clients. The innovative banking platform has enabled the Bank to engage the market where other banks were reluctant to venture.

Since inception, the Bank has had a **client-centric business approach** which delivers the following: **value, convenience, simplicity, security and personal service.**

Value

The all-in-one Global One Banking Facility is the most affordable day-to-day transaction account available. It is also the most attractive and flexible savings package of its kind in the market with the **highest interest return** for the everyday saver. Furthermore, this facility provides access to a very **price competitive** range of credit products with the added advantage of **immediate availability of funds**.

Transacting value is unbeatable, as purchases with the **Global One Gold Card** incur **no fees** and cash withdrawals at selected retailers can be done for **only R1 per transaction**. Access to the **easiest online banking** completes this substantial package! Despite competition in the market, the Global One offer enjoys phenomenal success, with **client numbers now in excess of 1.3 million.**

Convenience and simplicity

Capitec Bank's **unique offer** is communicated in such a way that everyone clearly understands what is being delivered and how much they are paying for it. Added to this is the **paperless** application process for **transacting, savings or lending options**, making our offer the most **simplified and accessible** in the market. This **Global One Banking Facility** gives clients access to a range of products that fulfil their essential banking needs and which are all managed **via a single card.**

The **application process for savings accounts and personal loans** is effortless, taking just **minutes to complete**. Where credit applications are concerned, the credit-granting process complies with the National Credit Act and gives approval of applications in minutes.

Convenience has been further enhanced with minimum banking hours that are from 08:00 to 17:00 on weekdays and 08:00 to 13:00 on Saturdays. Our 331 branches are often open from **07:00 to 19:00** on peak days to accommodate clients commuting to or from work.

Agreements have been established with major retailers to give clients access to the banking system. Purchases and cash withdrawals can be done at **any till point at Shoprite, Checkers and Pick n Pay.** The Maestro- and Visa- endorsed Global One debit card facilitates local and international card purchases at most retailers. Capitec Bank is also **part of the Saswitch network,** so clients **can access not only our 765 ATMs, but all other banks' ATMs nationwide for cash withdrawals and transacting.**

Security

Client account security is key at Capitec Bank and advanced technology is used to prevent unauthorised or illegal access. All transactions performed by branch consultants are controlled via **biometric authorisation.** This enables paperless tracking when account enquiries arise, facilitating speedy resolution. Further enhancements to security are being implemented via biometric verification of clients.

In addition to biometric verification, **photo ID is used to facilitate instant client recognition.** A digital photograph of the client is captured during the opening of the Global One Banking Facility. Whenever clients visit a branch, they swipe their **Global One Gold Card** before being prompted to enter their **unique PIN**. The system recalls the client's photograph, **allowing the consultant to identify the client in person.**

ATMs and drop safes ensure that **Capitec Bank's branches are largely cashless,** which provides a safer and more accessible environment to clients, **with reduced risk of robberies.**

The retail internet banking service offered by Capitec Bank from January 2008 **uses a unique security token** which generates a once-off code each time a registered user does a transaction. This is in addition to normal user identity verification and passwords. Security tokens are issued during the registration process and **linked to a client's account.**

Personal service

Capitec Bank consultants are employed for potential and trained for skill. This ensures **consistent quality at the service interface.** They are specifically selected from local communities where the branch is situated, to afford clients the opportunity of **being served in the language of their choice.** Branches are situated where clients shop, commute and work. The branch design promotes an open and friendly atmosphere with a **focus on personal support and service.**

Our consulting processes are directed at **empowering clients to make the right choices given their individual needs.**

Capitec Bank has a dedicated 24-hour client care centre which gives clients assistance when they need it. Capitec Bank also encourages personal development by promoting a basic financial skills programme made accessible to interested parties.

Innovation

Capitec Bank invested in **world-class systems and innovative technology** to provide unique products and services to the market. While this has delivered accessibility, simplicity and good value for money to clients, it has also enabled a **streamlined, low-cost service platform** which drives high volume efficiency.

Our system-driven service model which uses **biometrics, photo verification and card access,** means diverse skill levels are not required throughout the entire branch network. **No costly back-office functions are required** in branches and the innovative system design ensures that the **minimum resources are used** for the centralised control and support functions. In-branch processes are continuously being improved to simplify client flow and reduce administrative demands. Further enhancements are being designed and will be applied in 2008/9 to **improve efficiency and increase capacity.**

Mobile banking is another innovation from Capitec Bank. This takes banking to the market and gives clients the opportunity to open a Capitec Bank account, **do transactions or activate savings facilities from their place of work.**

The South African market - 2007

- **19 million** banked adults
- **13 million** unbanked adults
- **18 million** active credit clients
- **R32 billion** was **extended in credit** in the microfinance sector of the market for the year ended May 2007*
- **42 %** of salary/wage received by individuals was in cash

*Small loans and retail credit
Source: Finmark

Banked vs Unbanked

60.3% Currently banked

9.6% Previously banked

30.1% Never banked

Income received via cash or account

58% Salary/wage received into bank account

42% Salary/wage received in cash

780 000 savings clients **trust us** with their **money**

"I became a client of Capitec Bank in February 2006 and since then my life has never been the same. The attention you get from the bank staff, the support, the approvals of loans or savings; it's never been this easy."

Sonia Mathe
Capitec Bank Client

Letter to Shareholders

"Is it a bird? Is it a plane? No, it's CAPITEC BANK!"

Suddenly Capitec Bank is everywhere. During the past year we launched our **first large advertising campaign** and our name is now recognised in our target market as much as the weakest of the four traditional banks (This may not be a huge achievement, but it is a decent beginning). We have **331 branches**, one in every corner of our country, 51 more than last year. Our **Internet banking is available to customers** in the Eastern and Western Cape and will soon be available everywhere. This is not an invisible service. It will be much talked about because it will bring the real benefits of internet banking to all South Africans for the first time. It will stress that we are building a ubiquitous bank, **providing all basic banking services**, including those required by the young and modern. We have **over 1.3 million customers**, 36% more than last year.

A small failure or a big success

When we started Capitec Bank seven years ago, I predicted that Capitec would be either a small failure or a big success. Had we failed, we would probably have done so soon and disappeared in a puff of smoke, only to be remembered by ourselves. If we succeeded, we would change the way banking is done forever and not only in South Africa. At this stage we are too substantial to be a small failure – not that we ever had the inclination to go this route – with **331 branches, 2 800 employees** and a **market capitalisation of R3 billion**. Do we rate ourselves as a success? Surely yes, with a profit of more than R200 million and the fact that we have established South Africa's first new retail bank in a generation. Yet we hardly feel satisfied, so much remains to be done.

Profit - R212 million

The R212 million headline profit we can report to our shareholders represents a **growth of 32% on last year,** but growth per share of only 16% if we bear in mind that we issued **10 million new shares** at R300 million to our BEE partners at the end of our last financial year. This latter percentage is the most modest growth in profits since Capitec Bank's inception. Our expenses grew by 26% as we invested heavily in branch expansion, system development and staff training. We regard the profit growth as satisfactory for one reason: **the National Credit Act.**

This piece of legislation came into force in mid 2007. We support its main impact on credit-granting: to base credit on the ability of a borrower to repay. We have never considered assets when making credit decisions and only look at ability to repay. We do, however, decry some of the consequences of the Credit Act. **We believe in transparency when dealing with our customers** and our fees are always easy to understand. The interest we charged our customers used to be a high, but an all inclusive number. The new Act obliges us to charge a **complicated fee**, consisting of an initiation fee, a monthly administration fee and interest. (Our financial statements term these fees "loan fee income" to distinguish them from conventional transaction fees.) What's more, the fees are subject to value added tax. A structure designed to protect the consumer has cost us R65 million in additional tax.

The most pernicious effect of the legislation is the introduction of **prescribed maximum interest rates and fees**. At Capitec Bank we have followed a consistent approach to the high interest rates which used to be the norm in our industry: every year our rates were lower than in the previous year. This has resulted in growth in both the size of loans and the number of loans, the support of **higher-income customers who are more credit-worthy** and overall lower default rates. At the same time we have had to balance a reduction in rates carefully with our cost structure, the investment needed to grow and the profit expectations of the market. The Credit Act disrupted our measured approach and forced us to drop our rates faster than we would have done, apart from diverting time and investment to comply with an overly bureaucratic way of doing business. These are the circumstances which lead us to be satisfied with a fairly pedestrian profit performance.

Our larger capital base means that our return on capital dropped during the current year from 26% to 22%. This is a temporary effect that will be nullified as our business grows. This time last year, we felt that the additional capital of R300 million we raised was in excess of our needs but we did the transaction to increase our BEE shareholding. We are now glad that we did. Our three-year loans have **grown significantly** and our total loan book amounts to R2.1 billion (151% more than last year's R803 million). The American subprime crisis has resulted in a tightening of funding markets in South Africa, **making a strong capital base a big asset.**

As reported last year, our employee empowerment trust is a 5% participant in the BEE deal, amounting to 500 000 Capitec shares. These shares have been allocated to all our staff (excluding only those participating in our share option scheme) so that each staff member will, over the next five years, **receive the growth in value** of 200 shares less the funding cost of the shares.

Moody's national credit rating

During the year Moody's Investor Services upgraded the long-term national scale credit rating of Capitec Bank Limited, Capitec's banking subsidiary, by two notches to A2.za. The short-term rating at Prime-2.za remains unchanged.

Instant gratification

The customer walks into a shop, buys a can of beans, and walks out. What's the big deal? This is exactly what we do: the customer walks into Capitec Bank, applies for a loan, and walks out with the money. If it's a new customer, we have to open an account for the customer's, issue a card and make the loan accessible via the card. What's the big deal? **The big deal is that no private bank in South Africa can do this**, not even for a client of thirty years' standing.

At traditional banks, a client request results in the **opening of a file** (in modern banks, it is an electronic file) which will wind its way through various departments and committees, before the bank will respond to the client. We regard the customer's request as an opportunity to complete the transaction. If we need credit bureau information, that information is immediately retrieved electronically. If we need to verify information, that **verification is done immediately**. **Here is an example:** when a customer opens an account, an **electronic photo** of her is saved on her file. When a lost card needs to be replaced, one of the checks is that we confirm from a photo on the system that the applicant is the same person as the one to whom the card was originally issued. This is not only what the customer wants, it is also a very efficient way of doing business. Every file with unfinished business represents an impediment to the flow of new business. (Can you imagine if Home Affairs had the same approach to issuing an ID document or passport?)

We can offer this level of service only if all our processes have been carefully planned: **do it well, or don't do it at all**. Our front-line staff need to be well trained. Every action is performed on the system in real time.

Banking is about detail

Broad strategic approaches to banking are of limited value. Everybody knows that the **consumer wants more action and less paperwork.** To achieve it requires no unique strategy, but the focus on detail.

No staff member may deal with the public before graduating from our Firm Foundations programme. All **new staff members** have to **pass this intensive two-week course**, which is offered in Stellenbosch. In the past financial year we spent R19.2 million on staff training. Our **total investment in staff training amounted to a massive 9% of our total operations salary bill** (yet we remain subject to a special "training tax" in the form of a SETA levy of R3.2 million, less a refund of R1.3 million.)

The same meticulous attention to detail that is found in staff training and **systems design** is also present in our branch network. The lay-out of our branches, the size of the branches and the location of every branch are the **result of careful planning.** When we started the bank, sites were readily available in the market. We were proud of the fact that in most areas our branches were modern and stood out in comparison to other shops in the vicinity. In seven years the business environment, in the poorer areas in South Africa's townships and rural areas, was transformed beyond recognition. A huge investment has gone into glamorous shopping malls, as well as into strip malls and individual shops. Upgrading these business centres has significantly improved the quality of life of local residents.

Last year we planned to open 65 new bank branches. In fact, we only opened 54 and closed 3. We have simply not been able to **find the sites we require** at reasonable rates. We have slightly moderated our ambitions and plan to open 31 new branches in the coming year.

We have 5 branches in Soweto, 13 in downtown Johannesburg but none in Sandton. This illustrates our focus on the market for basic banking, but as we grow we need to cover all parts of the country, not only MtubaTuba and Kwaggasrant, but also Sandton.

Capitec Bank is the **most technologically advanced bank in South Africa** and maybe the world. We cannot operate without a modern infrastructure, including telecommunications and electricity. We have generators to provide electricity to our call centre, campus and mainframe computers. We cannot provide electricity to all our branches.

The Capitec revolution

We dream of the day when Capitec Bank will provide banking to all South Africans who need basic banking products. **Doing banking the Capitec way** should be as painless as buying bread or a Coke*. A cold cool drink or a fresh loaf of bread in every remote shop in South Africa is the visible tip of an impressive production and distribution system. Capitec Bank needs a production machine (it's pretty much there), a brand (we have started advertising, but everything we do is meant to inspire confidence in Capitec Bank), **thousands of access points** (we have hundreds) and **millions of customers**. ("Clients" are served by people with ties in office blocks; "customers" make a quick and easy transaction wherever it suits them.)

*Registered trademark. We respect trademarks.

Our fees are low and easy to understand. The traditional banks have complicated fees. Our fees are generally **50% lower than the traditional banks**. A typical Internet banking service at a traditional bank carries a fixed monthly cost of R19.95. Some payment fees are as high as R3 plus 60c per R100 with a maximum of R12.50. Our new Internet banking service charges no monthly fee and R1.75 for a payment, irrespective of value.

We look carefully at what our customers require. The first transaction many of our customers do, is to check the balances on their accounts. We offer it free, on the first screen that opens on our ATMs.

Much has been said about high banking fees in South Africa. At Capitec Bank we admire the four traditional banks that dominate our banking scene. They manage a complicated, universal banking model extremely well. In the same queue at their branches you find a rich businessman, a poor salary earner and a housewife. We focus on a single slice of the South African community and tailor our offering to meet her or his exact needs. This both allows us and requires us to charge lower fees. Needless to say, we do not believe in government intervention to reduce fees which are the result of free, competitive forces.

We believe in competition. We believe in the revolution. La lutta continua!

Two million customers

When we started we believed we needed two million customers to be a success. Many of the targets we set ourselves seem modest by the time we attain them. We could reach the target of two million active customers during the coming year, but we are now **striving towards five million**. In a good month we open **40 000 new accounts**. At the same time thousands of customers stop using their accounts (nobody ever closes an account). We have over 520 000 loan customers who took a loan during the last six months and 851 000 salary deposit and savings customers, a total of over 1.3 million customers. Our lending business is impressive: we granted a total of 3.2 million individual loans during the year, with a total value of R5.2 billion (a 50% growth over last year). At peak times, we process 3 000 loans per hour. On average, it takes 10 minutes to approve a loan application for an existing customer. **Remember, Capitec Bank never requires any customer to fill in a form**. Every transaction is done by a consultant, directly on the system. The customer must sign a printed copy of the loan agreement and receives a copy for his own use. Every transaction is confirmed by our consultant by means of a **fingerprint reader.** This creates a permanent audit trial.

We started by buying 300 cash loan stores with a single product: a thirty-day cash loan at 30% interest per month. We now **offer a range of loan products**, **from one month to three years.** Longer term loans tend to be bigger, with lower administration costs and we charge lower interest rates on these loans. The default ratio is lower on a per month basis, but higher over the life of longer term loans.

With the introduction of a three-year loan in October 2007, we compete across the spectrum of loans on offer to our customers. **We have exceptional skills in managing risk and ensuring repayments from our customers.**

The board of directors

Jannie Mouton has been our chairman since Capitec Bank was founded in 2001. Jannie was an early and staunch supporter of the Capitec Bank revolution. Without his support and the support of the PSG Group (of which he is the founder and chairman and which remains our largest shareholder), Capitec Bank would never have come into being. A year ago I took over as chairman from Jannie. Since then Jannie has also retired as a director of Capitec Bank.

At the same time **Jacobus van Zyl Smit** retired as a director. He was chairman of our audit committee and also a constant source of advice based on experience and knowledge.

We thank Jacobus and Jannie for their loyalty and wisdom.

During the year four new members were appointed to our board: Tshepo Mahloele (CEO of Pan African Infrastructure Development Fund and deputy chairman of Circle Capital Ventures), Piet Mouton (managing director of Thembeka Capital), Pieter van der Merwe (after his retirement as executive director of Absa responsible for Group Administration, IT, Information Management, Credit and Risk) and Kevin Hedderwick (Chief Operating Officer of Famous Brands, well-known for its Steers and Wimpy restaurants). They bring a wide range of experience with them.

It is important that the board be revitalised from time to time. The board of directors oversees the management of the bank. It is the management of the bank who are responsible for the amazing story of Capitec Bank that I report on and we **remain in awe of what Riaan Stassen and his team have achieved**.

The future

We see great opportunity in the expansion of our product range, our branch network and our transaction platform in the coming year. Capitec Bank will continue to revolutionise banking in South Africa.

Michiel Le Roux
Chairman

Sunday Times
Top 100 Companies Award

Capitec ranked 3rd for investment performance over five years

"Don't expect Capitec to be anywhere other than one step ahead of its competitors."

Sunday Times

Chief Financial Officer's Report

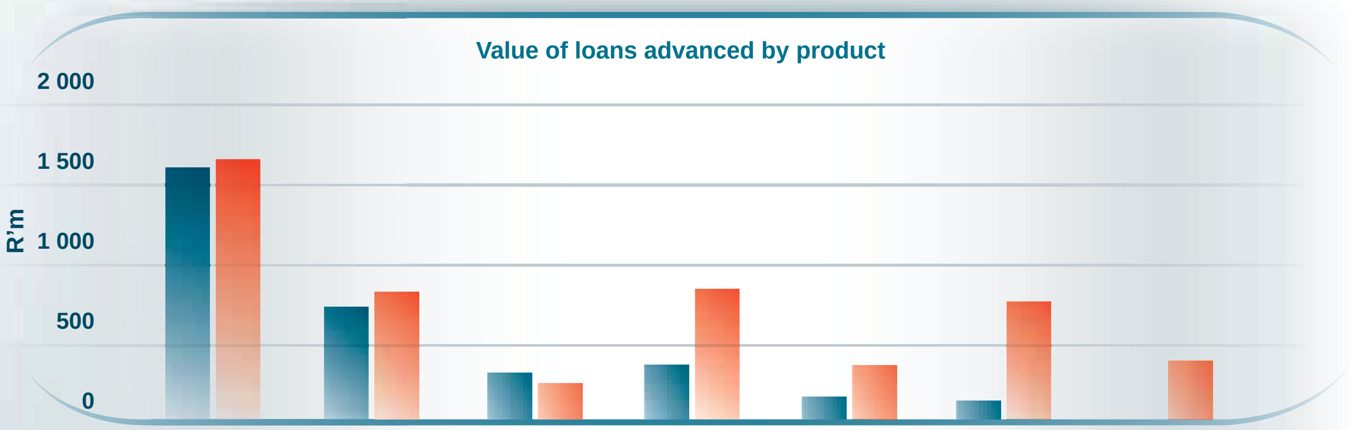
Infrastructure development

The Capitec Bank business strategy is aimed at ensuring **sustainable long term revenue and profit growth** and therefore focuses heavily on infrastructure development. During the year the following progress was made:

- **54 branches** were opened, while two smaller branches were closed and a third branch temporarily closed, bringing the total to 331. The performance of the new branches is satisfactory
- The average number of **frontline staff per branch increased from 5.6 to 6.4**
- The total number of **ATMs was increased to 765**, of which 437 are third party ATMs. This means that clients' access to cash outside business hours and without the higher cost of SASWITCH ATMs has been extended, in addition to the access already available through retailers at point of sale
- **A further 33 mobile bank units** were implemented, bringing the total to 86 and increasing support for our sales team by helping primarily the account opening process
- The **36 month loan** product was **introduced**, including changes to vetting, scoring and affordability computations required to ensure that the product will be profitable
- **Point of sale** debit and credit card **acquiring** was launched
- Internet banking has been launched in two provinces and roll out across the rest of the country is in progress
- **E-learning** was introduced to distribute technical training to branch staff throughout the country. This also enables us to centrally monitor progress of each staff member and identify trends where processes and procedures require further training.

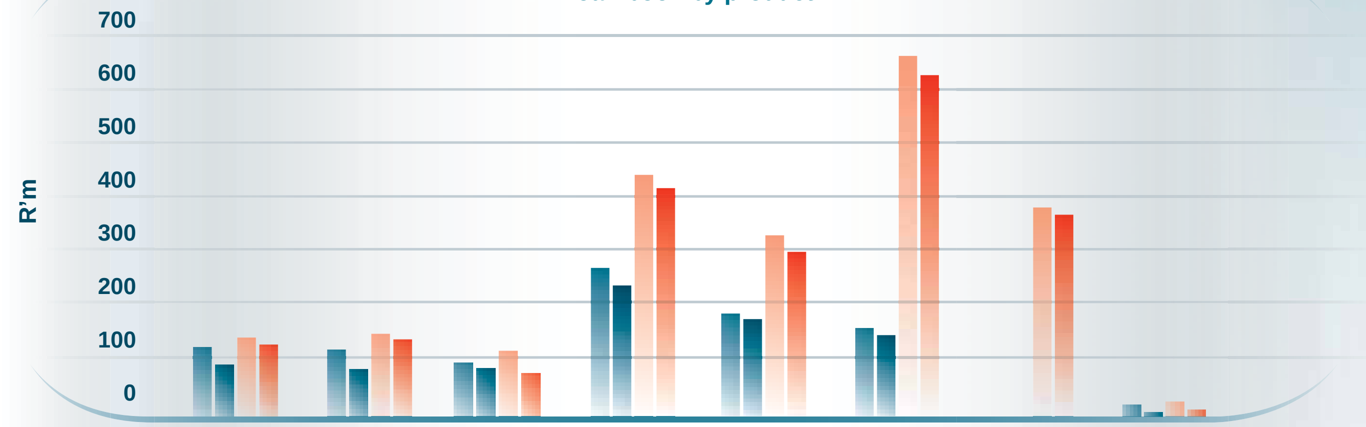
In addition to the above, the requirements of the **National Credit Act (NCA) were successfully implemented** during the year. Our level of preparedness made an important contribution to sales growth, while other market participants struggled to come to terms with the requirements and implications of the Act.

Loan book



	1 month	3 month	6 month	12 month	18 month	24 month	36 month	Total
2007	1 600	687	392	425	190	155	-	**3 449**
2008	1 692	757	314	797	430	774	398	**5 162**

Loan book by product



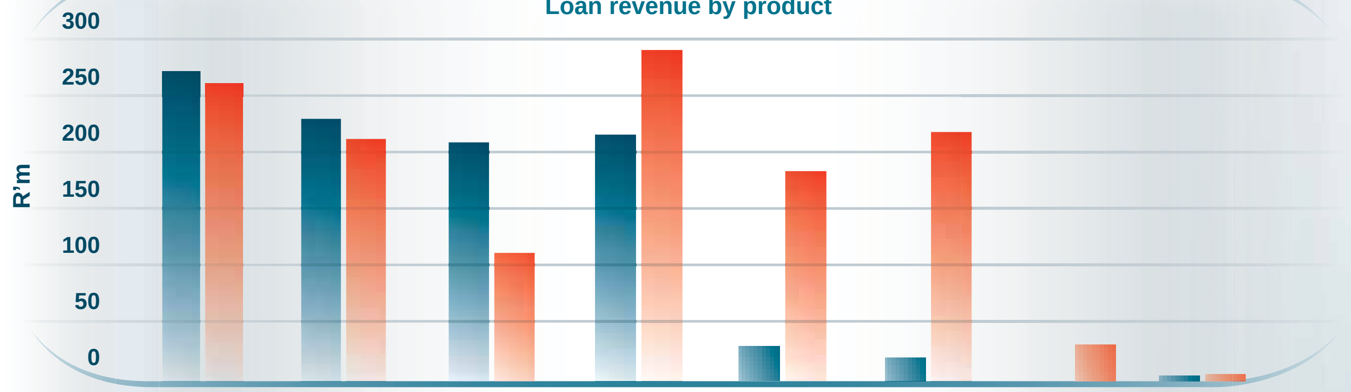
	1 month	3 month	6 month	12 month	18 month	24 month	36 month	other	Total
2007 Gross	108	103	91	270	176	150	-	16	**914**
2007 Net	98	92	72	231	165	144	-	1	**803**
2008 Gross	118	138	104	449	314	660	384	25	**2 192**
2008 Net	109	121	89	408	292	622	370	8	**2 019**

The NCA replaced the exemption to the Usury Act under which Capitec previously operated. We **continuously refine** our credit vetting, scoring, affordability and instalment recovery processes. This enabled us to launch longer term products such as our 36 month loan product in October 2007.

We believe that the traditional model of asset based finance offers little real protection to lenders in the market where we operate. We therefore **focus on behaviour, affordability and good administration**. Furthermore, we fix our interest rates over the term of the loans to **reduce the interest rate exposure** of our clients. We match this with fixed rate funding of at least similar duration.

The growth in long term products led to an **increase in the net loan book of 151%** over last year. The revenue from the new products is deferred over the term of the products and therefore does not have an immediate impact on the revenue for the current year. The impact of the 12, 18 and 24 month products that were in place throughout the year was more significant to overall revenue growth.

Loan revenue by product



	1 month	3 month	6 month	12 month	18 month	24 month	36 month	other	Total
2007	285	232	209	220	31	22	-	2	**1 001**
2008	259	211	113	296	169	213	39	4	**1 284**

Pricing

We introduced a new loan price structure during the 2007 financial year, comprising an initiation fee, a monthly administration fee and interest. The current year interest income is therefore significantly lower than last year, with a related increase in loan fee income.

The new price structure was implemented from October 2006 to May 2007. The NCA structure would have allowed us to increase the prices of smaller loans, whereas the pricing on larger and longer term products generally would have reached the ceiling. We **chose not to increase rates** on the shorter term products and to price all products competitively relative to the ceilings. The loss in revenue was countered through increased volumes, combined with the roll out of new products.

This was successfully achieved, as can be seen from the growth in the loan book and loan revenue for the year. The lower yield on the book, countered by larger outstanding balances, contributed to moderate profit growth, but places us in a **strong growth position for the future**.

The fee based loan pricing led to VAT leakage of R64.7 million for the year, due to the fact that VAT is levied on fee income. We chose to **absorb this impact** rather than pass the cost on to clients.

Bad and doubtful debts

The gross bad and doubtful debt expense (before recoveries) for the year is shown below:

The loan impairment expense in relation to loan revenue is higher on longer term products. The long term products, however, utilise the infrastructure of the bank more efficiently, as clients need not go through the application, vetting and affordability processes as frequently. This can be seen from the **improvement in the cost to income ratio** from 60% to 58% for the year.

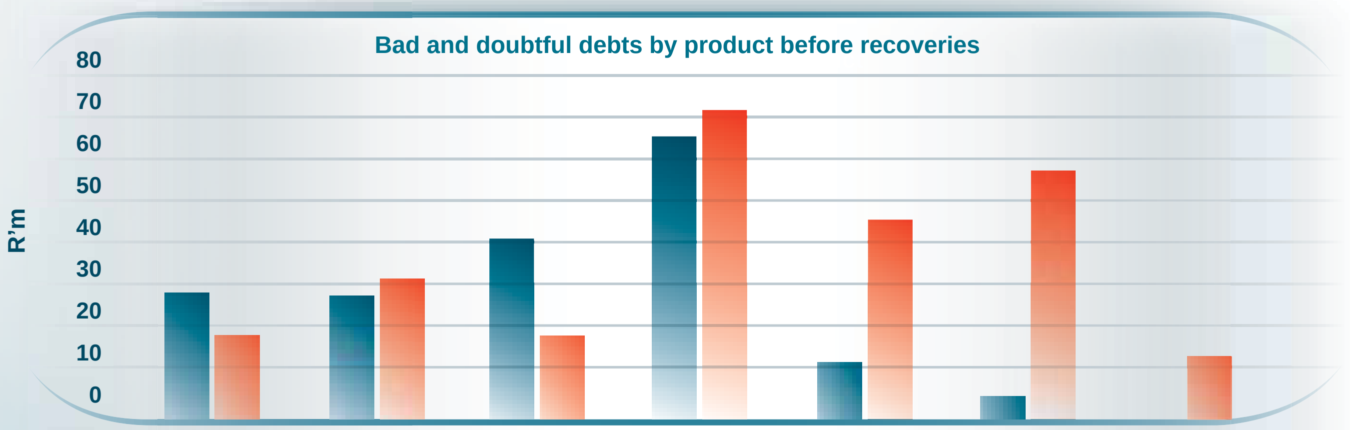
Credit scoring and affordability measures are continuously being refined to limit delinquency on loans. We are cautious in granting longer term loans as the economy slows down. **Credit granting criteria are reviewed on a weekly basis** to ensure that the latest information is taken into account.

Our loan impairment expense as a percentage of instalments due by product compared as follows against last year:

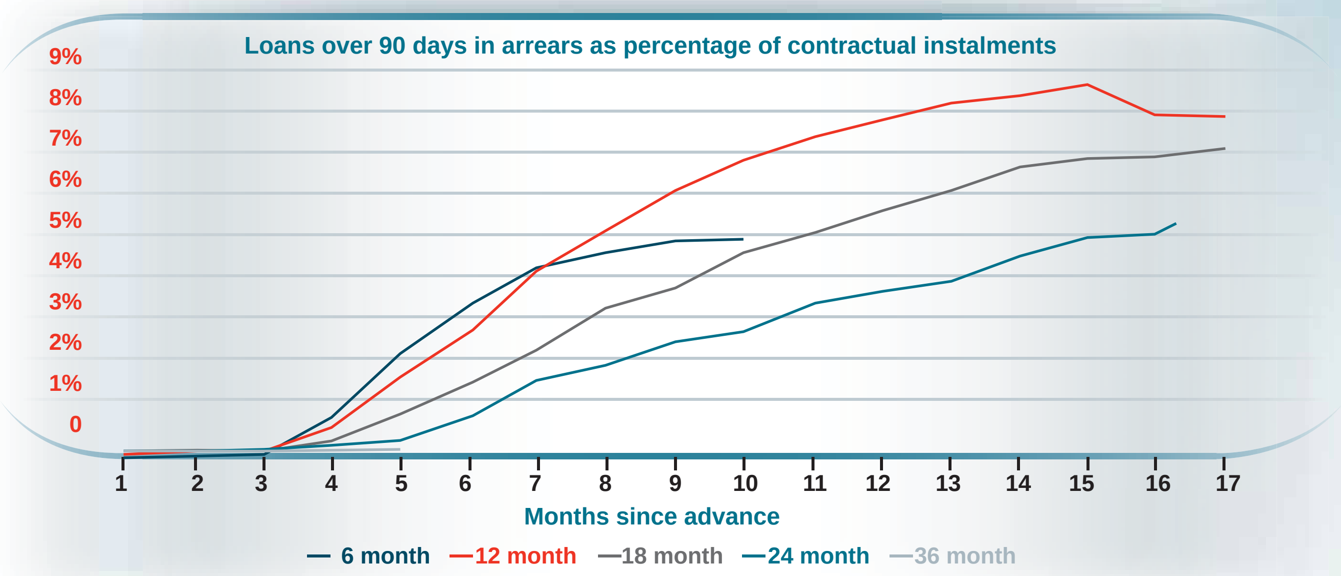
%	2008	2007
1 Month	1.05	1.61
3 Month	3.83	3.16
6 Month	5.14	6.85
12 Month	10.18	13.13
18 Month	12.99	24.30
24 Month	15.78	21.65
36 Month	29.37	-
Gross bad debt	5.86	4.69
Recoveries	(0.76)	(0.57)
Net bad debt	**5.10**	**4.12**

We measure arrears and impairments against instalments due and not outstanding balances because a large part of our short-term loans are repaid before month end and are therefore not reflected on our balance sheet at month end or year end.

All loans are written off 90 days after a loan goes into arrears. For short-term loans the write offs reflect a current reality, but need to be carefully interpreted as an impairment of 1,05% on a one month



	1 month	3 month	6 month	12 month	18 month	24 month	36 month	Total
2007	29.5	28.5	40.3	68.3	10.9	6.2	-	**183.7**
2008	18.7	32.7	18.7	76.2	46.8	58.2	14.1	**265.4**



loan means that we expect to write off 12 times that percentage over a 12 month period.

Longer term loans are more complex and provisioning against these loans contains less certainty. The impact of a missed instalment is more severe at the beginning of a loan, as the full loan amount may be at risk. Therefore the provision as a percentage of instalments is higher for a new and growing loan book. Over time every new product reverts to a normal distribution of arrears. This is why the impairment expense of **18 and 24 month loans has improved significantly** and why the new 36 month loans start with a high level of impairment. We expect the 36 month figure to reduce significantly towards maturity.

We consider the current provisions to be adequate, given our clients' payment history and the current economic environment.

The breakdown of the loan book between current loans, loans in arrears and estimated incurred but not reported arrears, as well as the movement in the loan provision account is set out in Note 6 to the financial statements.

Income recognition

International Financial Reporting Standards require that revenue from services rendered should be recognised based on the stage of completion of the services. Revenue from the creation of financial assets such as loans and advances should be recognised based on the yield to maturity basis over the term of the loan. Capitec Bank offers transacting and savings services in addition to loan products. The pricing of loan products includes recovery of some of the transacting services. Loan fee income is therefore partially reflected in the month that the transacting services are rendered and the remainder reflected over the term of the loan, taking into account the relative activity levels and costs related to the respective services.

Balance sheet structure

Funding

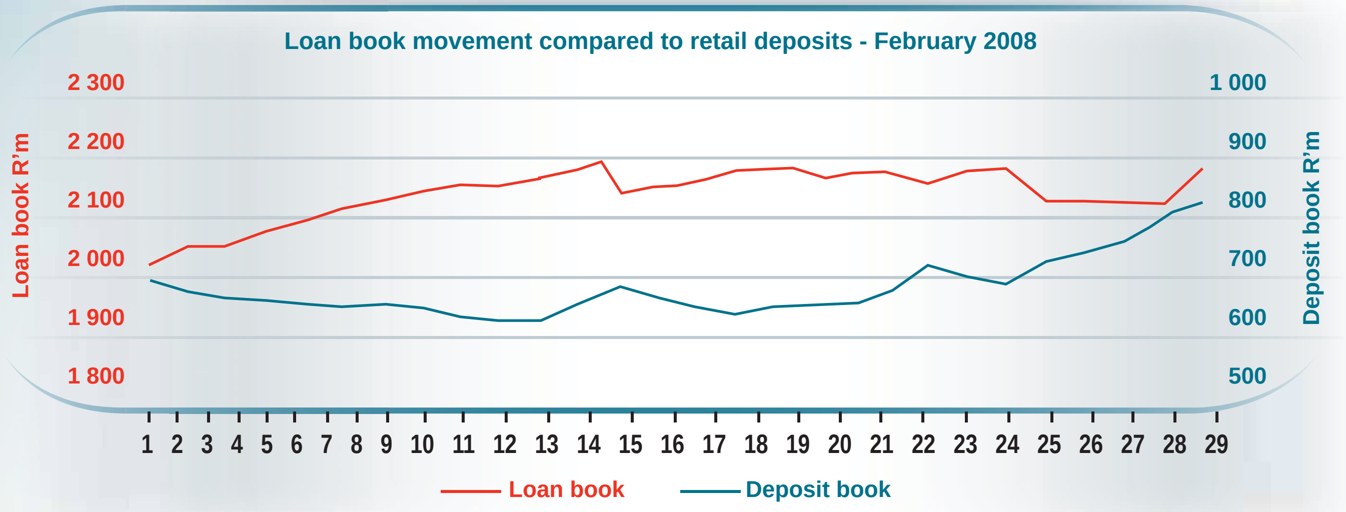
The growth in the loan book has significantly reduced our excess funds during the second half of the financial year. We disposed of our investment in listed preference shares, where some of our excess funds were placed. We have **successfully obtained additional funds** through the issue of commercial paper. We obtained further funding through a **loan of R150 million from PROPARCO** (the French development agency) after year end.

Our cash and bank balances at month end are normally higher than during the middle of the month, before clients' salaries are deposited and loans are repaid (see chart below). Our business model therefore requires a substantial buffer of cash that appears superfluous at month end and **we manage this extremely conservatively.**

Growth in the **retail saving book, increased by 51%** over last year. Higher interest rates have made the savings rates offered by the traditional banks more competitive and we are continually reviewing this position in order to ensure that we are close to the market on high value deposits but market leaders on low value savings accounts. This gives us an advantage in marketing our products to the mass market, though we do not rely on funding from call savings deposits to fund term loans. We do utilise a portion of the savings deposits to fund short term assets such as cash and very short term loans.

Liquidity

The longer term loan products have changed the liquidity profile of the bank. Previously our loan book was mainly short term based, with a short average duration for assets. The introduction of 36 month loans and the continued growth in 18 and 24 month loans has changed this significantly. We are therefore extending the duration of our funding. We have enough history on our savings



products in order to determine the stable core component of the retail deposits and this is utilised to fund short term assets such as cash and very short term loans. Capital and **long term funding** is used to **fund the medium and long term loan products**, as well as fixed assets.

Taxation

Out tax loss was fully utilised during the 2006 financial year and together with our profit growth, this had an impact on cash flow in the current financial year compared to previous years. Tax paid in the current year amounted to R109 million compared to R21 million in the 2007 financial year.

Our **approach to tax risk is very conservative** and benchmarking indicates that our tax contribution relative to indicators such as profitability and size is above average compared to similar and larger listed companies.

Capital

The growth in the loan book furthermore reduced our capital adequacy ratio as planned. The calculation of capital adequacy ratios has changed after the introduction of the Basel II Framework for Capital Adequacy as prescribed by the South African Reserve Bank from 1 January 2008.

Basel II requires that capital be held against all the different risks in the bank, with lower levels of capital required in cases where policies, systems and procedures are in place to address these risks, where the risks can be quantified more accurately through sophisticated event tracking and modelling and where the risks are more predictable due to characteristics such as high volumes of low value transactions.

We believe that our strategy of **focus on a single niche market** gives us advantages in all of the requirements above.

The calculation of capital required for operational risk under the Basic Indicator Approach (BIA) is a generic measure and is based on the gross income for the preceding three years as a proxy of the scale of a bank's operational risk. In terms of the BIA Capitec's capital adequacy ratio at 29 February 2008 amounted to 36%.

We will replace the BIA with the Alternative Standardised Approach (ASA) with effect from 1 April 2008 after the **South African Reserve Bank approved our application,** subject to standard conditions**,** as part of the capital planning process. This will reduce our capital requirements and allow further growth from our current capital base.

According to our best estimate, if the ASA had been used in the calculation of the bank's capital adequacy as at 29 February 2008, the capital adequacy ratio would have been 53% as against the 36% reported using the BIA.

We will consider more advanced methods for other areas as our capital requirements and the benefit from the application of more advanced methods evolve over time.

André du Plessis
Chief Financial Officer

Financial Mail

- Top Companies

29 June 2007

Straight to number one

"This year's top company, Capitec, achieved a rare feat, coming from nowhere to head a new-look top 10 list."

Financial Mail

Directorate and Executive

Independent non-executive

Kevin Alexander Hedderwick (55)

Kevin joined the Capitec and Capitec Bank boards on 10 December 2007. He is the chief operating officer of Famous Brands. He has an excellent business retail record, including food, beverages and franchising. He has held senior executive positions in a number of prominent companies including SAB, Distell and Foodcorp. Prior to joining the Famous Brands Group, he was a partner and managing director of Keg Franchising.

Michiel Scholtz du Pré le Roux (58) BComm LLB

Michiel was appointed chairman of Capitec and Capitec Bank on 1 April 2007. He is the founder of Capitec Bank and was chief executive officer of the Bank until 2004. Michiel is also chairman of Quince Capital and a board member of Zeder Investments. Michiel was managing director of Distillers Corporation (SA) from 1979 to 1993 and from 1995 to 1998, managing director of Boland PKS, NBS Boland and BoE Bank.

Merlyn Claude Mehl (Prof) (65) PhD (Physics)

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

Nonhlanhla Sylvia Mjoli-Mncube (49) MA City and Regional Planning

Nonhlanhla is economic advisor to the deputy president of South Africa. She has formerly chaired several companies and has worked in leadership positions in South Africa and the USA. She presently runs her own investment company, Mjoli Development Company and sits on the boards of inter alia Cadiz Holdings and Pioneer Foods.

Jan Georg Solms (53) BAcc, CTA, CA(SA)

Johnnie has been a member of the JSE since 1981 and is a stockbroker and executive director of stockbrokers Independent Securities Holdings.

Jacobus Pieter van der Merwe (59) BA, CTA, CA(SA)

Pieter joined the Capitec and Capitec Bank boards on 27 September 2007. He is an experienced retail banker. He commenced his career in banking as chief accountant at Boland Bank in 1974 after which he joined Volkskas Bank as general manager of finance in 1983. After the amalgamation of Bankorp and Absa he was appointed general manager of Commercial Bank, responsible for Absa Western Cape (1995 – 1999). In 2000 he was appointed operating executive of Commercial Banks. In 2001 up to his retirement in 2006 he was executive director, the last two and a half years of which he was responsible for Group Administration, Information Management, IT, Credit and Risk.

Non-executive

Tshepo Daun Mahloele (41) BProc

Tshepo joined the boards of Capitec and Capitec Bank on 1 April 2007. He is the chief executive officer of the Pan African Infrastructure Development Fund and deputy chairman of Circle Capital Ventures. He has more than 14 years of experience in project finance, private equity, investment banking and corporate finance. Previously he was head of Corporate Finance and the Isibaya Fund at the Public Investment Corporation (PIC). Prior to joining the PIC he was head of Private Sector Investments at the Development Bank of Southern Africa (DBSA). Before joining the DBSA he was managing director of Solutions at Work. Tshepo also held positions at CDC Group Plc (formerly the Commonwealth Development Corporation), Rand Merchant Bank and National Sorghum Breweries.

Petrus Johannes Mouton (31) BComm (Maths)

Piet joined the boards of Capitec and Capitec Bank on 5 October 2007. He is managing director of Thembeka Capital, a black-owned and controlled BEE investment holding company. He serves as non-executive director on the boards of various companies including Erbacon Investment Holdings, an AltX-listed company. He has been active in the investment and financial services industry since 1999.

Chris Adriaan Otto (58) BComm LLB

Chris has been an executive director of PSG Group since its formation. He has been involved in PSG Group's investment in microfinance and subsequent establishment of Capitec Bank of which he has been a non-executive director since establishment. He is a director of Zeder Investments, and Channel Life.

Executive

André Pierre du Plessis (46) BComm (Hons), CA(SA)

Chief financial officer

André joined Capitec Bank in 2000 as Executive: Financial Management and was appointed financial director of Capitec Bank and Capitec in May 2002. He has over 20 years' business advisory, financial consulting and strategic and financial management experience. He was chief executive of Financial Management of Boland PKS and NBS Boland from 1996 to 2000 and a partner at Arthur Andersen where he worked from 1986 to 1996.

Riaan Stassen (54) BComm (Hons), CA(SA)

Chief executive officer

Riaan joined Capitec Bank as managing director in 2000 and was appointed chief executive officer of Capitec and Capitec Bank effective 31 March 2004. He gained extensive experience in retail and banking and held senior positions in both environments. Riaan was awarded the Cape Times/KPMG Business Personality of the Year award on 25 October 2007. The nomination criteria for this award included business and entrepreneurial excellence and outstanding company performance.

1.4 million clients have made us their **bank of choice**

"Through our continued innovation we will become the bank of choice for our market."

Riaan Stassen

CEO Capitec Bank

Management Committee

Riaan Stassen (54) BComm (Hons), CA(SA)
Chief executive officer

André Pierre du Plessis (46) BComm (Hons), CA(SA)
Chief financial officer

Ian Craig Abrahams (39)
Manager – Credit Monitoring
Ian gained extensive experience in credit with Edgars Stores (1990 – 1997), the Edcon Group (1999 – 2001) and at Standard Bank Card Division (1997 – 1999). Positions held within the Edcon Group include branch administration manager, credit manager and regional Credit Office manager. Positions within Standard Bank included project manager, collections manager and corporate card marketing manager.

Jacobus Everhardus Carstens (39) BCompt (Hons), CA(SA)
Chief credit officer
Jaco gained extensive experience in the credit environment at Old Mutual Bank from 2000 to 2004 serving respectively as head of credit, head of credit risk: policy and decision support and assistant divisional manager: credit, pricing and decision support. Previous positions include being manager at BoE Bank from 1997 – 1999 and assistant manager at Ernst & Young where he worked from 1992 to 1997.

Faick Davids (31)
Head – Distribution Systems and Procedures
Faick gained wide-ranging experience at PEP Bank from 1999 to 2001 in various aspects of the retail banking environment in which Capitec Bank has since established itself. He joined Capitec Bank in 2001 as national conversion manager responsible for the conversion of existing micro lending branches into fully fledged banking and deposit taking branches. He is currently responsible for the development, drafting and communication of all processes and procedures for branches and other distribution channels within the Bank.

Carl Gustav Fischer (51) BComm (Hons), MBA
Executive – Marketing and Corporate Affairs
Carl was chief executive of marketing and support services of Boland PKS from 1999 to 2000. Previous positions include Group marketing and sales director (1996 – 1998) and Group production/operations director of Stellenbosch Farmers' Winery (1993 – 1996).

Gerhardus Metselaar Fourie (44) BComm (Hons), MBA
Executive – Operations
Gerrie was area general manager of Stellenbosch Farmers' Winery (1997 – 2000), focusing on distribution and sales.

André Olivier (40) BComm (Hons), CA(SA)
Executive – Business Development
André was a financial risk manager at Boland PKS from 1997 to 2000, after which he was head of operations of PEP Bank, the micro-lending division of BoE Bank. He gained extensive audit and business advisory experience with Arthur Andersen.

Christiaan Oosthuizen (53)
Executive – Information Technology
Chris held the position of chief executive of Information Technology at Boland PKS, where he was employed from 1976 to 2000.

Christian George van Schalkwyk (52) BComm LLB, CA(SA)
Executive – Risk Management and company secretary
Christian was chief executive of credit risk and legal services at Boland PKS from 1997 to 2000. Previous positions include being a partner at attorneys Jan S de Villiers (1987 – 1996) and tax consultant at Arthur Andersen (1985).

Leonardus Venter (46) BA (Hons), MA (Industrial Psychology)
Executive – Human Resources
Leon was a human resources manager at Iridium Africa from 1998 to 1999. Previous positions include manager of human resources and support at Telkom SA (1993 – 1997) and area personnel manager at Iscor (1986 – 1992).

Over **R19 million invested** in **skills development** in **2008**

"Receiving a bursary from Capitec Bank eliminated all financial barriers that were originally an obstacle to study further. With the bursary I was able to complete a financial skills course at Unisa in 2007."

Nonhlanhla Sibisi (sales manager, KZN)

Corporate Governance and Risk Management Review

Board functioning and effectiveness

The Capitec board meets six times per annum. A record of attendance by each board member is published as per Annexure A. **The Capitec board operates in terms of an approved charter** which, apart from detailing the powers, duties and responsibilities of the board, also specifies the reserved powers of the board and which is reviewed annually.

To allow non-executive directors the opportunity to familiarise themselves with the Capitec business outside of board meetings, they are invited to executive meetings, and an annual board conference is held at which senior managers present the various aspects of the business to directors. This approach facilitates access by board members to company information, records, documents and property.

The board has established various board committees to monitor the implementation of their plans and strategies.

Board structure and continuity

The board comprises a majority of non-executive directors, consisting of a proper balance of **two executive, three non-executive and six independent non-executive directors**. A Directors' Affairs Committee comprising all the non-executive and independent non-executive directors and chaired by the chairman of the board has been established and in terms of its board-approved charter, inter alia, is responsible for recruitment and selection of new directors.

New appointees are recommended to the board for approval, subject to the approval of the Registrar of Banks. To facilitate continuity of the board, one-third of the board retires at each annual general meeting and has to date been re-elected by shareholders. During the period under review, the board has been strengthened by the appointment of one more black director as well as directors with strong retail and traditional bank exposure.

Chairman/CEO power balance

The roles and responsibilities of the chairman and chief executive officer are separated. Capitec has **a non-executive chairman** with proven business acumen and of good standing in the South African business community.

- He participates actively in the **selection of board members**; and
- Ensures that all directors are given opportunity to add value to the formulation of the strategy of the company.

The chief executive officer's responsibilities include

- **Developing** and **implementing** of company strategy;
- Taking initiative in **managing relationships** with stakeholders and the **investment** public in general; and
- Acting as the **chief spokesperson** on behalf of the company.

The performance of the chief executive officer and the board as a whole, including its committees, are appraised at least annually.

Directors' selection and orientation

A formal orientation programme consisting of extensive discussions on the **company's business environment** and **operations** are held with new directors. In addition, directors are provided with company records such as copies of board minutes, applicable legislation and board committee charters.

Directors are invited to attend presentations by independent specialists on matters relevant to the board in the Capitec environment and when considered necessary, such presentations are arranged in-house. Directors are also afforded the opportunity to attend industry-specific training, inter alia, as initiated by the Registrar of Banks.

Directors' remuneration

A Remuneration Committee comprising one non-executive director and three independent non-executive directors considers matters relating to **director and executive remuneration**. This committee executes its responsibilities in accordance with the terms and references incorporated in the board-approved remuneration committee charter. Remuneration of directors is disclosed in 7.4 of the Directors' Report.

Board oversight

To assist the board in reviewing processes and procedures to determine the effectiveness of **internal systems of control** in the company, the board has established committees with specific mandates to cover all aspects of the Capitec business. These committees report their findings to the board, thereby ensuring that the **decision-making capability of the board and the accuracy of its reporting and financial results are maintained at high levels.** Information assessed by the board comprises financial as well as non-financial information and enables the board to **assess the adequacy** and **efficiency of corporate governance** and **internal controls** in operation.

Board committees

The board has established various **sub-committees** such as the **Executive Management, Management, Risk and Capital Management, Audit, Directors' Affairs and Remuneration Committees,** each with an approved charter containing terms of reference for these committees. Further particulars on each of the committees are set out in Annexure B.

Board/director evaluation

The Directors' Affairs Committee meets at least **twice a year** to assess, amongst other things, the skills needs of the board. During the period under review the board was strengthened by the appointment, inter alia, of a retail expert and the committee feels satisfied that the board composition currently represents an adequate **mix of skills** and **diverse backgrounds.**

Dealing in securities

The board has approved a policy in accordance with the JSE Listings Requirements in terms of which directors, senior management and employees with access to management reports are required to obtain clearance to deal in the shares of the company prior to transacting.

This policy also bars any trading in the shares of the company during a prohibited period; standard closed periods are year-end up to publication of year-end results and at half-year up to publication of interim results. Emphasis is placed on **proper and correct declaration of interest by directors** in compliance with relevant legislation, including their shareholding in the company. A register of directors' interests is circulated at every board meeting and signed by all members present.

Company secretary's role

The company secretary administers corporate governance within the company, supports the chairman in ensuring the effective functioning of the board and provides the board and directors individually with guidance on the proper discharging of their responsibilities. **As such the company secretary:**

- Strives to inform the board of relevant legislation
- Makes information on the company available to board members
- Ensures compliance with statutory and regulatory matters and
- Acts as primary point of contact with shareholders.

Auditing and accounting

We are privileged to have a prestigious international firm as our external auditors; both the external auditors and internal audit department of Capitec observe the highest levels of business and professional ethics and independence.

The company and management encourage regular coordination and consultation between external and internal auditors to **ensure an efficient audit process**. Non-audit work performed by the external auditors is regulated by a policy laid down by the Audit Committee.

Reporting

Annual and interim financial results are submitted to the Audit Committee for consideration and recommendation to the board for final approval.

The **Audit Committee's mandate** includes the authority to determine whether or not the interim report should be subject to an independent review by the auditors.

The **facts and assumptions used by the board** to assess the going concern status of Capitec Bank at each year-end are recorded and submitted annually, in terms of the Banks Act (Act 94 of 1990), to the Registrar of Banks.

Audit Committee

The Audit Committee is chaired by an **independent non-executive director with years of experience** in banking. The chairman of the board is not a member of the Audit Committee. The Audit Committee derives its authority and responsibilities from a **board-approved charter** with which it has complied during the year under review.

Audit fees are annually set in advance by the Audit Committee in a manner which should not impact on the scope of the audit.

Non-audit services rendered by our external auditors are limited to ad hoc tax advice and other assurance-related services within the parameters of a policy approved by the Audit Committee limiting such expense to 40% of the annual audit fee; the consideration is disclosed in the annual financial statements.

Internal Audit

Status of internal audit

The company has an **independent internal audit department** with direct access to the chairman and reporting to the chief executive officer. Apart from own employees it functions on a **co-sourced basis with Deloitte as external consultants** and in accordance with a charter approved by the Audit Committee.

The charter formally defines the **purpose, authority and responsibility** of the internal audit activity and is consistent with the Institute of Internal Auditors' definition. The head of internal audit attends all audit and risk and capital management committee meetings and submits a report to each Audit Committee meeting.

Role and function of internal audit

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

- Adherence to company policies and procedures
- Prevention of theft and fraud and
- Production of quality management information.

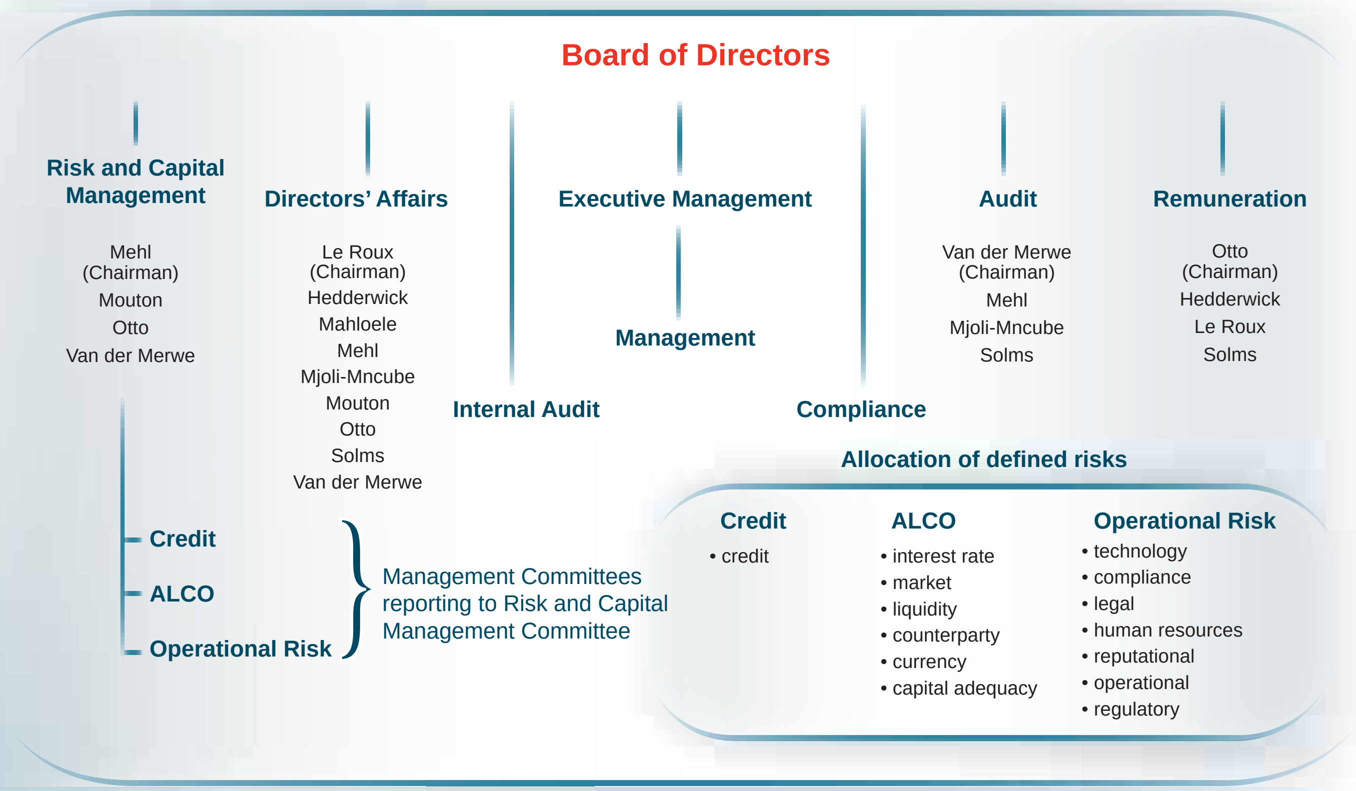
Scope of internal audit

The department **annually submits a coverage plan** to the Audit Committee for approval. The scope of this plan encompasses the **entire business of Capitec Bank** and is drafted with the strategic aim of the Bank in mind. In our developing environment great emphasis is placed on implementation and efficiency of systems. In addition, the **operational environment** is closely monitored and assurance derived that controls are functioning adequately. Increased emphasis is placed on development of centralised monitoring. In this process, any deficiency detected in governance is escalated to management for action.

Risk management framework and responsibility

Capitec Bank views risk management as a measure of ensuring a **responsible return on shareholders' equity.** Ultimately, the board remains responsible for risk management. To assist them in performing this duty, the company is managed through a system of internal controls functioning throughout the entity so that **an awareness of risk pervades every aspect of our business** and is seen as the responsibility of each and every employee of Capitec Bank.

Risk Framework



The board has established a Risk and Capital Management Committee, chaired by an independent non-executive director. The committee has a formal charter in accordance with which it assists the board in reviewing the processes followed to identify risk and consider such risks in the Capitec Group environment. The committee also assists the board in ensuring that risk assessment is an ongoing process and that a formal risk assessment is undertaken at least quarterly.

Sub-committees comprising executives and senior management have been established to deal in a structured manner with specific risks facing the company:

- Operational Risk Committee (ORCO) – legal, regulatory compliance, technology, human resources, operational and reputational risk;
- Assets and Liability Committee (ALCO) – interest rate, market, liquidity, counterparty, currency and capital adequacy risk; and
- Credit Committee – credit risk.

Risk and Capital management

Risk management and capital management are directly linked.

Risk capital represents a reserve for those risk exposures where, after applying cost-effective risk management techniques, residual risk remains. Residual risk exists given the inherent uncertainty related to expectations of the future, the potential for unexpected losses as well as losses expected to occur in the future not fully captured, accounted and provided for in terms of International Financial Reporting Standards (IFRS).

In addressing capital matters the Group manages both the so-called supply and demand factors impacting capital adequacy. Supply-side risk is the risk related to procuring appropriate capital resources at appropriate pricing and times to fund operations and meet the stipulated requirements of regulators and rating agencies. Demand-side risk is the management of risks impacting negatively on earnings and capital, which is the traditional risk management side of the business. Management of demand-side risk also involves monitoring the growth in risk-weighted assets which drives the growth in the regulatory capital requirement.

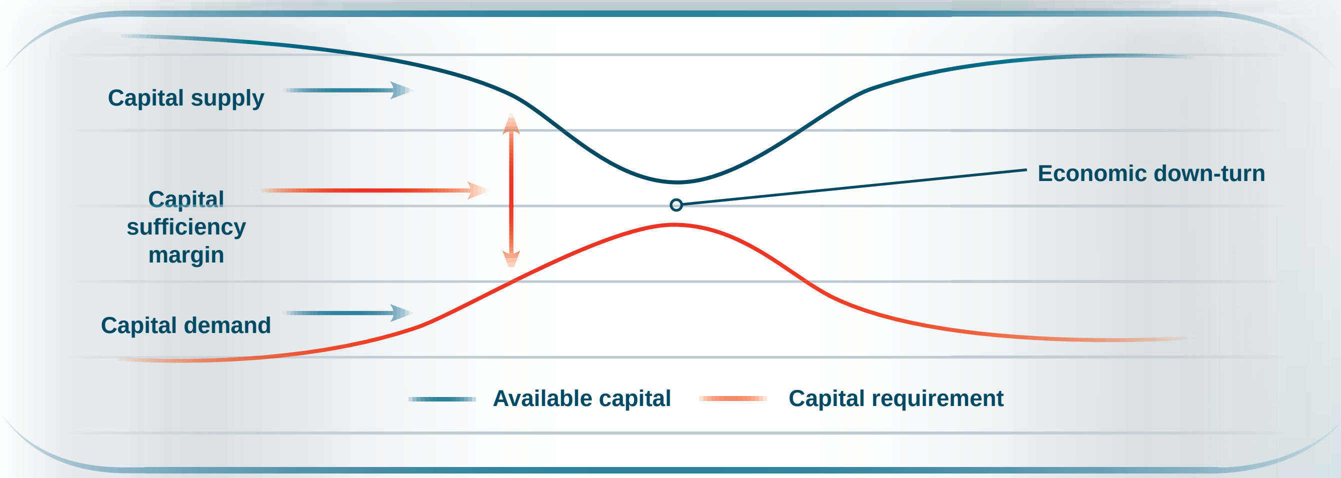
Capital management

The Group's principal objectives when managing capital are:

- To address the expectations of its shareholders, and so **optimise business activities** to ensure return on capital targets are achieved through **efficient capital management**
- To ensure that the Group holds sufficient risk capital, including capital to be held as a buffer for unexpected losses to **protect shareholders and depositors**, to assure the sustainability of the Group through the business cycle. This view is consistent with the Group's long-term strategy of building value.

The above two principles counter-balance each other by aiming to maximise returns to shareholders, but not at the expense of the needs of other stakeholders.

Capital Sufficiency in an Economic Down-turn



The CICAAP addresses the sufficiency of capital during a down-turn in the business cycle.

- Typically, **capital supply** is less due to losses or lower appetite for capital issues at lower prices in an economic down-turn
- Typically, **capital demand** is higher as risk-sensitive measures will demand more capital reserving, for example deteriorating credit experience

This approach **safeguards the long-term sustainability of the Group** and its ability to continue as a going concern so that it can continue to provide satisfying returns for all its stakeholders. Implicit in this responsible approach is compliance with the capital requirements of the Banks Act and Regulations thereto (Regulations) and the maintenance of a strong capital base to support the development and growth of the business.

Capital risk governance

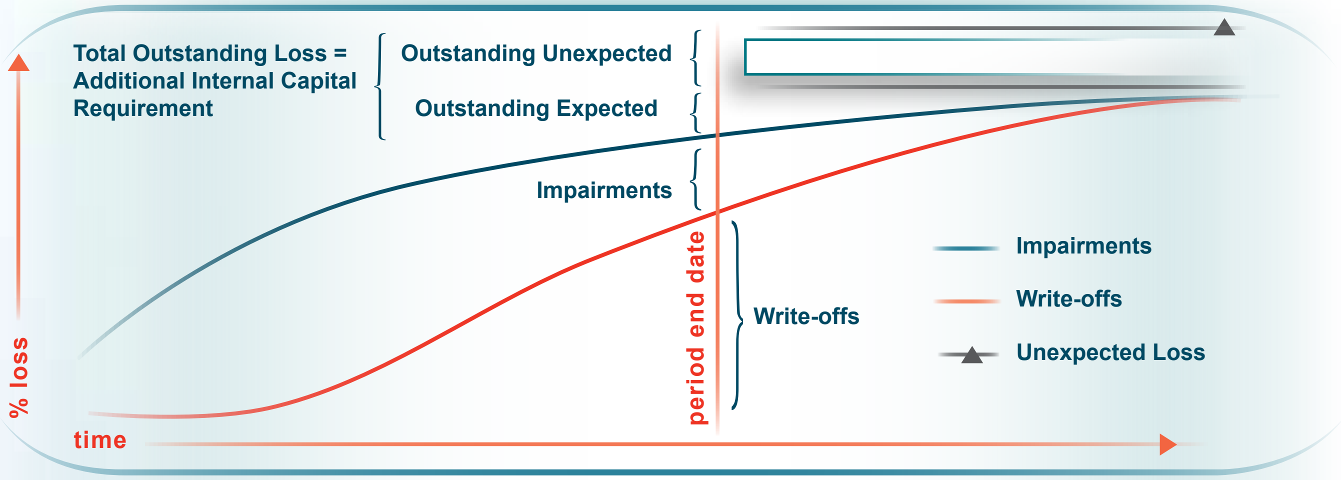
ALCO considers reports on the capital status of the Group on a monthly basis. ALCO reports to the Risk and Capital Management Committee in terms of the risk management framework. Capital adequacy and the use of regulatory capital are reported monthly to the South African Reserve Bank, in line with the requirements set out in the Regulations.

Capitec Internal Capital Adequacy Assessment Process (CICAAP)

In the achievement of its objectives the Group conducts a CICAAP on an ongoing basis, which drives the Group's position on capital management matters. The CICAAP addresses the management of capital and solvency risk and the risks arising from the procyclicality of the Group's specific business operations through the economic cycle.

The CICAAP reviews the historical, current and future capital positioning of the Group both from a regulatory and management or internal capital perspective. An essential element of the process includes forecasting the Group's capital supply requirements, including "stressing" the expected forecast to determine the sufficiency of capital in a down-turn of the economic cycle as, typically, regulatory capital demand requirements increase, whilst qualifying capital supply decreases in times of economic downturn.

CICAAP Credit Stress Testing



The above is a stylised representation of the treatment of losses that may arise on a loan portfolio.

In considering the capital requirement for credit risk from a management perspective the Group assesses what outstanding losses, i.e. losses not written-off or provided for, exist. These are typically the future and unexpected losses not captured in terms of the IFRS framework.

Statistical projections are made, on a product level, using historical roll rates that are adjusted for hypothetical future economic scenarios to stress test the sufficiency of capital. Three scenarios were computed:

- Expected economic scenario
- Down-turn economic scenario
- Worst-case economic scenario

In terms of our analysis we are adequately capitalised in the event of a worst-case scenario occurring.

Roll Rates: *Clients' roll rates are their changes in credit status from one period to another. A client's credit status can deteriorate (roll forward), maintain the status quo (spin) or improve (roll back).*

Part of the process then involves determining appropriate management actions to address any anticipated capital needs to weather a down-turn in the cycle.

Risk management is an integral element of the CICAAP given the inter-relationship between capital and risk management. As such, management considers the capital required to underwrite the risks of the business. This is assessed both before and after applying risk management and risk mitigation techniques so as to determine the outstanding residual risk and related capital reserving requirement.

- **Broad participation by management**

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

- **Basel II calculation methods for credit and operational risk capital**

  The CICAAP involves assessing capital from a business and regulatory perspective. The regulatory capital requirement is calculated using a percentage applied on a base; that base being the Group's risk-weighted assets. There are various methods used for the calculation of risk-weighted assets in terms of the Regulations. As at the year-end reporting date Capitec's calculations of risk-weighted assets for credit risk and equity risk in the banking book were governed by the application of the "Standardised" approach, whilst its calculation of operational risk was governed by the Basic Indicator Approach (BIA). In terms of the BIA a factor of 1.88 is applied to the average gross income for the past three years to arrive at a risk-weighted equivalent on which the minimum capital adequacy percentage is applied to calculate the capital requirement.

  Quantitative information on capital adequacy is presented below and in Note 30.6 of the Group's annual financial statements on page 90.

- **Developments**

  Our current internal capital calculations indicate that we are more than **sufficiently capitalised from a business perspective.** However, we can achieve greater regulatory capital efficiency by applying the more advanced approaches for operational and credit risk management in terms of the Basel II methodologies. As such we made a successful application to apply the Alternative Standardised Approach (ASA) for operational risk, an approach better suited to our business model. We received notification of approval of our application after year end. The new ASA calculation method is effective from 1 April 2008. If the ASA had been used in the calculation of the Banks' capital adequacy as at 29 February 2008, the capital adequacy ratio would have been 53% as against the 36% reported using the BIA.

Our internal calculations on credit risk requirements show that we can also make significant gains in regulatory capital management by applying the Foundation Internal Ratings Based approach

Total regulatory capital requirement

The total regulatory capital requirement reflected in terms of the Regulations is as follows:

	Group		Bank	
	2008* R'000	2007** R'000	2008* R'000	2007** R'000
Total regulatory capital requirement	**817 462**	**179 744**	**814 568**	**178 248**
Credit risk	**400 197**	**147 380**	**400 885**	**148 491**
on balance sheet	400 197	129 436	400 634	130 547
off balance sheet	-	17 944	251	17 944
Operational risk	**342 440**	**-**	**339 105**	**-**
Equity risk in the banking book	**3 606**	**1 827**	**3 606**	**1 827**
Other assets	**71 219**	**30 537**	**70 972**	**27 930**
Property and equipment	49 043	23 346	48 547	22 219
Intangible assets (software)	9 405	6 391	9 405	5 429
Other receivables	12 771	800	13 020	282

* Calculated in terms of Basel II rules
** Calculated in terms of Basel I rules

(FIRB). This is **indicative of the lower risk profile of our Group which operates a retail banking business model.** Our internal credit models are already more than sufficiently sophisticated to allow us, with only some additional investment and customisation, to achieve **potentially significant savings in regulatory capital requirements for credit risk.** We shall investigate the potential benefits and further requirements in the course of the year ahead.

Restrictions on transfer of capital

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

Consolidation for the purposes of determining Group regulatory capital

All subsidiaries are consolidated for both accounting and supervisory reporting purposes in the same way. All companies are incorporated in the Republic of South Africa. The registered banking subsidiary of the Group, Capitec Bank Limited, has no subsidiaries. Consolidation for regulatory purposes relates to the consolidation of Capitec Bank Holdings Limited.

The main consolidation entries giving rise to a difference between Group and Bank capital relate to share options, which are reflected on an equity settled basis in the Group, but on a cash settled basis in Capitec Bank Limited in terms of IFRS 2.

Risk management

The biggest risks facing Capitec reside in liquidity management, information technology, human resources and credit extension. The emphasis thus tends to fall in these areas. However, to enhance shareowners' and other stakeholders' interests, all risks are mitigated to an acceptable level relative to the return produced by the activity concerned. This remains a central theme of the manner in which Capitec conducts business. The company operates in a structured manner with defined processes and procedures enabling risk assessment within a controlled environment. Existing controls are assessed and if necessary, adjusted. Thereafter reports are generated at regular intervals to enable monitoring of risk levels.

Financial risk management

The Group's concept of day to day financial risk management extends beyond the IFRS accounting definitions of financial risks and includes the following: credit, liquidity, interest rate, equity risk in the banking book, currency, solvency and capital risk. The Group does not have any market or counterparty risk, as understood in terms of the Regulations, as the Group does not conduct trading activities as part of its business strategy. Those risks not already addressed above are discussed:

Credit risk

Credit risk governance

Credit risk management is overseen by the credit committee, a sub-committee of the Risk and Capital Management Committee. The composition of the credit committee is broad based and includes a cross section of executives and relevant managers from the business. The credit committee meets on a monthly basis to consider the activities of the credit risk management department, consider and debate results from arrears and provisioning analysis for the previous month, and to set and adjust credit policy going forward.

Arrears

We measure arrears rates by dividing the value of loans and instalments in arrears that arose during a period into the value of instalments due in that period. This is a better measure than dividing the loans in arrears by the outstanding loan book as some of our short-term loans are granted and repaid in the same month.

Monitoring and reporting of arrears

Our Credit Monitoring department tracks arrears to ensure operational efficiency and compliance to granting and follow-up policy by identifying changes in trends and variances from benchmarks using a variety of tools.

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

- **Daily Arrears Dashboard**

  Daily reporting is done as early as possible, using the dashboard, to ensure that **immediate pre-emptive action is taken** on a national, regional or branch level as required. All unexpected spikes are subjected to immediate investigation.

- **Credit Events Log**

  All identified credit events are registered on a central credit events log and communicated continuously to branches and operational management. **Developments are reported to the branches by sending updates of the credit events log on at least a weekly basis.**

  Economic incidents like employer level retrenchments or industry level strikes are reported to affected branches and preventative action regarding restrictions on further lending, affordability calculations and arrears follow-up is taken. *Ad hoc* emphasis on specific items is communicated by using periodic Credit Alert communications.

Changes in the pay dates of employers are confirmed pro-actively. Success is measured daily with emphasis on the big pay dates, being the 15th, 20th, 25th-31st days of the month. Incorrect pay date estimations are also registered and quantified on the credit events log and used to educate all in striving to prevent recurrences. This approach also highlights which employers tend not to follow confirmed payment dates.

Each month credit events listed on the log are quantified and fed into the loan impairment process and the operational risk register for reporting to the operational risk committee, where the events are related to operational risks, e.g. system deficiencies. All operational risk incidents like system or interbank challenges are identified, evaluated and preventative and/or corrective actions are agreed with the Information Technology or Interbank departments.

- **Roll rate analysis**

We also monitor arrears trends using observed roll rates, derived from historic payment profiles generated by our loans system (the same payment profiles are submitted to the National Loans Register, soon to be the National Credit Register, and the same payment profiles form the basis of our loan impairment models). Variations of the roll rate tables are utilised to understand the level of rehabilitation in the accounts in arrears and to derive new credit screening / granting rules and collection strategies:

- First-payment-defaulter reports for early delinquency pockets, and
- Movement tables to analyse and compare to benchmarks the component of clients moving to better or worse arrears status.

We analyse all of the above arrears perspectives in the following dimensions:

Dimensions of arrears analysis

• different products	• tranches of sales
• payment method *(differentiating between bank and non-bank clients (non-bank clients do not deposit their salary with us))*	• payment frequency *(differentiating between weekly/ fortnightly)*
• client number level	• Rand value levels

Bad debts are identified and managed accordingly by way of system codes, e.g. deceased, under administration, debt review or handed over. All accounts more than 90 days in arrears are written off on general ledger level based on expected discounted cashflows.

- **Weekly credit meetings**

Representation at weekly credit committee meetings is broad based and includes the majority of the members of the executive management team. These meetings are held every Monday afternoon and in addition to the executive management team include key senior members from the financial management department.

At the first meeting after month-end we discuss the previous month-end arrears and events listed in the credit events log that had or would be expected to have an impact on arrears. These items are then considered in the evaluation of the month's impairments figure at the same meeting.

At every weekly meeting arrears events, arrears trends, concentration risk, training requirements, technical requirements, change management issues, scoring model shifts and new business referral trends are discussed, actions agreed and monitored.

Quality of new business

- **Vintage graph analysis**

We utilise vintage graphs to measure the quality of credit screening as the trends indicate improvement or deterioration in each month's sales (a tranche).

We track the cumulative arrears figures at 90 days or handed-over status (deceased or under administration, etc.) for each tranche and divide that into the total original instalments payable.

Our market's ability to pay has also improved over the past year. Lower interest rates and longer term loans are now offered.

- **Process changes**

We have proactively made the required changes in our credit risk management model to maintain and improve existing levels of arrears against the back-drop of a deterioration in the economic climate and evident growth in volumes and exposure due to the roll out of our longer term products (18-month and 24-month loans in October 2006 and 36-month loans in October 2007).

We have made improvements in the areas of scoring, affordability, pay date management, collections and the end-to-end automation of our processes.

More specifically, the following changes to our credit management process have been completed or are in process:

- **Acceptance** - standardisation and automation of affordability and willingness assessment; fraud checks included; an automated application system that integrates the bureau enquiry, affordability calculation, product rules, allocation of terms of business and creation of contract and loan to payout (Rules Engine) implementation in progress; this will ensure even better process consistency and enable us to perform simulations of considered rule sets and champion challenge these new rules. We will have in-house intelligence of all applications received and rejected to enhance our scoring ability.

- **Control** - proactive pay-date confirmation; effective collections via regulated Non Authenticated Early Debit Order (NAEDO) system; centrally supported early stage follow-up by branches on a purpose-built system; central follow-up and arrangements with clients in arrears by specialised call centres; improved and refined collections strategies.
- **Recovery** – migrated to a user-friendly database to optimise recoveries; structured and skilled to service debt review applications.

Collections

- **Collection method**

  Capitec utilises the regulated NAEDO system to collect instalments on the pay dates of our clients that do not deposit their salaries with us. Collections are as mandated by our clients in terms of their loan contracts; collections are made from their external bank accounts or clients can deposit their salary with Capitec and collections are then made from their Capitec accounts under the same conditions as external NAEDO debits.

- **Daily collection processes**

  Collections are managed proactively with a central focus on large employer pay-date management and decentralised / branch focus on the smaller local employers. Pay dates are reconfirmed, success is evaluated on the morning of pay-date and **follow-up on early stage arrears** is performed by the branches on a special purpose web-based system. Support is provided to the branches by our Credit Follow-up Area (CFA) and a **central monitoring and control unit which assists branches in managing arrears accounts more effectively.**

- **Early and late stage collection approach**

  Early collections **are performed centrally from an internal credit call-centre with some outsourcing to third-party call-centres,** based on a predetermined and continuously reviewed collections strategy. Our legal, or late stage, collections are handed over to various agents who are responsible for tracing and legal action. The agents are managed in terms of mandates and their performance is periodically reviewed. These agents, the handed over accounts database and recoveries are managed by our Capitec Collection Services department (CCS). The Specialised Services area within **CCS has the legal skills**, with the support of our Legal department in the Risk Division, **to manage the debt review applications, deceased estates and under administration cases.**

Credit Policies

The credit committee reviews the various policies at least annually.

Impact of the National Credit Act (NCA)

Our NCA project addressed all technical and process requirements before 1 June 2007, the main elements being:

- Automated quotes and pre-agreements.
- New interest rate and fee structure, instead of the flat rate structure that our market was used to, which we have phased into our business since November 2006.
- Our affordability calculation was already automated and standardised on a client level for each loan advance we made but we added functionality to enable the printing of the affordability calculation on the contract.
- The debt review status codes were added to our system and we can automatically issue the notice of possible handover to our clients when required.

Some of the intended outcomes flowing from the implementation of the NCA on a national level are still work in process. Capitec has adopted a cooperative approach, working with the National Credit Regulator (NCR) to resolve the following outstanding matters:

- **We take part in the moratorium offered on debt review applications** through the Banking Association to help the debt counselling process get off the ground.
- We have signed an agreement as **a member of the National Debt Mediation Association** as part of our efforts to facilitate the best possible route to follow for any distressed client.
- We are registering with the Credit Providers' Association to support the creation of the intended National Credit Register.

At Capitec we welcome what the NCA brought to our market:

- **Protection** (cost to consumer by all credit providers, the demonstration of affordability by all credit providers and debt counselling cooperation by all creditors)
- **Opportunities** (loans of over R10 000, longer term and a wider market)
- **Integration** (microlending, retail and banking).

Credit-granting criteria

We base our credit acceptance decision on the applicant's **B**ehaviour (willingness to pay), **A**bility to pay and the **S**ource of payment (BAS):

- How you pay (loan instalments paid from salary deposited with Capitec - "Bank" client, collections for "Non-Bank" client via NAEDO or the client is a cash payer)
- Who you get paid by (employer pay-date stability)

- When you get paid (pay-date logic with regard to for example public holidays) and on what frequency (weekly / fortnightly / monthly).

The willingness to pay is established externally by enquiries performed and bureau related policy rules automatically applied on bureau scores and bureau data (system driven). This information is supplemented internally by application of an arrears indicator (system driven). Fraud checks are included in the automated bureau enquiry. The ability to pay is assessed after evaluation and capturing of payslip and bank statement information (system driven).

The source of payment is established by evaluating the payslip details, bank statement and again when confirming employment. The source documentation is scanned and electronically filed as proof of verification.

Analysis of regulatory credit exposure

GROUP

	Average gross exposure [1]		Aggregate gross year end exposure [2]		Exposure post risk mitigation [2] [3]		Risk weights [2]	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000	2008 R'000	2007 R'000	2008 %	2007 %
Total gross credit exposure	**2 082 374**	**1 836 290**	**2 385 173**	**1 895 186**	**2 377 613**	**1 895 186**		
On balance sheet	2 074 874	1 459 191	2 377 673	1 518 087	2 377 673	1 518 087		
Corporate	16 193	85 022	16 582	48 351	16 582	48 351	100	100
Sovereign (SARB)	131 831	125 357	139 249	142 329	139 249	142 329	0	0
Banks	125 458	493 985	46 284	461 202	46 284	461 202	20	20
Retail loans - performing	1 616 886	659 158	1 929 021	762 692	1 929 021	762 692	75	100
Retail loans - impaired	184 506	95 669	246 537	103 513	246 537	103 513	100	100
Off balance sheet	**7 500**	**377 099**	**7 500**	**377 099**	**-**	**377 099**		
Corporate guarantees	7 500	7 500	7 500	7 500	-	7 500	100	50
Retail - approved undrawn loans	-	135 701	-	135 701	-	135 701	75	50
Capital and rental commitments	-	233 898	-	233 898	-	233 898	0	20

BANK

	Average gross exposure [1]		Aggregate gross exposure [2]		Exposure post risk mitigation [2] [3]		Risk weights [2]	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000	2008 R'000	2007 R'000	2008 %	2007 %
Total gross credit exposure	**2 085 630**	**1 833 761**	**2 387 805**	**1 902 061**	**2 380 305**	**1 902 061**		
On balance sheet	2 076 123	1 454 174	2 378 298	1 522 474	2 378 298	1 522 474		
Corporate	21 031	85 022	20 797	53 584	20 797	53 584	100	100
Sovereign (SARB)	131 831	125 357	139 249	142 329	139 249	142 329	0	0
Banks	124 990	493 139	45 816	460 356	45 816	460 356	20	20
Retail loans - performing	1 614 114	654 987	1 926 248	762 692	1 926 248	762 692	75	100
Retail loans - impaired	184 157	95 669	246 188	103 513	246 188	103 513	100	100
Off balance sheet	**9 507**	**379 587**	**9 507**	**379 587**	**2 007**	**379 587**		
Corporate guarantees	9 507	9 988	9 507	9 988	2 007	9 988	100	50
Retail - approved undrawn loans	-	135 701	-	135 701	-	135 701	75	50
Capital and rental commitments	-	233 898	-	233 898	-	233 898	0	20

[1] Average gross exposure is calculated based on an average using daily balances for the six months prior to the reporting date as required by the Regulations.

[2] Items are reported in line with the Regulations in force at the respective dates and represent exposure before the deduction of qualifying impairments. In certain instances the Regulations require the use of averages based on daily balances for the reporting month.

[3] Represents exposure after taking into account qualifying collateral in terms of the Regulations. Amounts are shown gross of qualifying impairments.

The risk weightings reflected are the standard risk weightings applied to exposures as required by the Regulations. For the 2008 figures these are the risk weights in terms of the standardised approach to credit risk. Where the Regulations refer to credit ratings, the Group applies Fitch (international) ratings for all exposures to determine the relevant risk weighting in line with the Regulations' mapping requirements. Refer to Notes 30.6 and 6 in the annual financial statements, respectively, for information on risk-weighted assets and a reconciliation of identified and unidentified impairments. All the impairments shown in Note 6 relate to the retail personal loans portfolio.

In compliance with the Regulations, certain credit exposures totalling R16.7 million (2007: R96.9 million) were deducted from qualifying capital and reserves.

The following table of risk weights applies in terms of the standardised approach to credit risk for portfolios other than retail.

Rating Grades and related Risk Weights

	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%
	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%

Ratings are not applied to retail exposures. A standard risk weight of 75% is applied to performing exposures whilst impaired exposures attract a standard 100% risk weight.

Analysis of gross exposures by industry sector in terms of the Regulations

All exposures are performing unless otherwise stated.

	Group R'000		Bank R'000	
Sector	**2008***	**2007****	**2008***	**2007****
	2 385 173	**1 895 186**	**2 387 805**	**1 902 061**
Finance intermediation (Banks)	46 283	482 533	45 816	481 686
Wholesale and retail trade	14 168	11 903	17 617	19 625
Sovereign (SARB)	139 249	142 329	139 249	142 329
Retail personal loans				
Performing	1 922 353	934 252	1 922 353	934 252
Impaired	246 538	63 251	246 188	63 251
Other	16 582	260 918	16 582	260 918

* Calculated in terms of Basel II rules ** Calculated in terms of Basel I rules

Ageing of impaired advances

	Group R'000		Bank R'000	
Ageing	**2008**	**2007**	**2008**	**2007**
< 60 days	219 905	90 009	219 555	90 009
60 - 90 days	26 633	15 864	26 633	15 864
	246 538	**105 873**	**246 188**	**105 873**

Liquidity

The Group manages liquidity cautiously and conservatively. It operates an uncomplicated liquidity profile with a preference for long-term fixed funding. The Group has exposure to funding liquidity risk but not to market liquidity risk as **the Group does not conduct a trading operation.**

Liquidity risk governance

Liquidity risk is managed by ALCO in terms of the Group risk framework. **ALCO comprises broad representation by executive and senior management** and meets monthly to consider the activities of the treasury desk which operates in terms of an approved treasury management policy and in line with approved limits. **The Group also has the benefit that it has an uncomplicated structure** with one treasury desk with a direct reporting line to the chief financial officer in line with the general Group ethos of flat reporting structures.

ALCO receives reports on a monthly basis of daily balances on ATMs and funds in transit with cash management service providers, teller cash and money market balances. Other reports include a treasury desk maturity ladder, asset-liability matching, deposit concentrations, progress on funding initiatives, business as usual maturity and contractual maturity reports and minimum liquid asset and reserve balance compliance reports.

Principal policies

Compliance with the treasury management policy results in a low risk liquidity structure. **We are not exposed to the uncertainty that accompanies the use of corporate call deposits as a funding mechanism** and our asset structure, whilst growing in duration, is still relatively short-term in nature. The principal risk management policies governing the management of liquidity risk as defined in the treasury management policy are:

- Wholesale deposit funding is limited to contractual maturities of two months or more.
- Utilisation of retail deposit funding is limited to funding short-duration assets. Surplus retail funding is maintained in call accounts with internationally rated A-1 (short-term rating) South African banks.
- Adequate liquid assets must be maintained in terms of the Banks Act Regulations to fund the liquid asset requirement and the reserve account, and to maintain collateral for balances on the South African Multiple Option Settlement (SAMOS) system account.

Daily cash management

The Group's daily liquidity requirements are managed by a **single treasury desk that forecasts daily funding requirements**. This is achieved by forecasting liquidity commitments which can be summarised in two broad categories: those which are considered as day-to-day flows and those that relate to large singular obligations.

Daily roll-overs and withdrawals by the retail personal market, growth in the loan book, inflows from settlements adjusted for expected default and cash-in-transit items are forecast and combined with the scheduled contractual cash in-flows and out-flows in terms of the wholesale funding programme and periodic commitments such as dividend and tax payments.

Treasury management **maintains regular daily contact with the central branch management office or Business Support Centre (BSC) to manage the in- and out-of-branch ATM requirements.** Teller cash is maintained at a minimum. The forecasting is supported by behavioural modelling conducted on a regular basis to determine business as usual cash flow requirements including cash stress points in any given month.

The modelling is adjusted for seasonal variations based on historical experience as adjusted for expectations around projected growth and current market dynamics.

The treasurer has **regular contact with all the Group's large wholesale depositors** to understand their intentions regarding the roll-over of wholesale deposits and negotiation of funding from time to time.

The treasury management desk maintains portfolios of highly liquid assets that can be liquidated to meet unexpected variances in forecast requirements. **In line with the Group's preference for long-term fixed funding the treasury actively pursues medium- and long-term funding opportunities** to fund the budgeted growth in the activities of the Group.

Deposit management

From a management perspective, no funding is regarded as "permanent" other than funding contracted for fixed terms. We have an observed "core" deposit base within the retail savings component of our deposits which we consider for both interest rate and liquidity purposes.

We utilise **statistical techniques** to estimate this core having due regard for the fluctuations in day-to-day cash requirements, the related supporting historical data, as well as our future expectation of daily cash flows. The established result is then subject to a **review by senior management** and the core is established at a conservative percentage of the empirically determined result. Our internal definitions of core and fluctuating deposits are formally authorised by ALCO.

Interest rates are reviewed monthly to ensure that deposit rates remain competitive. Treasury management assesses concentration risk within the deposit portfolio and **maintains a diversified funding base.** Treasury management constantly reviews the efficient utilisation of cash resources and evaluates new liquidity initiatives to improve the liquidity profile of the Group that may occur.

Liquidity contingency planning

ALCO receives, on a monthly basis, a stress mismatch report which simulates a stress scenario based on the current asset and liability structure of the Group for the reporting month. The report also considers the available sources of stress funding to address any strain on the cash flows of the Group that may occur.

Refer to Note 30.5 of the annual financial statements for quantitative detail on the Group's static, contractual liquidity maturity gap analysis.

Interest rate risk

The Group currently has **a conservative interest rate profile** and is less interest sensitive than the general banking industry.

The Group's equity and profit and loss have limited uncontrolled exposure to changes in interest rates. This is because the Group operates a fixed and discretionary interest rate profile for most assets and liabilities.

Interest rate risk governance

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

In a declining interest rate environment the Group's treasury management department may on approval of the ALCO swap out fixed rate exposure if the Group is of the view that the environment is entering a period of sustained low interest rates in order to minimise funding costs. ALCO also considers the terms and durations of fixed term funding arrangements in view of the medium- to long-term interest rate environment when negotiating pricing.

Regulatory sensitivity analysis

	2008	
	Sensitivity of equity	
200 basis points shift	**R'000**	**%**
Increase	**5 169**	**0.6**
Decrease	**(8 768)**	**1.0**

The regulatory sensitivity analysis reflects the relative insensitivity of the Group's equity based on the impact of a 200 basis point increase or decrease in interest rates, calculated on a discounted basis.

The sensitivity of shareholders' equity is analysed by discounting the future, run-off cash flows, for monetary items, inherent in the balance sheet at balance sheet date. A 200 basis points upward and downward parallel shift on a zero coupon yield curve is employed to discount the cash flow data. The yield curve is constructed on a best decency basis utilising relevant government bond data.

Cash flows for floating rate items differ under the specified scenarios (being the upward or downward shift in rates) whilst those for fixed rate assets and liabilities remain constant. The resulting cash flow sensitivity is expressed as a percentage change against the benchmark (expected) cash flows discounted at the expected yield curve rates before any application of the upward or downward shift.

A differentiation is made between the sensitivity calculated on the IFRS basis and that disclosed here, calculated on a regulatory basis, as the regulatory basis considers the overall sensitivity of the value of equity based on a discounted cash flow basis whilst the IFRS sensitivity is prepared on an undiscounted basis.

Equity risk in the banking book

Capitec does not deal or maintain a proprietary position in equity investments. For a limited period the Group invested surplus cash in preference shares issued by banks in order to secure better after-tax returns than those offered in the general money market. Equity investments in the Group at the 2008 year-end are strategic in nature being a consequence of normal strategic operational transactions.

All unrealised gains and losses were included in the Group's income statement. There are no latent unrealised gains or losses on equities not recognised in the income statement and balance sheet.

The Group did not hold any investments in listed equities at year-end.

Currency risk

All the Group's operations are within South Africa. The Group hedges its limited exposure to currency fluctuations which arise on the importation of capital equipment and technological support services. The Group also has some currency exposure on its strategic investments in VISA and MasterCard.

Hedging

At this time the Group's authorised use of derivatives as risk mitigation instruments is limited to using forward foreign exchange contracts (FECs) to cover obligations relating to capital equipment, technology and technology support services needed for the core banking activities. FECs are purchased to exactly match the total value of the underlying foreign currency commitment.

Use of any other derivatives must first be approved by ALCO prior to transacting.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.

Operational risk governance

Operational risk is managed in terms of the Group's Operational Risk Framework (ORF), which is a subset of the risk management framework. The Operational Risk Committee (ORCO) has been established to oversee the operational risk profile of the Group. The role of the ORCO is to direct, govern and coordinate operational risk management processes in the Group, in accordance with an approved policy that sets out the expectations and responsibilities relating to operational risk management.

The heads of the Forensic, Internal Audit, Legal and Compliance and Operational Risk management units are members of the ORCO and provide independent monitoring. ORCO also addresses the aspect of technological risk and the Head of the Group's Information Technology department is a member of the Operational Risk Committee.

Management of operational risk

The management of operational risk is inherent in the day to day execution of duties by management and always has been a **central element of the management process**.

Regular and frank discussions between managers on operational risks and challenges as well as daily interaction of the executive have contributed to the success of the Group to date. Whilst this will continue to be a key value in the business, the **Group has enhanced its operational risk management capacity to support growth.**

A dedicated operational risk manager is responsible for policy, providing guidance in terms of best practice, 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.

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

The Group also maintains a comprehensive insurance programme to cover losses from fraud, theft, professional liability claims and damage to physical assets.

Business continuity planning

The Group has a documented business continuity and disaster recovery plan (BCP) that documents processes to be followed should an extreme event occur. The BCP is tested periodically.

Reputational risk

Capitec views reputational risk as a function of the management of all other risks and the Group's communication strategy in the marketplace. If the other risks in the Group are well-managed and this is adequately communicated to the market we are appropriately managing reputational risk. In terms of management approach reputational risk is dealt with by the operational risk committee.

Reputational risk is managed on an ongoing basis through compliance with the disclosure and media policies of the Group. Disclosure of Group information is made in our annual financial statements, via public statements made by authorised spokespersons and through periodic disclosure of information on our website in terms of the Banks Act requirements.

Compliance risk

The Group defines compliance risk as the risk that the procedures implemented by Capitec to ensure compliance with relevant statutory, regulatory and supervisory requirements are not adhered to and/or are inefficient and ineffective. **The Group has a Compliance Management System (CMS).**

To achieve successful implementation of the CMS, software was sourced to assist with the assessment of compliance risks, with the documentation of controls and with monitoring activities. Compliance champions were identified, appointed and trained to assist the Group compliance officer in addressing compliance in the Group.

The Group has identified the Banks Act, Companies Act, Financial Intelligence Centre Act, National Payments System Act, Security Services Act and the National Credit Act as key aspects of legislation that should be focussed on in terms of CMS activities. This focus achieves a balanced application of compliance activities relative to the ambit of the business of the Group.

Compliance risk is dealt with by the operational risk committee.

Key accounting policies relevant to the interpretation of the Group's risk exposures

The key accounting policies relevant to the interpretation of the Group's risk exposures are contained in the Group's annual financial statements on pages 62 to 70.

Annexure A – Attendance by Directors

Committees	Board	Audit	Remuneration	Risk and Capital Management	Directors' Affairs
Number of meetings in the period of review	**6**	**3**	**4**	**2**	**2**
MS du P le Roux (Chairman)	6	3*	4	-	2
AP du Plessis	6	3*	1*	2*	-
KA Hedderwick(1)	1	-	-	-	-
TD Mahoele(2)	4	-	-	-	2
MC Mehl	5	-	3	2	2
NS Mjoli-Mncube	5	3	-	-	2
JF Mouton(3)	2	1*	-	-	-
PJ Mouton(4)	2	-	-	-	-
CA Otto	6	3	4	-	2
JG Solms	6	-	3	2	2
R Stassen	6	3	4*	2*	-
JP van der Merwe(5)(6)	3	2	-	-	1
J van Zyl Smit(7)	2	1	-	-	-

Notes:
(1) Appointed to the board effective 10 December 2007
(2) Appointed to the board effective 1 April 2007
(3) Resigned from board effective 4 October 2007
(4) Appointed to the board effective 5 October 2007
(5) Appointed to the board effective 27 September 2007
(6) Appointed chairman of the Audit Committee effective 27 September 2007
(7) Resigned from the board effective 26 September 2007
* Attendance by invitation

Annexure B – Composition of board and board committees

	Committees	Purpose	Composition	Quorum	Frequency of meetings
1.	Board of Directors	The Board of Directors is responsible for the strategy and overall management of the company	The Board consists of: **3 non-executive directors** TD Mahloele *(appointed 1 April 2007)* JF Mouton *(resigned 4 October 2007)* PJ Mouton *(appointed 5 October 2007)* CA Otto **6 Independent non-executive directors** MS du P le Roux *(Chairman)* KA Hedderwick *(appointed 10 December 2007)* MC Mehl *(Prof)* NS Mjoli-Mncube *(Ms)* JG Solms JP van der Merwe *(appointed 27 September 2007)* J van Z Smit (Dr) *(resigned 26 September 2007)* **2 executive directors** R Stassen *(CEO)* AP du Plessis *(CFO)*	A majority of directors for the time being in office of which at least 50% must be non-executive	6 times a year
2.1	Executive Management Committee	Responsible for operational decision making and approvals of administrative nature on an ongoing basis	R Stassen *(Chairman)* AP du Plessis GM Fourie CG van Schalkwyk	3 members	Once a week

Annexure B – Composition of board and board committees

Committees	Purpose	Composition	Quorum	Frequency of meetings
2.2 Management Committee	Responsible for operational decision making and implementation of strategic decisions approved by the board	R Stassen *(Chairman)* IC Abrahams* JE Carstens F Davids* A P du Plessis CG Fischer GM Fourie A Olivier C Oosthuizen CG van Schalkwyk L Venter * Appointed to the management committee in February 2008	3 members	Once a month (members meet weekly to report on operational matters)
3. Directors' Affairs Committee	Responsible for evaluation of board effectiveness; senior management and board succession planning; corporate governance	All non-executive directors	Majority of members	Twice a year
4. Audit Committee**	Oversees financial controls, reporting and disclosure	JP van der Merwe *(Chairman)* MC Mehl NS Mjoli-Mncube JG Solms **Independent attendee** HD Nel *(External audit partner – PricewaterhouseCoopers)* **Management attendees** J-HC de Beer *(Compliance officer)* J Delport *(Operations Risk Manager)* AP du Plessis J Gourrah *(Internal Audit)* R Stassen CG van Schalkwyk *(Risk management) (secretary)*	50% of members of which 50% must be non-executive directors	Three times a year
5. Remuneration Committee***	Directors' and senior executives' remuneration is discussed and determined as well as levels of remuneration, adjustment thereof at intervals and, when applicable, additional remuneration such as bonuses and incentives, including share option incentives	CA Otto *(Chairman)* KA Hedderwick MS du P le Roux JG Solms **Management attendees** R Stassen L Venter	Majority of members	Twice a year
6. Risk and Capital Management Committee***	Identification of all risks and assists the board in reviewing the risk management systems and processes and the significant risk facing the company	MC Mehl (Chairman) PJ Mouton CA Otto JP van der Merwe **Management attendees** J-HC de Beer J Delport AP du Plessis J Gourrah R Stassen CG van Schalkwyk	Majority of members	Twice a year

** Reconstituted in March 2008
*** Reconstituted in April 2008

More than **187 non-profit organisations** have benefited

Corporate Social Investment Programme

"The Carel Du Toit Centre is incredibly grateful for Capitec Bank's generous donation. Thanks to your support more hearing impaired children can now learn to speak and become part of the hearing and speaking world."

Laurette du Preez, head of the Carel du Toit Centre.

Sustainability Review

Scope of the review

This review provides an overview of the Group's policies, practices and performance relating to its economic, social and environmental activities for the financial year ended February 2008.

The report describes the sustainable business practices of the Group that strive for economic prosperity and growth whilst maintaining and, where relevant, encouraging ecological balance and social progress. Certain aspects relevant to the Sustainability Review, such as the corporate profile, strategy, corporate governance and risk reporting, are not duplicated in this section as they are covered elsewhere in the annual report.

This sustainability report has been compiled using guidelines and criteria developed by the various agencies which monitor corporate sustainability, but has also been adapted to address issues specific to our business and industry. **The target audiences for this report include all stakeholders that have an interest in the activities of the Group, with particular emphasis on our shareholders, clients, employees, funders and regulators**.

Verification and indexes

In 2007, Capitec participated for the first time in the **annual assessment for inclusion in the Socially Responsible Investment (SRI) Index,** in an effort to gain recognition for the measures implemented by the Group to ensure sustainable growth. **The JSE SRI Index has been designed to create a benchmark index in response to growing interest in socially responsible investment around the world**. With this purpose in mind, the JSE invites companies to participate in its annual assessment for potential inclusion in the SRI Index which was launched in 2004. As a means of helping to focus the debate around socially responsible investment, the JSE has developed criteria to measure the triple bottom line performance of companies in the FTSE/JSE All Share Index, with the aim of compiling an index comprising those companies that pass the criteria.

Capitec fared well in terms of governance and social criteria. However, the lack of a policy dealing exclusively with **HIV/Aids** was a point of concern. HIV/Aids subsequently is covered in our life-threatening diseases policy which also deals with other life-threatening diseases. In addition, an employee assistance programme (EAP) has been established. As far as environmental impact is concerned, the Capitec Group has always attempted to operate in a manner so as to have as little impact as possible on the natural environment. In fact, Capitec Bank's business plan is in essence conservationist; this is elaborated on in the section dealing with environmental impact. Nonetheless, we have begun a process of establishing measures to augment our approach towards the conservation of natural resources and to sensitise employees towards the responsible use thereof.

Although the 2007 Sustainability Review has been integrated in Capitec Bank Holdings' annual report, it may be downloaded as a separate report from our website at www.capitecbank.co.za.

Overview

This sustainability performance review provides an overview of our sustainability initiatives over the past year. **We report on our consultation with major stakeholder groups and how their feedback has been incorporated into our business.** In addition, we clarify our initiatives to continue to build a sustainable business.

Capitec regards its role as that of **improving people's lives by providing a means to economic upliftment** in a responsible way. Sustainable development for Capitec is founded on certain principles. It is about **providing low-cost banking** to our clients in an **accessible and simplistic way**. It is about **promoting personal responsibility** and sound practices in all our dealings. It is about providing a **safe and rewarding working environment** and **promoting cultural diversity** and **equity** in the workplace. It is about providing a **valued and personal service experience** to our clients and providing opportunities for **social and economic development** through our core business activities. It is also about proactively minimising any adverse environmental impact. In order to achieve this, we have to be receptive towards the expectations of our stakeholders, and identify and respond to their perceptions, concerns and needs.

Over the **past seven years**, Capitec has made progress in **integrating sustainability** in all our business operations. The most significant of these is our ongoing growth in client numbers by unlocking access to affordable banking through innovation. We also realise that the cost of credit plays a significant role in the growth of our economy. Through our ongoing drive to reduce the cost of credit we have been able to **offer clients a real solution to affordable finance**. Our **business model**, driven by **affordability, accessibility, simplicity and personal service**, has been rewarded with **solid growth** and **profitability** this year. This motivates us to commit to our vision of being an **innovative alternative to traditional banking** with even more energy and passion in 2008/9.

Capitec supports the need for **transparency and detailed reporting** to its stakeholders, and understands the role it plays in ensuring the **credibility of the Group's business practices**. We trust that our sustainability report will be useful to our stakeholders and we invite constructive feedback.

Riaan Stassen

Chief Executive Officer

Making Capitec Bank more sustainable

Our vision is to offer banking services to our clients in an **affordable, accessible, simplified and personal manner**. Our **continuous drive for innovation** allows us to make significant improvements to our processes and systems to the **benefit of our clients**. To date we have introduced **many innovations.** Capitec **remains committed to the growth an development** of South Africa and our approach to banking holds significant value in terms of profit generation, corporate citizenship, job creation and social upliftment. In doing so we positively engage and influence all our stakeholder groupings.

Clients

Our offer

Affordability

- Our bank offer is still the most **affordable** in the market.
- We further reduced the **cost of credit with price-cuts** in April 2007 and in September 2007.
- We have consistently offered the **highest savings return** by paying **10% interest on daily savings** balances below R10 000 on our savings accounts.
- We have significantly increased loan terms from a maximum term of 12 months to 36 months, which reduced instalment sizes by spreading the repayment of the loans over a longer period.
- Our competitive banking solution includes **debit card purchases** that are free of banking charges, cash withdrawals at the **low cost** of **R1** at retailers and **R2.25** for **Capitec Bank ATM withdrawals**.

Accessibility

- Our **longer banking hours** mean we can offer clients **48 more banking hours** per month than our closest competitor.
- With more than **330 branches nationwide** we have a significant retail banking footprint.
- Our **account opening process** takes only **10 minutes**, which makes access to **banking easy and convenient**.
- We offer **affordable banking** to approximately 40 000 new clients a month and **grew our client base** to over **1,3 million** in 2007.
- Our **mobile banking unit** (bank in a box) allows us to open accounts at clients' place of work.
- We have **upgraded our 24-hour Client Care Centre** with world-class systems allowing us to provide continuous support to our clients.
- Approvals within minutes and **real-time gratification** are integral to our service offering.
- The **increase in our ATM network** through retail partnerships to **over 765 ATMs** provides our clients with added convenience.
- The launch of **retail Internet banking** means that we can now extend our offer to a broader client base.

Simplicity

- **Biometrics** for clients, introduced in September 2007, provides our clients with added **security**.
- **Innovative technology** used in all our processes means we can offer **paperless banking**.
- Our **Global One Banking Facility** provides clients with access to **transacting, savings and lending** within a single application.
- The **Global One Gold Card** means our clients can access their account any time, anywhere in the world.
- Our simplified fee structure provides clients with an **affordable and simplified banking solution**.

Personal service

- **Employing people from the community** in which we place our branches allows for a **personal service** experience as **language and cultural similarity** can be maintained.
- **Simplified, innovative systems and processes** mean consultants can focus on the client instead of doing administration.
- Our consultants are **recruited and trained** with a client-centric mindset
- More than **R19.2 million** has been spent on the **training and development of branch employees** over the past year.
- 133 branch employees were **promoted** during the year, driving an **incentive for performance**.

Access to financial services

According to research by **Nielsen and the Finmark Trust** on increased access to financial services, there has been a 9.3 percentage point increase in banked citizens since 2006. Capitec Bank opens approximately **40 000 new accounts per month,** providing access to financial services to more than **1.3 million people each year**. **Our goal** is to **increase access to banking to more than 2 million clients by the end of 2008**. The advances made in our product offering will ensure that we can offer clients real alternatives to **traditional banking in an innovative and affordable way**.

Consumer education

Capitec Bank has strengthened its client education drive in 2007. Since the launch of our Financial Literacy programme in partnership with **Unisa** in 2005 we have enrolled almost 200 participants for the **Unisa Financial Skills course**. This course equips participants with **essential financial skills** such as **financial planning, debt management, budgeting and saving for retirement**. Our **Employer Sales Team** is also presenting the shortened version of this certificate course to schools and places of employment, teaching consumers the **basic skills** needed to become **financially empowered**.

Capitec Bank has partnered with various consumer publications such as **Daily Sun, The Teacher and Isolezwe** as well as **community radio stations** to run weekly consumer editorials **highlighting financial skills topics** from the Bank's **Financial Skills curriculum**.

Increased market awareness

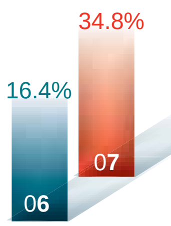
Capitec Bank's **first television and print advertising campaign** has **increased market awareness** of our offer. The campaign positioned **Capitec Bank as the innovative company** we believe we are and also highlighted the individual benefits of our product and service offering. **Personal service** has always been one of the cornerstones of our business model and is key to our overall value proposition.

In November 2007 Capitec embarked on formal and independent research to ascertain consumer perceptions about our brand and offer. We have been very pleased with the **positive feedback** the research revealed. Our **credibility was evident** in the market's acceptance of our offer. We also received **accolades for our investment performance** when we were **ranked third in on the *Sunday Times* Top 100 Companies list** for investment and share price performance, and **first in the *Financial Mail* Top 200 Companies list**.

Client research

Capitec Bank's key objective is to **increase awareness** of the bank and our **unique product offer** in the market. The research measures our key deliverables, and allows us to gauge the extent to which we have succeeded.

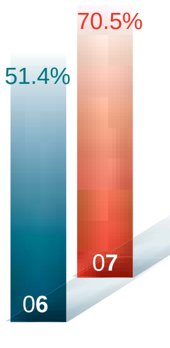
These are the results:



1. Capitec Bank mentioned*

Q: What banks are you aware of?

*Unprompted

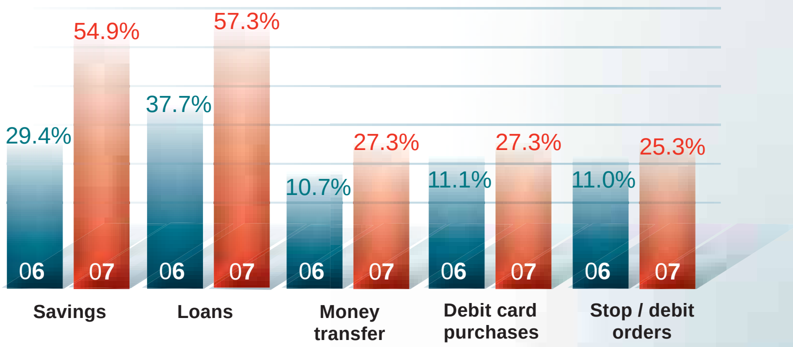


2. Yes to prompted awareness

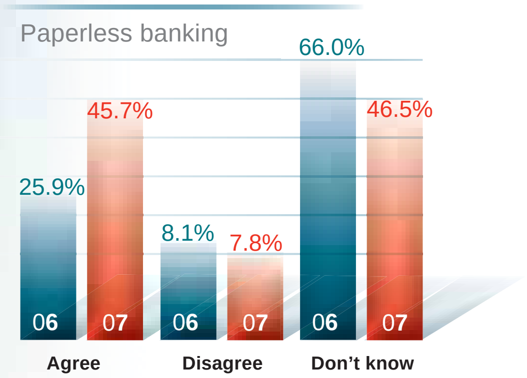
Q: Have you heard of or seen this logo before? (showing participants the logo on a card.)

3. Awareness of product offering

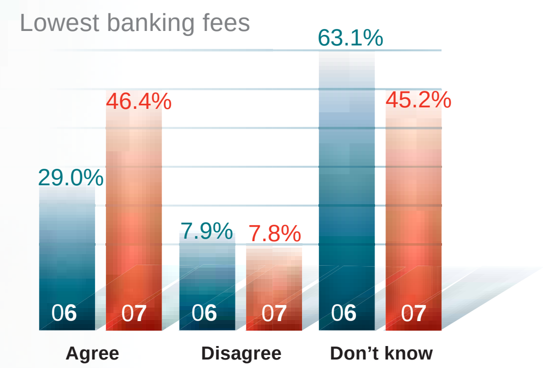
Q: What products does Capitec Bank offer?



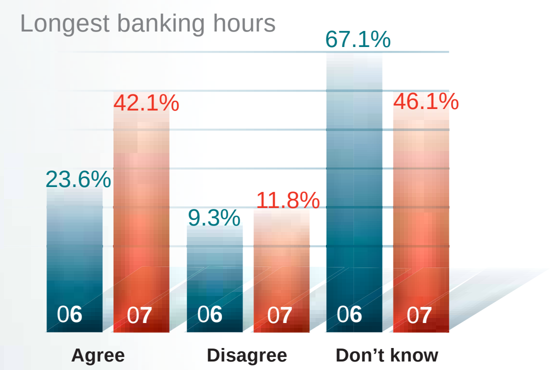
4. Perceptions of Capitec Bank



5. Perceptions of Capitec Bank



6. Perceptions of Capitec Bank



Challenges

- **Credit approval rates** have declined over the past year as a result of tighter affordability criteria and the new National Credit Act regulations.
- The **Competition Commission's enquiry** into banking fees will result in other banks reviewing their fee structures.
- The **economic realities of high interest rates** and **food** and **fuel inflation** will require guarding against over-indebtedness.
- A negative turn in our **country's economic conditions** could have an impact on the growth of our lending income streams.
- **Financial skills** remain a challenge in our target market.
- The increase in demand for **retail space** had an impact on the expansion of our branch network in 2007.
- **Debt rehabilitation** is still a challenge but a partnership with Stellenbosch University's Legal Aid Clinic will provide us with a solid foundation from which we can develop real solutions in 2008. We also participate in an industry-led debt mediation initiative under the auspices of the Banking Association.

Combatting fraud

Fraud can erode sustainability. To combat fraud, Capitec Bank follows a **zero tolerance policy against fraud,** non-adherence to company policies, **dishonesty** and **disorderly behaviour**. This is driven mainly by our Forensics and Legal departments. The bank has put several sophisticated measures in place to ensure compliance with regulations and procedures. The bank has also implemented **biometric access systems** to increase **secure access** to its branches and buildings. Data integrity is ensured via high-level data encryption, authorised user systems, audit trails and other measures. **Awareness campaigns** amongst staff are driven by articles in the **bank's inhouse magazine**, **e-newsletters** and **posters**. The bank also offers its employees a **Tip-Offs Anonymous line**.

Shareholders

Shareholder Profile

Capitec does not have a controlling shareholder. Its main shareholders are the **JSE-listed PSG Group Limited**, a financial services group of companies holding 34.9% interest in Capitec, **BEE groups** and **individuals** (16%) , and board and management at 23.3%. The balance of shareholders is made up of **fund managers** (4.5%), **foreign investors** (2.8%) and **individuals,** and companies and trusts holding a varied number of shares in Capitec.

Information provided to shareholders

Shareholders and the public are held **up to date** on Capitec's business through the **publication of year-end and interim results on the Stock Exchange News Service** (SENS) and in the **media** within a month from such year-end and interim periods. In addition, the **annual report containing the financial results**

	Ordinary shares	Preference shares	Total shares
Shares in issue at 29 February 2008	81 928 412	1 684 211	83 612 623
Shares in issue at 28 February 2007	81 928 412	1 684 211	83 612 623

Capitec's performance on the JSE Limited

		12 months ended 29 February 2008	12 months ended 28 February 2007
Number of ordinary shares in issue		81 928 412	81 928 412
Market price (cents per share)			
High	**for 12 months**	5649 (13 November 2007)	3800 (6 February 2007)
Low		3000 (22 January 2008)	2605 (1 August 2006)
Closing price		3900	3700
Market capitalisation (R million)		3 195	3 031

Dividends – ordinary shares

Dividends in respect of:	12 months ended 29 February 2008	12 months ended 28 February 2007
Final	75 c	60 c
Last day to trade	16 June 2008	8 June 2007
Record date	13 June 2008	15 June 2007
Payment date	17 June 2008	18 June 2007
Interim	25 c	20 c
Last day to trade	23 November 2007	24 November 2006
Record date	30 November 2007	1 December 2006
Payment date	3 December 2007	4 December 2006

is distributed within three months from year-end and a leaflet detailing half-year results is distributed within two months from the half-year period to all shareholders and beneficial shareholders who have requested to receive this information. Salient details of dividend payments are announced in the media and, when not included in the annual report or half-year results leaflet, a leaflet detailing this information is posted to all shareholders. Capitec Bank's website at **www.capitecbank.co.za** provides a wealth of information for stakeholders, including clients, service providers and investors. To ensure transparency, information pertinent to Capitec's business and relevant to shareholders and the public is announced on SENS as and when deemed prudent. Shareholder queries are dealt with one-on-one by senior management in the Group and in the secretarial department.

Investor relations

Investor relations are managed by the company secretary who caters for the interests of shareholders and a team consisting of our chief executive officer and financial director who meet on a regular basis with asset managers, analysts, general corporate investors and journalists. The investor community is kept informed through one-on-one meetings and conference calls, road shows, investor conferences and financial presentations.

Market feedback is valued and is gleaned through broker reports and one-on-one discussions with analysts, asset managers and other opinion leaders.

Meetings held and information shared

Capitec encourages shareholders to attend the annual general meeting normally held in May. Apart from the annual report containing the notice of the annual general meeting, each and every beneficial shareholder disclosed in our share registers are **personally invited to attend the meeting**. As a result, the **Capitec annual general meeting** has become a **significant event** on our shareholders' calendars. Out of a shareholder base of approximately **3 000 beneficial members, approximately 200 join our board at this annual meeting**. To ensure that each and every vote is accurately accounted for, we have introduced an **electronic method of voting** in 2007 which has been received with appreciation. At this meeting, the chairman of the board and chief executive officer use the opportunity to **present an overview of Capitec business over the past year** and shareholders are given the opportunity to discuss matters of interest concerning Capitec Bank's business with members of the board and management.

Credit rating of Capitec Bank

In January 2006 **Moody's Investor Service** (Moody's) assigned a Baa1.za/Prime-2.za national scale issuer rating to Capitec Bank, Capitec's banking subsidiary. In May 2007 Moody's raised the

long-term national scale credit rating of Capitec Bank to A2.za, the short-term rating remained at Prime-2.za. The long-term rating reflects a good long-term credit quality and the short-term rating a strong ability to repay short-term debt obligations.

Equity ownership and control

Highlights

- Direct and broad-based black **shareholding through BEE partner**: 16%
- **Black directors at board level**: 27%
- **Black women at board level**: 9%
- **Black people at executive management level**: 18% (2007: 0%).

Lowlights

- **Black women at board level** remained unchanged at one individual. Due to board membership being extended during the year, the percentage of black women at board level has been reduced from 10% to 9%.

Control

The Capitec board has **three black members**. **Professor Merlyn Mehl** has been a member of the board since the inception of the Capitec banking group in 2001, while **Nonhlanhla Mjoli-Mncube** has joined the board in 2004. Towards the end of 2004, **100 000 ordinary shares** in Capitec were issued to each of **Prof Mehl and Ms Mjoli-Mncube**.

In February 2007, Capitec issued 12.21% in Capitec ordinary shares (10 million) to a **black consortium headed by Tshepo Mahloele**. Other than these direct and broad-based black holdings, **Thembeka Capital**, a black-owned and controlled black **economic empowerment company**, holds a further **3.53% interest in Capitec**.

To date, the Capitec Group has established two employee schemes to augment employee share ownership in Capitec.

In December 2003, the board approved an **Employee Share Purchase Scheme** in terms of which employees wishing to become co-owners in Capitec are assisted with share purchases. The extent of shareholding through this scheme is insignificant, being 0.17%. A total of 67.3% of employees participating in this scheme are black and hold in aggregate 20% of the scheme shares.

The issue of a 12.21% interest in Capitec to the **BEE consortium** referred to above was approved with the proviso that a 5% interest in the said consortium be allocated to the **Capitec Bank Group Employee Empowerment Trust**. In terms of the rules of this trust, employees will benefit from the growth of Capitec through increased share value.

A total of 16% of Capitec is therefore controlled by black individuals, companies and trusts.

Gender split of Capitec Employee Share Purchase Scheme

56% Female

44% Male

Demographic split of Capitec Employee Share Purchase Scheme

67% Black

33% White

Employee Report

At Capitec Bank our **Human Resource strategy and practices** are devised to enable our people to deliver on our service promise to our clients. Through our **national recruitment drive** we employ talent in support of our strategy, style and corporate culture. It is of the utmost importance to us to get people onboard who have a **client-centric mindset**, have the **ability to learn fast**, are **real team-players** and who are able to thrive within a **pressurised performance-driven environment**. We employ our people from the **communities we serve** and follow the principle of recruit for potential and **train for skill**.

As functional knowledge and competence are seen as fundamentals of our service model we **invest heavily in the development of our people through various training platforms**. Formal training programmes are supported by a culture of continuous learning to ensure high levels of knowledge retention throughout our organisation.

We manage our people through **teamwork** and **develop our leaders** in order to manage our business and people effectively. These principles of teamwork and performance are supported through our **performance management system and reward strategy**.

Transformation of the workforce

Highlights

- Black people at senior management level improved from 9% to 11%.
- Black people at junior management level increased from 45% to 50%.

Lowlights

- Black people at middle management level decreased from 35% to 25%.

In 2007/8, we employed **1 123 new employees** of which **1 015** (90.4%) were **employment equity appointments**. Through our employment equity policy we implemented an Employment Equity Forum in 2006 with the objective of engaging employees from various levels in constructive dialogue regarding improvements and ideas on employment equity in Capitec.

Skills development

Employment equity initiatives were introduced to attain our **employment equity targets** and **achieve diversity** in the workplace. During the year we spent over R19 million on employee training, 9% of our operational salary bill.

Communication

Capitec Bank's Communication Department plays a key role in communicating all company and strategic initiatives. With the launch of our **first television and print campaign in February 2007** the department was instrumental in the positioning of the Capitec Bank **brand, building a sense of pride and defining the path ahead for the Bank**. An organisation-wide event ensured that all employees simultaneously viewed the Bank's **first TV commercial** and also ensured a collective understanding for message and its approach. A special once-off publication of our inhouse employee magazine – **C.Inside** – was produced to commemorate this milestone event. Positive feedback was received from all over the country. Capitec's internal communication strategy strives to always invite and **encourage employee participation** whilst also remaining open and direct. Our communication channels are therefore very well supported and **employees are actively involved** in each of these.

C.Inside: A **monthly internal employee magazine** which is produced inhouse is used to disseminate information on the organisation. Articles published in this magazine include general company information, the company's involvement in **CSI initiatives**, **employees' contribution** to the workplace and **employee issues** which range from the Bank's involvement in the community and client initiatives to the acknowledgement of employees who live the company values and excel at client service.

CFacts: An **electronic weekly educational newsletter** used to communicate the latest developments from different departments as well as to educate employees on the various aspects of the business, such as the National Credit Act and new procedures.

Gender split

60% Female

40% Male

Demographic split

86% Black

14% White

Suppliers

Procurement

We have measured our BEE spend for the financial year ended February 2008 on the old Financial Sector Charter basis, and are currently transitioning to the broad-based approach.

We have implemented a BEE policy in 2004 in terms of which all suppliers must state their shareholding in terms of BEE, or supply us with an agency rating. The policy expects procurement spend over preset minimum ranges to be from qualifying BEE suppliers, except for procurement in terms of a global policy for technical (specifically non-commercial) reasons.

All ratings and shareholdings are graded in our procurement system and the procurement spend is multiplied with a contributing factor, where A is the highest and is multiplied by 100%, and any spend on suppliers who cannot supply us with BEE information or has no black shareholding is multiplied by 0%. In terms of this system, our total procurement spend with BEE suppliers is 44%.

Communities

Corporate Social Investment

Benefiting our communities

The main focus of our corporate social investment strategy is **financial education** and as such, donations made in 2007 have been subject to the financial education theme. Institutions involved in **education**, **job creation** and **community upliftment** were favoured when allocating financial support. However, it is the Capitec Bank offer that should be considered for its value to the predominantly previously **disadvantaged communities**. Access to banking and finance provides the community with **upliftment and improved economic conditions** which may contribute to **poverty relief**. The future of our country is arguably tied to the sustainable development of these communities through the implementation of community programmes and initiatives by corporates such as Capitec Bank. Our business objectives include achieving sustainable development within these communities by:

- **Increasing access to banking** and financing options by growing our footprint and diversifying our product offer.
- **Extending our retail partnerships** to offer access to banking beyond our trading hours.
- **Reducing our interest rates** to make access to credit economically feasible for our clients.
- **Continuing to offer a real return on savings balances** with an attractive savings interest rate.

Our intention is to make a sustainable difference to the lives of South Africans within our chosen market through **corporate social investment initiatives** aligned with our core business. Our **corporate social investment strategy** is therefore focused on **financial literacy and community upliftment**. In 2007 Capitec initiated a number of successful programmes that support these focus areas. We partnered with more educational institutions and have built on past successes to ensure sustainability of previous initiatives.

Financial education

Financial literacy programme

As a retail bank we understand the value of financial literacy. Capitec launched its **financial literacy programme in 2005** as one of the key focus areas of our corporate social investment strategy. Partnering with **Unisa,** we developed two financial literacy courses. One is a short course in **financial skills offered by Unisa and funded by Capitec Bank**. This course provides participants with a comprehensive introduction and understanding of basic financial skills such as:

- Financial **planning** – long-term and short-term
- **Understanding** a budget
- **Debt management** and avoiding over-indebtedness
- The benefits of **saving**
- How to provide for **retirement**
- Understanding the **world of banking**.

This certificate course is offered via **Unisa's distance learning programme** and participants are required to complete assignments and a final assessment before being issued with a **Certificate in Financial Skills**. This course has been **accredited on an NQF level** 5 and earns **12 SAQA credits**.

In 2007 Capitec Bank also launched **three shorter courses** based on the Unisa course. These shorter courses are presented **free of charge to employers, schools and community groups**. The three shorter courses are supported with course handouts and a DVD that illustrates the practical implications of financial skills. To date we have presented a significant number of courses all over the country with positive feedback. We have extended our financial skills drive to the mass media and in 2007 we ran four separate financial skills programmes in publications and two three-month series on community radio stations.

Although Capitec Bank has received positive feedback via informal research based on audience participation, we would like to formally review the impact of our financial literacy programme. Having run this programme since 2005, we should now have sufficient data on which to base formal research. **Therefore, in 2008, we will embark on research with participants of both the Financial Skills Course (Unisa Certificate Course) and the shorter courses to ascertain whether our objective of empowering participants with basic financial skills has been successful**. Capitec Bank will report on these findings.

Naval Junior Leadership Programme

In 2006 Capitec Bank entered into a **partnership** with the **SA Naval College based in Gordon's Bay in the Western Cape** to pilot a **Financial Skills module** as part of the Navy's Junior Leadership Programme for Schools. The Junior Leadership Programme involves **ten Grade 12 learners from eight secondary schools** in the Helderberg basin. The aim of this project is to equip learners with **leadership and management skills**, as well as **life skills** to enhance their performance as leaders at their schools and to bring about **social upliftment in the broader community**. This programme also promotes interaction between different schools and cultures. The following leadership skills were covered:

Transformational Leadership: Styles; Problem-solving Using Intellectual Stimulation; Creating a Value and Belief System (vision / mission); Creating an Organisational Culture.

Management: Brainstorming Techniques; SWOT Analysis; Organising, Planning, Controlling and Communication.

Life Skills: Conflict / Stress Management; Peer Pressure; Abuse, Drug and HIV/Aids awareness.

Financial Skills: Financial Planning and Budgeting; Financing; Debt Management.

The integration of financial skills as part of the Junior Leadership Programme made sense as Capitec Bank understands the value of **educating the youth on money management**. We believe that financial literacy programmes partnered with leadership skills programmes are crucial for **personal empowerment**.

Capitec Bank was involved in the Naval Junior Leadership Programme for the second time in 2007. With the Bank's financial assistance the Navy was able to **invite 40 additional learners** from **four additional schools**, bringing the total number of learners attending the Junior Leadership Programme to **120**. The response from teachers, parents and learners has been extremely positive. Many learners commented positively on Capitec Bank's Financial Skills module and made special mention of the practical content and interactive presentation style. They said it offered real value in terms of their personal development.

Capitec Bank was also the main contributor to the **Naval College Open Day** in 2007. This **community day,** which **focuses on naval activities and careers**, has become a **highlight on the local calendar**. After assessing our involvement in both initiatives, Capitec Bank has decided to strengthen our support for the Naval Junior Leadership Programme in 2008.

Support for non-profit organisations (NPOs)

Through its CSI programme, Capitec Bank supports many non-profit organisations focused on education or community upliftment. The following organisations, among others, have benefited from a long-term relationship with Capitec Bank:

- Carel du Toit Centre for Hearing Impaired Children
- Paul Roos Academy
- JL Zwane Church
- World Knowledge Olympiad
- Stellenbosch University Legal Aid Clinic
- Khayamandi Cycling Project.

Employee involvement in CSI projects

Casual Day

Each year Capitec Bank goes **casual in the name of charity**. Our employees **dress up** according to the annual Casual Day theme and enter the **C.Inside Casual Day Competition** in a **drive to raise funds for people with disabilities**. This initiative is very **well supported** and our executive team join in to **raise awareness and funds for people with physical or mental disabilities**.

HIV/Aids Employee Awareness

Living with HIV/Aids

International Aids Awareness Day is observed on 1 December. Capitec Bank's policy on HIV/Aids makes it clear that we **do not discriminate** against employees or people living with HIV/Aids. **Mamello Motsau** is one of our employees who is HIV-positive. She has embraced life and **uses her HIV status to educate people about the prevention and treatment of HIV/Aids**. She is passionate about making a difference as Capitec Bank's culture of respect and honouring diversity has made it possible for her to start spreading her message at her place of work without fear of being victimised.

Environmental responsibility

Capitec Bank believes in the **sustainable and environmentally friendly use of resources**. That is why we acknowledge our responsibility towards conducting business in an environmentally friendly manner. To do this the Bank **fosters a culture of environmental stewardship amongst its employees**. This will be achieved through awareness programmes and guiding policies, procedures and standards.

Using technology to reduce paper usage

To **reduce** the amount of **paper used** in our offices, the Bank is promoting and implementing **efficient technology** and practices such as the following:

- Sending out **electronic payslips** to employees
- Distributing training material via its **e-learning platform (E-village)**

- **Electronic agreement management**
- **Streamlined, technology-assisted** application processes for new banking products
- **Tracking time electronically** instead of using printed timesheets
- Distributing policies and procedures only in **electronic format**
- Using printers, copiers and office equipment that can handle **double-sided and multi-page printing or copying**.

Minimising travel costs and pollution

Mindful of transport-related pollution and travel costs, Capitec Bank encourages its employees to use **public transport or car-pooling when commuting** to and from work. That is one of the reasons why the Bank's branches are located **close to public transport routes**. The Bank's **longer hours and branch locations** also help to reduce the amount of travel that clients have to do in order to access the Bank's services.

Virtualisation – which removes the Bank's dependency on physical resources – includes **conference calls**, the **electronic storage of documents** and **web-based and electronic transactions**. This **reduces**, among others, travel expenses, pollution, and the need for costly over-the-counter banking services.

Environmentally friendly design and management

Where available, new offices and branches are fitted with **energy-saving devices** such as:

- Energy-efficient light fittings and globes
- Centrally controlled air-conditioners
- Air curtains to improve the efficiency of air-conditioners
- Outsourced cleaning services that only use eco-friendly products
- The efficient use of technology to minimise the need for back-office functions. This allows the Bank to reduce floor space, air-conditioning, lighting and other energy-consuming functions.

The Financial Sector Charter

As a subscriber to both the **Financial Sector Charter** (FSC) and the **Codes of Good Practice**, Capitec is committed to promoting **empowerment** through all its business practices. A range of empowerment initiatives are aimed at addressing imbalances.

The Group has reported positive outcomes in most areas and in particular in its **corporate social investment initiatives**. The activities embarked on in 2007 have been very successful.

BEE Scorecard

Capitec Bank, the banking subsidiary of the Group, has been rated for Black Economic Empowerment purposes in terms of both the Financial Sector Charter scorecard as well as the Codes of Good Practice issued under Section 9(1) of the Broad Based Black Economic Empowerment Act 52 of 2003.

Under the Financial Sector Charter a score of 41.56%, equal to a C-rating was achieved. Under the Codes of Good Practice, the score is 55.06%. This is equal to a BEE procurement recognition level of 80%.

Capitec Bank Limited will continue to be scored in terms of both ratings until such time as the Financial Sector Charter has been aligned with the Codes and has been gazetted in terms of the Broad Based Black Economic Empowerment Act, thus obtaining equal status to that of the Codes. Alternatively, should the Financial Sector Charter fall away, the score in terms of the Codes will prevail.

Civil societies

Capitec and its subsidiaries are members of:

The Banking Association of South Africa
Hellopeter.com
MasterCard Worldwide
National Business Initiative
National Credit Regulator
The Ombudsman for Banking Services
Payments Association of South Africa
South African Banking Risk Information Centre
South African Fraud Prevention Services
South Africa Market Research Association
Unilever Institute of Strategic Marketing
Visa International Service Association

Capitec and its subsidiaries are regulated by the following institutions:

Financial Services Board
JSE Limited
National Credit Regulator
Payments Association of South Africa
South African Reserve Bank