



Capitec Bank Holdings Limited (Capitec or the group) is a bank controlling company and is listed on the Johannesburg Stock Exchange (JSE) equity market. Capitec Bank Limited (Capitec Bank), a wholly owned subsidiary, houses all material operations and is listed on the JSE bond market.

Capitec complies with the 16 applicable principles of the King IV Report on Corporate Governance™ for South Africa 2016 (King IV™).

The following table provides a high-level summary of responses to the King IV™ principles with references to the areas in our 2018 integrated annual report, where detailed information can be found.

SUMMARY OF KING IV™ PRINCIPAL DISCLOSURES

Disclosure summaries	References to full disclosures in our 2018 integrated annual report
Leadership, ethics and corporate citizenship	
Principle 1: The governing body should lead ethically and effectively.	
<p>At the core of our success, is effective and ethical leadership provided by an experienced and skilled board of directors and executive management committee.</p> <p>We work in an environment where the rules apply equally to all – regardless of position or role. We constantly challenge upwards and downwards to ensure robust and sound decision-making.</p> <p>The effectiveness of the board is managed throughout the year and any areas of concern are addressed as they arise. The board is also assessed annually via an internally conducted formal process that deals with individual directors and the board and its various committees.</p>	<ul style="list-style-type: none"> · Our ethical culture, page 72 · Board of directors, page 74 · Board performance and independent evaluations, page 81
Principle 2: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	
<p>We demand a high standard of ethical conduct in our business practices and in dealing with stakeholders. Our corporate values are manifested in a range of policies published on the Capitec Bank intranet. These specify the ethical conduct expected from all employees and are communicated to employees frequently. Our disciplinary code provides further guidelines to behavioural norms and standards.</p> <p>Ethics coaching is incorporated in general employee training to guide staff with regard to expected ethical conduct. All employees have access to Tip-offs Anonymous, which contact details are published on the bank’s intranet.</p> <p>Matters such as our commitment to legal and regulatory compliance, actions to deal with corruption and bribery, guidelines on receiving and giving of gifts and the exclusion of political parties, candidates and campaigns from receiving sponsorships, are</p>	<ul style="list-style-type: none"> · How we do business, page 10 · Our corporate governance outcomes, page 72 · Board committees, page 87 · Social and ethics committee report, page 157

addressed by our policies and are reviewed on a regular basis.

The legal, compliance, internal audit, forensic and training departments all form part of the assurance process to facilitate an ethical outcome in the company's activities.

The board is ultimately responsible for creating an ethical culture. The social and ethics committee monitors that organisational ethics are embedded and maintained effectively. Our continued focus is on maintaining Capitec's ethical culture.

Principle 3: The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.

Capitec takes its contribution as a responsible corporate citizen seriously. We provide access to banking services to all South Africans in a manner that is simplified and transparent, at cost effective prices. Provision of security is not a prerequisite for obtaining credit. Credit is granted in a responsible manner based on the individual's proven behaviour (credit history), ability to repay loans and proof of stable income. Clients are treated fairly through cost efficient prices and personal service, including a client care centre to address complaints.

We adopt a dual approach to social investment through the Capitec Foundation and Capitec's own social initiatives.

A focus on education and skills development is a further critical tool to meet social challenges. We are committed to broad-based black economic empowerment: a uniquely South African social and economic challenge.

The social and ethics committee reviewed corporate citizenship during the year and, based on the reports submitted to the committee and discussions had with management, is of the view that appropriate policies, systems and internal controls are in place, supported by a conscientious management team, to promote good corporate citizenship.

Our continued focus will be on financial literacy.

- Financial inclusion, page 17
- Responsible and conservative credit granting rules, page 94
- Our stakeholders, page 26
- Board committees, page 87
- Social responsibility, page 146
- Social and ethics committee report, page 157

Strategy, performance and reporting

Principle 4: The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

The board remains ultimately responsible for ensuring that its approved strategy is implemented and that the group's purpose is fulfilled. The board also accepts its responsibility to ensure that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The board discharges its duty through policies and frameworks supported by 6 board committees.

- How we create value, page 30
- How the board functions, page 80

Principle 5: The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects.

We believe that our integrated annual report should reflect our core fundamentals in the way we report. This report is our primary communication about our performance for the 2018 financial year and contains the full annual financial statements. We base the information in the report on local and international requirements and frameworks.

Further reporting elements include our results presentation, SENS announcements and website.

- Report overview, page 6
- Assurance regarding the annual financial statements in the report is provided in the independent

Disclosure summaries

References to full disclosures in our 2018 integrated annual report

The board takes responsibility for overseeing the integrity and completeness of the integrated annual report. Capitec's internal assurance providers, namely risk management, compliance and internal audit collaborate on combined assurance initiatives to support the board, and to effectively cover the group's significant risks and material matters.

The aim of risk data aggregation capabilities and risk reporting practices (RDARR) is to enhance the infrastructure for information flow to the board and thus report key information used by the board and its committees to monitor risks and make decisions and ultimately support the integrity of the integrated report.

The board and the audit, human resources and remuneration committees considered the accuracy and completeness of the integrated annual report and are satisfied with the reliability of all data and information.

auditor's report, page 170

- Governance structure for information flow, page 91

Governing structures and delegation

Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.

The board sanctions the strategic direction of the company and oversees the implementation of the approved strategy and fulfilment of the organisation's purpose. The board charter, which it reviews annually, sets out the role and responsibilities of the board, its membership requirements, authority and terms of reference.

The board or any of the individual board members are authorised within the scope of its responsibilities to:

- seek any information it requires from any employee and all employees are directed to co-operate with any request made by the board;
- obtain outside legal or other independent professional advice and to secure attendance at board meetings of outsiders with relevant experience and expertise if it considers this necessary; and
- ensure the attendance of company officers or members of management at meetings as appropriate.

The board meets 6 times a year and a quorum comprises a majority of directors of which at least 50% must be non-executive.

The board is satisfied with the level of attendance at meetings, which enabled it to fulfil its responsibilities according to its charter.

- Board and committee meeting attendance, page 82

Principle 7: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

We believe in inclusivity and equity at board level, subject to merit. We appoint directors according to a policy which prescribes a transparent process. The directors' affairs committee, under leadership of the chairman, presides over board appointments.

The composition of the board is reviewed annually by an evaluation subcommittee of the directors' affairs committee. The board is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience and diversity. The board is aware that the current imbalance of non-executive vs. independent directors must be addressed and a process is underway. The board is comfortable with the degree to which its members apply their minds independently when considering factors that may impact the company and that they act with care, skill and diligence in the best interest of the company.

- Leadership team, page 74
- Board composition and diversity, page 80
- The chairman, page 81

Our chairman is not independent and is therefore assisted by a lead independent director, whose role is determined by the board charter. The main purpose of the lead independent director is to strengthen independence on the board where the chairman is not independent.

The board has a policy on balance of power and authority to promote a clear balance of power and authority at board level, to ensure that no one director has unfettered powers of decision-making.

Principle 8: The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.

The board discharges its duty through policies and frameworks supported by 6 board committees, each comprising at least 3 members. The following committees, consisting of directors and executives, are in place to deal with specific risks facing the group in a structured manner and in accordance with board-approved charters:

- Audit committee

The committee considers the combined assurance arrangements with focus on internal audit, compliance and external audit. It evaluates the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied within the group companies in the day-to-day management of their business. The committee considers the integrity of the annual financial statements and the sustainability matters forming part of the integrated annual report. The audit committee reviewed the annual financial statements for correctness and recommended these for approval by the board. The committee considers the continuous independence of the external auditors.

- Directors' affairs committee

The committee deals with matters relating to corporate governance, the nomination of new directors, according to a board-approved policy, and the evaluation of the performance of the board and its committees.

- Risk and capital management committee (RCMC)

The fundamental purpose of the RCMC is to review the processes followed to identify risk, consider such risks and manage capital adequacy in the Capitec group environment in line with the most appropriate approach prescribed by Basel III and approved by the South African Reserve Bank. The committee must assist the board in reviewing the risk and capital management systems and processes and the significant risks facing the group.

- Human resources and remuneration committee (REMCO)

The committee ensures that remuneration policies and practices are established in accordance with the provisions of the Banks Act, the regulations thereto, and sound corporate governance practices. It ensures that practices are observed to attract and retain individuals to create sustainable value for all stakeholders.

- Social and ethics committee

The social and ethics committee monitors the company's activities relating to social and economic development, good corporate

- How the board functions, page 80
- Board and committee meeting attendance, page 82
- Board committees, page 84

citizenship and the environment so as to promote the collective wellbeing of society, thereby facilitating the sustainable growth of the Capitec group.

- Large exposures committee

The committee is responsible for the approval of credit exposures in excess of 10% of bank capital on an ad hoc basis as may be required.

- Executive committee (EXCO)

The committee conducts operational decision-making, implements board-approved strategic decisions and conducts ongoing approvals of an administrative nature.

All the committees are satisfied that they fulfilled their responsibilities according to their respective charters for the year.

Principle 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, supports continued improvement in its performance and effectiveness.

The board is assessed annually via an internally conducted formal process that deals with individual directors and the board and its various committees.

The board is comfortable with the results of the assessment for the 2018 financial year and is satisfied that it continues to function well.

- Board performance and independence evaluations, page 81

Principle 10: The governing body should ensure that the appointment of, and delegation to, management contributes to role clarity and the effective exercise of authority and responsibilities.

Our board-approved delegation of authority framework consists of charters and policies, with detailed roles and responsibilities as well as authority limits to individuals and committees. After consideration of the delegation of authority policy, the board charter and the terms of the EXCO charter, the board confirmed that it is satisfied that this delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibilities.

Our CEO is appointed by the board with the responsibility to lead the EXCO in the formulation and development of the group objectives and implementation of strategies approved by the board. The REMCO formally evaluates the performance of the CEO against agreed performance measures and targets at least annually. The REMCO is responsible for succession planning for the CEO.

Yolande Mouton is the company secretary of the Capitec group. The directors' affairs committee reviewed the qualifications, experience and competence of the company secretary through discussion and assessment and noted that the company secretary performed all formalities and substantive duties timeously and in an appropriate manner. The committee confirmed its satisfaction in all instances. The board has access to corporate governance services through the company secretary and the directors' affairs committee has expressed their satisfaction with this arrangement.

- How the board functions, page 80
- The chief executive officer, page 81
- Company secretary, page 82
- Key management LTI, page 135

Governance of functional areas**Principle 11: The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.**

Capitec views risk management as a way to ensure that sustainable value is created for stakeholders in a responsible manner and to influence behaviour to best align with the Capitec risk appetite.

The board remains ultimately responsible for ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The board, through the RCMC, monitors the implementation of the risk strategy, approves the risk appetite and ensures risks are managed within tolerance levels.

Our enterprise risk management framework governs risk management and aims to continuously improve our risk culture. King IV™ imposes on the audit committee the responsibility of overseeing a combined assurance model. In Capitec, both the audit committee and the RCMC oversee the combined assurance model.

- Risk management report, page 88

Principle 12: The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.

Information technology governance is implemented according to the Capitec IT governance policy and framework. The framework defines the IT organisational structure and the policies and procedures to facilitate good governance and compliance practices regarding IT. It provides guidelines and structures to ensure that our IT strategy is created, approved, reviewed and implemented to align with the business strategy, with a focus on our clients.

The Capitec information security policies and standards provide the basis on which controls are developed to protect sensitive client and business information systems.

Capitec has a dedicated team focusing solely on the protection, detection and response to cyber security within the bank. The IT risk manager acts as the compliance champion for the IT department and facilitates frequent assessment of the status of legal and regulatory compliance matters in cooperation with the compliance officer.

In the past year, we focused on staying abreast of regulatory requirements such as the Protection of Personal Information Act and RDARR, and on increasing Capitec's ability to take informed risk decisions.

- Information technology risk, page 99

Principle 13: The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

South African financial institutions operate in a highly regulated environment that constantly changes. We proactively contribute to and manage our regulatory environment. Capitec endeavours to maintain healthy relationships with regulators and continued compliance with regulatory requirements.

The bank has a dedicated compliance function as prescribed by the Banks Act to manage compliance risk. Our compliance policy, which forms part of the compliance framework, compliance manual and compliance programme, defines the ways in which the board and CEO are assisted to ensure we operate with integrity, comply with legal and regulatory requirements, and work according to ethical standards.

- The main applicable legislation and Capitec's responses are detailed on pages 40, 41 and 69
- Our regulatory environment, page 40
- Regulatory environment impact, page 41

Disclosure summaries

References to full disclosures in our 2018 integrated annual report

We received no material regulatory penalties, sanctions or fines for contraventions of, or non-compliance with statutory obligations.

- Regulation, page 69
- Compliance, page 100

Principle 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

Our remuneration report comprises 3 parts. Part 1 consists of a background statement in the form of a letter from the REMCO chairman, reporting on factors that influenced the remuneration policy, and forward-looking approaches. Part 2 contains the forward-looking remuneration policy. Part 3 illustrates the implementation of the remuneration policy over the financial year. The remuneration policy, governed by the REMCO, promotes the achievement of company strategic objectives and risk management to foster enduring value creation for stakeholders.

Input from stakeholders, including independent external remuneration consultants, serves to ensure that our remuneration policy remains suited to a continually changing environment. We did not make any material changes to our remuneration policy in 2018.

We believe the Capitec remuneration policy supports the long-term business strategy of the company and we look forward to receiving our stakeholders' support.

Our leadership team successfully executed our strategic priorities for the year. The REMCO is satisfied with the implementation of the remuneration policy in the year and that the remuneration practices of the financial year comply with the remuneration policy and that there were no deviations from the policy.

We continually monitor developments in regulation, best practice and related changes in the market.

- Remuneration report, page 124
- Key activities of the REMCO during the 2018 financial year are detailed on page 130

Principle 15: The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.

The board takes responsibility for overseeing the integrity and completeness of the integrated annual report. The board confirms that it applied its collective mind to the preparation and presentation of this report.

The audit committee and the RCMC are responsible for overseeing our combined assurance model and objectives, which include:

- enabling an effective internal control environment;
- supporting the integrity of information used for internal decision-making by management, the board and its committees; and
- supporting the integrity of external reports.

The purpose, authority and responsibility of the internal audit function are defined in an internal audit charter, which is approved and annually reviewed by the audit committee. The internal audit charter defines, among others, the role of internal audit in respect of the combined assurance model and prescribes that internal audit must comply with and conduct its work as per the

- Report overview, page 6
- Risk management approach and oversight, page 90-93, 100

International Professional Practices Framework of the Institute of Internal Auditors. The head of internal audit has direct access to the chairman of the audit committee, is not a member of the EXCO, but has a standing invitation to attend EXCO meetings. The annual internal audit plan is approved by the audit committee.

In compiling the integrated annual report, we considered all the reports submitted to the board and executive management committee for discussion, any stakeholder feedback, key risk factors and strategic objectives.

The board and the audit, human resources and remuneration committees considered the accuracy and completeness of the report and are satisfied with the reliability of all data and information.

Stakeholder relationships

Principle 16: In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

We engage with our stakeholders to ensure that we remain relevant in the market and in society at large. We take care to understand and address their legitimate expectations, as this enables us to create sustainable and shared value, and confirms our contribution as a responsible corporate citizen.

Responsibility for overall stakeholder engagement resides with the EXCO, who relies on different functions to engage with specific stakeholders. The social and ethics committee carries governance responsibility for monitoring relationships with all stakeholders.

Our stakeholder groups remain constant. The topics of engagement change every year based on changes in our operating environment and client offering. We make daily trade-off decisions where we might prioritise a particular stakeholder’s interests. These decisions are always made to create better banking in line with our core fundamentals.

Our aim is to help the group make informed risk decisions. We also believe in a collaborative and cohesive relationship with the rest of the business to encourage transparency and trust and to ensure consistent practices.

- Our stakeholders, page 26
- Talent development, page 119
- Broad-based black economic empowerment, page 152
- Enterprise risk management framework, page 90